

CITY OF PALATKA,
FLORIDA

COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2005

PREPARED BY:

ALLEN R. BUSH
CITY MANAGER

RUBY M. WILLIAMS
FINANCE DIRECTOR

**City of Palatka, Florida
Comprehensive Annual Financial Report
For The Year Ended September 30, 2005**

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KARL N. FLAGG
MAYOR-COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

GEORGE E. SANDERS
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER

ALLEGRA KITCHENS
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, 2006

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, 2005.

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 and account groups 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 11,100 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

Palatka's population exceeded 11,000 persons in the last University of Florida estimate. The City appears poised on the brink of unprecedented growth. Land values have doubled, or more, in the last two years. The economy appears headed for the largest gains ever seen in this City. The number of new housing units, which the City's Building Department has been approached with, exceeds the number of existing units in the City. These proposed units would take years to build, giving the City time to react in terms of necessary infrastructure. The state shared revenues should increase proportionately to this population increase. Still, the City will experience a considerable demand on its infrastructure that will require a significant investment over the next few years. The tax base is still too low; however, the new development taking place should begin to affect that. New residential development should be upscale, bringing in population with more disposable income and having a positive effect on the City as a whole. The budget for the year ending September 30, 2005 was again balanced with reserve funds for the second consecutive year, but unanticipated revenues kept the City cash balance growing. The millage rate was held at eight mills for the second year, approaching the ten-mill cap set by the State. The major challenge the City faces in the coming decade is finding sufficient revenue to pay for unprecedented growth.

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. This growth has not ignored Putnam County. 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. Property in the City's historic districts is selling at figures previously unheard of in this City. Newcomers from south Florida and the north fuel this increase in property cost. 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. In addition, the City has undertaken quality of life improvements such as reclaimed water reuse and improved potable water treatment. The wastewater treatment plant will need to be expanded and an additional level of treatment is required at the water treatment plant. The goal is to attract development and at the same time retain the natural qualities, which draw people to the area.

CURRENT PROJECTS

The Master Plan for the City's Riverfront Redevelopment Project was completed. This plan was subjected to public scrutiny and the Commission appointed a task force of citizens, primarily downtown

MAJOR INITIATIVES
(Continued)

business owners, to help bring a consensus to the project. The task force will participate in the preparation of a Request for Proposals and the interviewing of the respondents. The City also received a federal grant for \$198,400 to begin implementation riverfront park improvements shown in the plan.

The wastewater reclamation project was completed with 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 cost approximately \$2,000,000 and was completed late in the fiscal year.

The City has secured partial state funding for the improvements to its potable water plant. We are currently applying for additional funding to reduce the local match. These improvements are part of the City's long-range plan to stay ahead of tightening EPA regulations on potable water supplies. The City moved early on this in order to be in line for grant funds, which will become very competitive as the EPA requirements are enacted.

The one-cent sales tax money (Better Place Funds) is dedicated to capital improvements within the City. This year's improvements are again primarily for road paving and a grant match for a CDBG grant. Other improvements are 'one time' improvements to City facilities.

The City continued its upgrade of pavement and lighting at the airport with the help of Federal Aviation Administration and Florida Department of Transportation grants. This work also included repair of the storm drain system under runways and taxiways. The storm water master plan and permit for new construction at the airport continued through the year and is not expected to conclude until next fiscal year. The City requested the airport engineers to begin conceptual drawings on a new terminal building.

The Golf Course reuse project is complete and will provide an unlimited water supply to all parts of the course. The new greens keeper has made significant improvements to the condition of the course resulting in a much reduced deficit. The Golf Course still has a long way to go to make itself self sustaining. The key to turning it around is additional memberships and play.

FUTURE PROJECTS

The City completed its third year of paving using Better Place Funds raised through the local sales tax initiative. The improvements have brought the worst streets up to standard. Sidewalks throughout the City have improved greatly as a result of these funds. This use of Better Place Funds will continue next fiscal year and thereafter until all streets and sidewalks in the City are addressed. These funds are also to be used to make major improvements to existing facilities and major equipment purchases in all departments of the City during the next fiscal year.

Phase 2 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 in the coming fiscal year to complete the rehabilitation of runways, taxiways and lighting at the airport. Construction drawings of the new terminal building should be completed and the City at or near construction bidding by the end of the year.

The City Commission will seek proposals for the development of the riverfront blocks as part of the City's Downtown Renovation Project. A development firm will be selected and negotiations on the concept of

MAJOR INITIATIVES (Concluded)

the development carried out. Finally, a development agreement will be signed and the developer released to begin construction. Hopefully, this can be accomplished during next fiscal year.

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.

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. Discretionary sales tax generated \$749,596 in revenue, an increase of \$63,581 from the prior year.

Ad valorem taxes, which were accounted for in the general and special revenue funds was 8 mills and generated \$2,765,692, an increase of \$325,549 from the prior year.

Expenditures increased due to salaries and overtime in public safety. Transportation increases were due street and sidewalk improvements that are paid for by the Better Place Funds (discretionary sales tax).

Unreserved fund balance in the General Fund decreased \$15,561 or .87% 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 \$490,642 at September 30, 2005.

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 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 decreased by \$305,986 or 3.4% from the prior year. Operating expenses for equipment maintenance contributed to this decrease.

SANITATION FUND

There was an increase in operating revenue of \$96,335. Net assets increased by \$21,614.

GOLF COURSE FUND

Revenue showed an increase by \$180,502 from the prior year. However, operating expenses increased by \$20,185. Operating expenses, which include depreciation, exceeded operating revenues by \$61,507. Net assets decreased by \$59,992.

ENTERPRISE FUNDS
(Concluded)

AIRPORT FUND

Operating revenue increased by \$80,532 from the prior year. The airport received \$886,413 from state and Federal grants. Net assets increased by \$667,117.

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, 2005, the employees' retirement fund had net assets available for benefits of \$26,582,373. 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, 2005 the government capital assets of the City amounted to \$5,863,284, net of depreciation. 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, 2005, the City had \$536,567 of revenue bonds & notes payable from specific general fund revenue sources other than ad valorem taxes. Also, outstanding were, \$6,550,000 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; \$707,138 Water Reuse System Construction loan, payable from the net revenues of the Water and Sewer system; \$384,420 of Golf Course Revenue Bonds & notes payable from the net revenues of the Golf Course, Southern Bell and Cable TV franchise fees; Airport Hangar Revenue Bond and note payable, \$57,532 payable from net revenues of the Airport operations.

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

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, 2005.

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 2.60% to a low of 1.55%. Total interest income increased from the prior year by \$24,800.

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, 2004. This was the thirteenth 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

GFOA Certificate of Achievement

The City's Certificate of Achievement for Excellence in Financial Reporting for the year ended September, 30, 2004 is presented on the following page.

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, 2004

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.



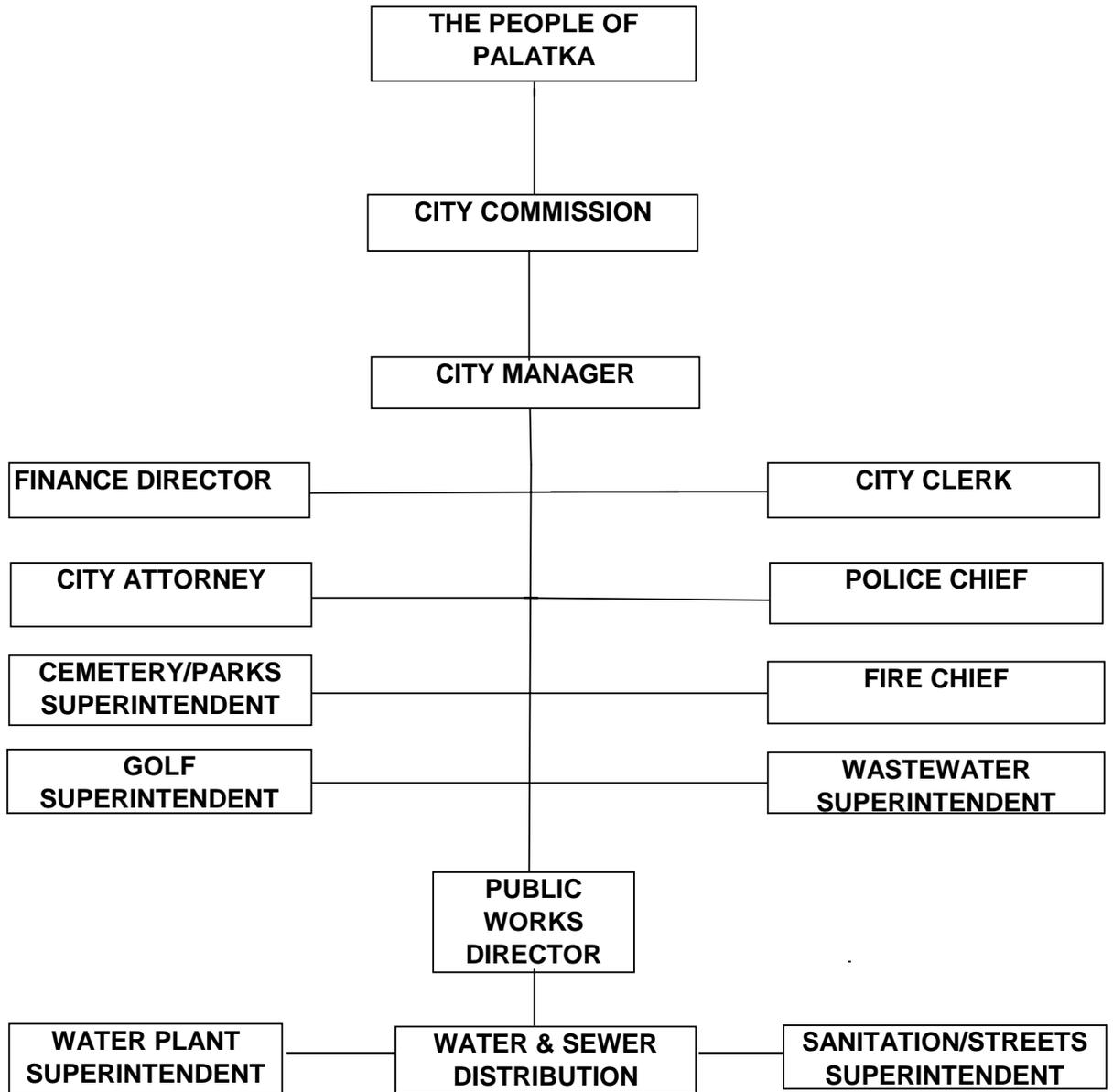
Carla E. Perry

President

Jeffrey R. Enos

Executive Director

City of Palatka, Florida
Organization Chart



**City of Palatka, Florida
Elected Officials
Appointed Officials
Department Superintendents
Auditors**

ELECTED OFFICIALS

Mayor-Commissioner	Karl N. Flagg
Vice Mayor-Commissioner	Mary Lawson Brown
Commissioner	Hernan Azula
Commissioner	James Norwood, Jr.
Commissioner	George Sanders

APPOINTED OFFICIALS

City Manager	Allen R. Bush
Finance Director	Ruby M. Williams
City Clerk	Betsy Jordan Driggers
City Attorney	Donald E. Holmes
Police Chief	Gary Getchell
Fire Chief	Ken Venables

DEPARTMENT SUPERINTENDENTS

Airport	Glen Ball
Building Official	Joffre Fillion
Planning Director	Adam Mengel
Golf	Lynn Davis
Parks & Cemeteries	Jeff Norton
Public Works Director	Elwin Boynton
Sanitation, Maintenance & Streets	Edward Chandler
Water Treatment Plant	Melvin Register
Wastewater Treatment Plant	Platt Drew
Water/Sewer Distribution	Rhett McCamey

AUDITORS

Davis, Monk & Company



Certified Public Accountants
& Business Consultants

*A Partnership Consisting of
Professional Associations*

Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

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, 2005, 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, 2005, and the respective changes in financial position and, where applicable, cash flows 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, 2006 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 dark ink and is positioned above the date and location text.

February 10, 2006
Palatka, Florida

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

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, 2005. 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 \$24,475,781. Of this amount, \$2,116,080 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$373,945. (1.55%). Due to the grants and one-cent discretionary sales tax, governmental net assets increased by \$51,192 (or .71%). The Enterprise funds net assets increased by \$322,753 (or 1.91%) due to grants received during the fiscal year.
- As of September 30, 2005, the City's governmental funds reported combined ending fund balances of \$2,276,502, an increase of \$ 66,354. 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 \$1,785,860 or 23.08% 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 \$1,328,828, \$422,510 and \$404,557, respectively. These increases were the result of investment return and contributions by employees, local and state governments.

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

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

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 the 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.

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

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 - 30 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 31 – 34 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 35 - 40 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 \$24,475,781 at the close of the most recent fiscal year.

**City of Palatka
Management's Discussion and Analysis
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The majority of the City's net assets (86%) 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, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$2,525,712	\$2,585,757	\$2,283,590	\$2,697,999	\$4,809,302	\$5,283,756
Capital assets	5,863,284	5,838,308	23,570,839	23,033,805	29,434,123	28,872,113
Total assets	8,388,996	8,424,065	25,854,429	25,731,804	34,243,425	34,155,869
Long-term liabilities						
outstanding	940,767	1,080,001	8,021,590	8,060,485	8,962,357	9,140,486
Other liabilities	183,306	130,333	621,981	783,214	805,287	913,547
Total liabilities	1,124,073	1,210,334	8,643,571	8,843,699	9,767,644	10,054,033
Net assets:						
Invested in capital assets, net of related debt	5,387,086	5,146,607	15,725,064	15,138,704	21,112,150	20,285,311
Restricted	416,950	335,292	811,288	806,035	1,228,238	1,141,327
Unrestricted	1,460,887	1,731,832	674,506	943,366	2,135,393	2,675,198
Total net assets	\$7,264,923	\$7,213,731	\$17,210,858	\$16,888,105	\$24,475,781	\$24,101,836

An additional portion of the City's net assets \$1,247,551 (5.10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,116,080 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 \$51,192 thereby accounting for 13.7% 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
Management's Discussion and Analysis
September 30, 2005

City of Palatka
Changes in Net Assets
For the year ended September 30, 2005

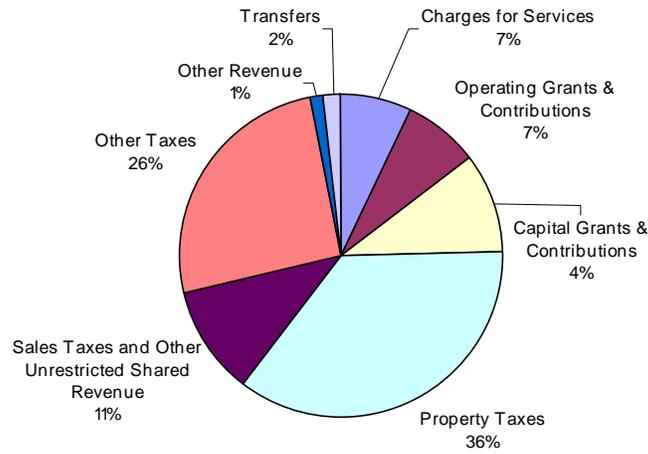
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$567,405	\$585,201	\$5,659,291	\$5,255,310	\$6,226,696	\$5,840,511
Operating Grants & Contributions	573,201	777,845	139,118	61,500	712,319	839,345
Capital Grants & Contributions	765,763	1,816,727	981,176	929,654	1,746,939	2,746,381
General Revenues:						
Property Taxes	2,765,692	2,440,143			2,765,692	2,440,143
Sales Taxes and Other Unrestricted					0	
Shared Revenues	848,661	794,003			848,661	794,003
Other Taxes	1,991,797	1,894,352			1,991,797	1,894,352
Other Revenue	105,323	87,291	83,825	181,271	189,148	268,562
Total Revenues	7,617,842	8,395,562	6,863,410	6,427,735	14,481,252	14,823,297
Expenses:						
General Government	957,828	879,252			957,828	879,252
Public Safety	4,873,998	4,614,844			4,873,998	4,614,844
Physical Environment	16,191	0			16,191	0
Transportation	1,142,443	631,355			1,142,443	631,355
Economic Environment	63,715	66,979			63,715	66,979
Human Services	176,399	186,242			176,399	186,242
Culture/Recreation	443,796	540,808			443,796	540,808
Interest on Long-Term Debt	27,577	30,625			27,577	30,625
Water			3,461,247	3,239,058	3,461,247	3,239,058
Sanitation			1,481,355	1,273,168	1,481,355	1,273,168
Golf Course			803,434	773,144	803,434	773,144
Airport			659,324	654,561	659,324	654,561
Total Expenses	7,701,947	6,950,105	6,405,360	5,939,931	14,107,307	12,890,036
Increase (Decrease) in Net Assets before Transfers	(84,105)	1,445,457	458,050	487,804	373,945	1,933,261
Transfers	135,297	(569,282)	(135,297)	569,282	0	0
Increase in Net Assets	51,192	876,175	322,753	1,057,086	373,945	1,933,261
Net Assets-Beginning of Year	7,213,731	6,337,556	16,888,105	15,831,019	24,101,836	22,168,575
Net Assets-End of Year	\$7,264,923	\$7,213,731	\$17,210,858	\$16,888,105	\$24,475,781	\$24,101,836

Governmental Activities

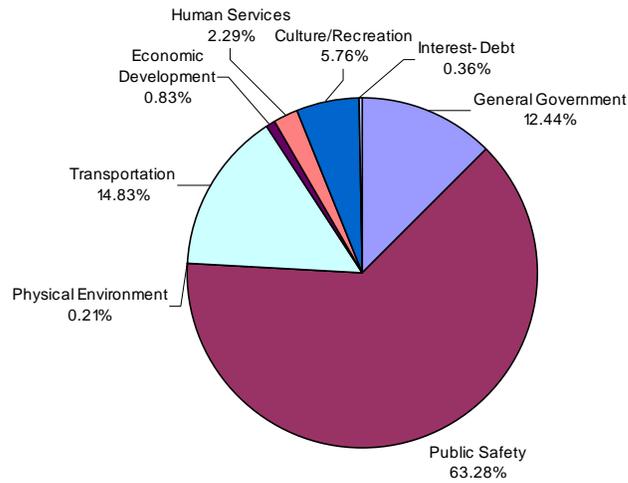
The City's total net assets increased \$373,945 over the previous year with an increase of \$51,192 resulting from governmental activities and an increase of \$322,753 from business activities. The primary reasons for these changes were the one-cent sales tax, the millage rate and grants that were received during the year.

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

Revenue by Source - Governmental Activity



Expenses - Governmental Activities



**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

Business-type Activities

Business-type activities increased the City's net assets by \$322,753 accounting for a 1.91% growth in the City's net assets. Key elements in this increase are as follows:

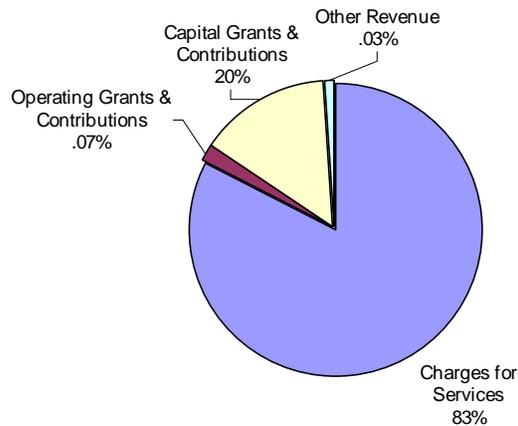
The Utility fund (water and wastewater) received \$223,407 of federal grants.

The Airport fund received state and federal grants of \$886,413 during the fiscal year.

The Sanitation fund received \$139,118 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 \$2,276,502, an increase of \$66,354 in comparison to the prior year. This total constitutes unreserved fund balance, which is available for spending at the government's discretion.

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

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 \$1,785,860. The fund balance of the City's general fund decreased by \$15,561 during the fiscal year. Key factors in this decrease was:

- Public Safety operating expenses increased by \$351,414 over the previous year.
- Telecommunications revenue decreased by \$37,799.

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, 2005, total net assets amounted to \$17,210,858.

Unrestricted net assets of the utility fund at the end of the year amounted to \$1,266,256, the airport fund \$77,336, the sanitation fund \$117,449. The Golf Course increased their deficit in unrestricted net assets by \$80,267 during the fiscal year. The condition of the course has improved and when the demand in Northeast Florida catches up there will be an increase in play. 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 \$503,873 (including transfers) an increase of 7.08% over the original projections. These increases were mostly attributed to balance forwards and unanticipated revenues received during the year. The variance between original and final budget amounts for the year is composed of the following:

- Balance forward from the Discretionary Sales Tax that was primarily spent in Transportation.

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, 2005**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land and Improvements	\$2,838,043	\$2,838,043	\$4,606,999	\$4,606,999	\$7,445,042	\$7,445,042
Buildings and Improvements	2,318,612	2,222,060	3,798,742	3,475,127	6,117,354	5,697,187
Equipment	706,629	778,205	797,809	661,358	1,504,438	1,439,563
Water and Sewer Distributions System			13,453,667	11,464,337	13,453,667	11,464,337
Construction in Progress			913,622	2,825,984	913,622	2,825,984
	<u>5,863,284</u>	<u>5,838,308</u>	<u>23,570,839</u>	<u>23,033,805</u>	<u>29,434,123</u>	<u>28,872,113</u>

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2005, (net of accumulated depreciation) amounts to \$29,434,123. 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 \$562,010.

Pursuant to GASB Statement #34, an extended period of deferral (three 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 date 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:

- The wastewater reuse project received from the State Revolving Fund \$128,644 that was spent during the current 2004-2005 FY for improvements.
- The Water Plant received \$91,980 from the State Revolving Fund for design for improvements.
- Fuel tanks, lighting, cable and conduit were being installed at the airport and a stormwater master plan and a terminal facility design has also been implemented for total expenditures of \$881,745 for the fiscal year.

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 \$8,382,342. Of this amount, \$969,014 comprises debt backed by the full faith and credit of the City, \$147,966 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	
	2005	2004	2005	2004	2005	2004
Revenue Bonds	\$451,488	\$537,635	\$6,649,458	\$6,880,708	\$7,400,946	\$7,418,343
Notes Payable	85,079	137,206	883,935	658,257	969,014	795,463
Capital Lease Obligations	0	16,860	164,416	195,163	164,416	212,023
Water/Sewer Agreements			147,966	160,973	147,966	160,973
Total	\$536,567	\$691,701	\$7,845,775	\$7,895,101	\$8,382,342	\$8,586,802

The City's total long-term debt decreased \$204,460 from the prior year, while the long-term liability for compensated absences increased by \$26,331.

The business-type activities, the Utility Fund entered into an agreement in fiscal year 2004 with FDEP for a Water Reuse System Construction loan for \$712,000, this agreement was amended to \$729,351, which \$583,356 was spent in fiscal year 2004 and the balance was spent in fiscal year 2005.

**City of Palatka
Management's Discussion and Analysis
September 30, 2005**

Governmental Activities:

- The City made the following principal payments during the year: revenue bonds - \$86,147, notes payable - \$52,127 and capital leases - \$16,860.
- Governmental obligations for compensated absences increased by 4.1% or \$15,900.

Business-type activities:

- The Municipal Golf Course entered into a note payable for \$125,000 for turf maintenance equipment payable in quarterly installments.
- The following principal payments were made during the year: revenue bonds - \$248,880, notes payable - \$45,317, and capital leases - \$30,747.
- Compensated absences increased by 6.3. or \$10,431.

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.

The City is experiencing unprecedented growth and property values have escalated dramatically. Putnam County, surrounded by three of the fastest growing counties of the state is now feeling the impact of this growth. The four lane 'intrastate' system from Palatka to St. Augustine is finished. This places Palatka within twenty five minutes of Interstate 95.

The Riverfront Master Plan for downtown Palatka is complete and the City anticipates advertising for a developer in the coming fiscal year. This will culminate with a development agreement between the city and a private developer.

The City has prepared balanced budgets for the current FY; however, it has been necessary to raise the millage rate to eight point six five mills. The increase in taxable values are counted on to offset future increases.

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, 2005

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Palatka Gas Authority</u>
ASSETS				
Cash and Equivalents	\$ 1,299,039	\$ 820,671	2,119,710	\$ 283,850
Investments	432,123	50,195	482,318	3,188,621
Accounts Receivable	13,504	345,521	359,025	196,231
Internal Balances	687,244	(687,244)	-	-
Due From Other Governments	27,898	297,761	325,659	-
Inventory	-	222,754	222,754	77,429
Mortgages Receivable	65,904	-	65,904	-
Other Assets	-	-	-	115,256
Restricted Cash and Equivalents	-	697,382	697,382	-
Restricted Investments	-	536,550	536,550	-
Capital Assets:				
Non-Depreciable	2,838,043	5,520,621	8,358,664	194,147
Depreciable, Net	3,025,241	18,050,218	21,075,459	1,580,772
TOTAL ASSETS	8,388,996	25,854,429	34,243,425	5,636,306
LIABILITIES				
Accounts Payable and Accrued Liabilities	182,206	283,101	465,307	156,701
Deposits	1,100	338,880	339,980	173,445
Noncurrent Liabilities:				
Due Within One Year	228,307	403,240	631,547	-
Due in More Than One Year	712,460	7,618,350	8,330,810	30,200
TOTAL LIABILITIES	1,124,073	8,643,571	9,767,644	360,346
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	5,387,086	15,725,064	21,112,150	1,774,919
Restricted For:				
Downtown Redevelopment	416,950	-	416,950	-
Debt Service	-	39,122	39,122	-
Bond Reserve	-	592,007	592,007	-
Renewal and Replacement	-	46,439	46,439	-
Rate Stabilization	-	153,033	153,033	-
Unrestricted	1,460,887	655,193	2,116,080	3,501,041
TOTAL NET ASSETS	\$ 7,264,923	\$ 17,210,858	\$ 24,475,781	\$ 5,275,960

See accompanying notes.

City of Palatka, Florida
Statement of Activities
For the Year Ended September 30, 2005

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		Total	
					Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 957,828	\$ 108,424	\$ -	\$ -	\$ (849,404)	\$ -	\$ (849,404)	\$ -
Public Safety	4,873,998	279,116	184,179	-	(4,410,703)	-	(4,410,703)	-
Physical Environment	16,191	-	-	16,167	(24)	-	(24)	-
Transportation	1,142,443	46,958	368,019	749,596	22,130	-	22,130	-
Economic Environment	63,715	-	-	-	(63,715)	-	(63,715)	-
Human Services	176,399	112,494	9,538	-	(54,367)	-	(54,367)	-
Culture and Recreation	443,796	20,413	11,465	-	(411,918)	-	(411,918)	-
Interest on Long-Term Debt	27,577	-	-	-	(27,577)	-	(27,577)	-
TOTAL GOVERNMENTAL ACTIVITIES	7,701,947	567,405	573,201	765,763	(5,795,578)	-	(5,795,578)	-
BUSINESS-TYPE ACTIVITIES:								
Water	3,461,247	3,134,799	-	94,763	-	(231,685)	(231,685)	-
Sanitation	1,481,355	1,426,784	139,118	-	-	84,547	84,547	-
Golf Course	803,434	711,672	-	-	-	(91,762)	(91,762)	-
Airport	659,324	386,036	-	886,413	-	613,125	613,125	-
TOTAL BUSINESS-TYPE ACTIVITIES	6,405,360	5,659,291	139,118	981,176	-	374,225	374,225	-
TOTAL PRIMARY GOVERNMENT	\$ 14,107,307	\$ 6,226,696	\$ 712,319	\$ 1,746,939	(5,795,578)	374,225	(5,421,353)	-
COMPONENT UNIT:								
Palatka Gas Authority	\$ 2,934,860	\$ 2,954,231	\$ -	\$ -	-	-	-	19,371
GENERAL REVENUES:								
Property Taxes					2,765,692	-	2,765,692	-
Sales Tax and Intergovernmental Unrestricted Shared Revenues					848,661	-	848,661	-
Franchise Taxes					684,678	-	684,678	-
Utility Taxes					806,819	-	806,819	-
Communications Service Tax					500,300	-	500,300	-
Investment Earnings					50,519	11,071	61,590	87,134
Miscellaneous					54,804	72,754	127,558	6,905
Transfers					135,297	(135,297)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					5,846,770	(51,472)	5,795,298	94,039
CHANGE IN NET ASSETS					51,192	322,753	373,945	113,410
NET ASSETS – BEGINNING OF YEAR					7,213,731	16,888,105	24,101,836	5,162,550
NET ASSETS – END OF YEAR					\$ 7,264,923	\$ 17,210,858	\$ 24,475,781	\$ 5,275,960

See accompanying notes.

City of Palatka, Florida
Balance Sheet
Governmental Funds
September 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Equivalents	\$ 1,077,726	\$ 221,313	\$ 1,299,039
Investments	162,616	269,507	432,123
Accounts Receivable	13,504	-	13,504
Due From Other Funds	687,244	-	687,244
Due From Other Governments	27,898	-	27,898
Mortgages Receivable	-	65,904	65,904
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,968,988</u>	<u>\$ 556,724</u>	<u>\$ 2,525,712</u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	\$ 182,028	\$ 178	\$ 182,206
Deposits	1,100	-	1,100
Deferred Revenue	-	65,904	65,904
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>183,128</u>	<u>66,082</u>	<u>249,210</u>
<u>FUND BALANCES</u>			
Unreserved, Reported In:			
General Fund	1,785,860	-	1,785,860
Special Revenue Funds	-	490,642	490,642
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,785,860</u>	<u>490,642</u>	<u>2,276,502</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,968,988</u>	<u>\$ 556,724</u>	<u>\$ 2,525,712</u>

See accompanying notes.

City of Palatka, Florida
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2005

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 2,276,502
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.....	5,863,284
Long-term liabilities are not reported in the governmental funds.	
Bonds and Notes Payable.....	(536,567)
Compensated Absences.....	(404,200)
Liabilities for earned but unavailable revenue are reported in the governmental funds but not in the statement of net assets.	
Deferred Revenue.....	65,904
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 7,264,923</u></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, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Taxes	\$ 5,516,790	\$ 327,988	\$ 5,844,778
Licenses and Permits	194,268	-	194,268
Intergovernmental	1,323,730	16,167	1,339,897
Charges for Services	156,139	-	156,139
Fines and Forfeitures	146,437	-	146,437
Miscellaneous	<u>100,402</u>	<u>15,294</u>	<u>115,696</u>
TOTAL REVENUES	<u>7,437,766</u>	<u>359,449</u>	<u>7,797,215</u>
<u>EXPENDITURES</u>			
Current:			
General Government	799,618	-	799,618
Public Safety	4,891,385	-	4,891,385
Physical Environment	-	16,191	16,191
Transportation	1,165,634	-	1,165,634
Economic Environment	-	129,128	129,128
Human Services	226,867	-	226,867
Culture and Recreation	454,624	-	454,624
Debt Service:			
Principal Retirement	105,544	49,590	155,134
Interest and Fiscal Charges	<u>19,100</u>	<u>8,477</u>	<u>27,577</u>
TOTAL EXPENDITURES	<u>7,662,772</u>	<u>203,386</u>	<u>7,866,158</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(225,006)</u>	<u>156,063</u>	<u>(68,943)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	282,766	-	282,766
Transfers Out	<u>(73,321)</u>	<u>(74,148)</u>	<u>(147,469)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>209,445</u>	<u>(74,148)</u>	<u>135,297</u>
NET CHANGE IN FUND BALANCES	(15,561)	81,915	66,354
FUND BALANCES – BEGINNING OF YEAR	<u>1,801,421</u>	<u>408,727</u>	<u>2,210,148</u>
FUND BALANCES – END OF YEAR	<u><u>\$ 1,785,860</u></u>	<u><u>\$ 490,642</u></u>	<u><u>\$ 2,276,502</u></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, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 66,354

Amounts reported for governmental activities in the statement of activities are 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.....	356,524
Current Year Depreciation Expense.....	(331,548)

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

Principal Payments.....	155,134
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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.....	(15,900)
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The timing of revenue recognition sometimes differs between the governmental funds and governmental activities.

Change in Deferred Revenues.....	<u>(179,372)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 51,192</u></u>
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See accompanying notes.

**City of Palatka, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2005**

	<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	\$ 726,988	\$ 91,533	\$ 1,250	\$ 900	\$ 820,671
Investments	50,195	-	-	-	50,195
Accounts Receivable	221,539	101,901	2,271	19,810	345,521
Due from Other Funds	163,404	-	-	-	163,404
Due From Other Governments	183,419	-	1,476	112,866	297,761
Inventory	153,240	-	25,348	44,166	222,754
TOTAL CURRENT ASSETS	<u>1,498,785</u>	<u>193,434</u>	<u>30,345</u>	<u>177,742</u>	<u>1,900,306</u>
<u>NONCURRENT ASSETS</u>					
Restricted Cash and Equivalents	697,382	-	-	-	697,382
Restricted Investments	536,550	-	-	-	536,550
Capital Assets, Net	14,205,224	255,003	1,536,489	7,574,123	23,570,839
TOTAL NONCURRENT ASSETS	<u>15,439,156</u>	<u>255,003</u>	<u>1,536,489</u>	<u>7,574,123</u>	<u>24,804,771</u>
TOTAL ASSETS	<u>16,937,941</u>	<u>448,437</u>	<u>1,566,834</u>	<u>7,751,865</u>	<u>26,705,077</u>
<u>CURRENT LIABILITIES</u>					
Accounts Payable and Accrued Liabilities	183,671	43,447	20,262	35,721	283,101
Deposits	323,277	-	10,356	5,247	338,880
Due to Other Funds	-	-	793,680	56,968	850,648
Current Portion of Long-Term Liabilities	259,512	9,784	118,077	15,867	403,240
TOTAL CURRENT LIABILITIES	<u>766,460</u>	<u>53,231</u>	<u>942,375</u>	<u>113,803</u>	<u>1,875,869</u>
NONCURRENT LIABILITIES	<u>7,108,807</u>	<u>22,754</u>	<u>442,654</u>	<u>44,135</u>	<u>7,618,350</u>
TOTAL LIABILITIES	<u>7,875,267</u>	<u>75,985</u>	<u>1,385,029</u>	<u>157,938</u>	<u>9,494,219</u>
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	6,965,817	255,003	987,653	7,516,591	15,725,064
Restricted For Debt Service	39,122	-	-	-	39,122
Restricted for Bond Reserve	592,007	-	-	-	592,007
Restricted for Renewal and Replacement	46,439	-	-	-	46,439
Restricted for Rate Stabilization	153,033	-	-	-	153,033
Unrestricted	1,266,256	117,449	(805,848)	77,336	655,193
TOTAL NET ASSETS	<u>\$ 9,062,674</u>	<u>\$ 372,452</u>	<u>\$ 181,805</u>	<u>\$ 7,593,927</u>	<u>\$ 17,210,858</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, 2005

	<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	\$ 3,083,343	\$ 1,425,766	\$ 711,672	\$ 386,028	\$ 5,606,809
Other Operating Revenues	120,060	1,018	-	-	121,078
TOTAL OPERATING REVENUES	<u>3,203,403</u>	<u>1,426,784</u>	<u>711,672</u>	<u>386,028</u>	<u>5,727,887</u>
<u>OPERATING EXPENSES</u>					
Personal Services	1,588,277	639,776	319,569	112,918	2,660,540
Operating Expenses	885,784	820,032	365,734	273,828	2,345,378
Depreciation and Amortization	671,983	21,547	87,876	269,075	1,050,481
TOTAL OPERATING EXPENSES	<u>3,146,044</u>	<u>1,481,355</u>	<u>773,179</u>	<u>655,821</u>	<u>6,056,399</u>
OPERATING INCOME (LOSS)	<u>57,359</u>	<u>(54,571)</u>	<u>(61,507)</u>	<u>(269,793)</u>	<u>(328,512)</u>
<u>NONOPERATING REVENUES</u>					
<u>(EXPENSES)</u>					
Investment Earnings	11,071	-	-	-	11,071
Operating Grants	-	139,118	-	-	139,118
Interest Expense	(315,203)	-	(30,255)	(3,503)	(348,961)
Gain on Disposal of Capital Assets	2,091	2,067	-	-	4,158
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(302,041)</u>	<u>141,185</u>	<u>(30,255)</u>	<u>(3,503)</u>	<u>(194,614)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(244,682)</u>	<u>86,614</u>	<u>(91,762)</u>	<u>(273,296)</u>	<u>(523,126)</u>
Capital Contributions	94,763	-	-	886,413	981,176
Transfers In	2,551	-	31,770	54,000	88,321
Transfers Out	(158,618)	(65,000)	-	-	(223,618)
CHANGE IN NET ASSETS	<u>(305,986)</u>	<u>21,614</u>	<u>(59,992)</u>	<u>667,117</u>	<u>322,753</u>
NET ASSETS – BEGINNING 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>
NET ASSETS – END OF YEAR	<u>\$ 9,062,674</u>	<u>\$ 372,452</u>	<u>\$ 181,805</u>	<u>\$ 7,593,927</u>	<u>\$ 17,210,858</u>

See accompanying notes.

City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005

	<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	\$ 3,222,664	\$1,431,321	\$ 705,464	\$ 390,293	\$ 5,749,742
Payments to Suppliers	(259,127)	(765,759)	(283,658)	(271,267)	(1,579,811)
Payments to Employees	(1,575,628)	(638,116)	(315,170)	(111,615)	(2,640,529)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,387,909</u>	<u>27,446</u>	<u>106,636</u>	<u>7,411</u>	<u>1,529,402</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>					
Operating Grants	-	139,118	-	-	139,118
Transfers In	2,551	-	31,770	54,000	88,321
Transfers Out	(158,618)	(65,000)	-	-	(223,618)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING	<u>(156,067)</u>	<u>74,118</u>	<u>31,770</u>	<u>54,000</u>	<u>3,821</u>
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Proceeds From Debt	131,558	-	125,000	-	256,558
Capital Contributions	94,763	-	-	886,413	981,176
Acquisitions of Capital Assets	(476,690)	(18,904)	(147,789)	(926,502)	(1,569,885)
Principal Paid on Debt	(220,783)	-	(85,362)	(17,369)	(323,514)
Interest Paid on Debt	(319,403)	-	(30,255)	(3,503)	(353,161)
Proceeds From Sale of Capital Assets	2,091	2,067	-	-	4,158
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(788,464)</u>	<u>(16,837)</u>	<u>(138,406)</u>	<u>(60,961)</u>	<u>(1,004,668)</u>
<u>INVESTING ACTIVITIES</u>					
Interest Received	11,071	-	-	-	11,071
Proceeds of Investments	36,585	-	-	-	36,585
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>47,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,656</u>
CHANGE IN CASH AND EQUIVALENTS	<u>491,034</u>	<u>84,727</u>	<u>-</u>	<u>450</u>	<u>576,211</u>
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>933,336</u>	<u>6,806</u>	<u>1,250</u>	<u>450</u>	<u>941,842</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 1,424,370</u>	<u>\$ 91,533</u>	<u>\$ 1,250</u>	<u>\$ 900</u>	<u>\$ 1,518,053</u>

(continued)

City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005

(concluded)

	<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>	
OPERATING INCOME (LOSS)	\$ 57,359	\$ (54,571)	\$ (61,507)	\$ (269,793)	\$ (328,512)
Depreciation and Amortization	671,983	21,547	87,876	269,075	1,050,481
Change In:					
Accounts Receivable	8,061	4,537	507	2,455	15,560
Due From Other Funds	229,793	30,928	-	24,597	285,318
Due From Other Governments	691,816	23,000	4,524	(54,759)	664,581
Inventory	(11,974)	-	(19,922)	(19,789)	(51,685)
Accounts Payable and Accrued Liabilities	(163,972)	2,805	1,753	(3,914)	(163,328)
Due to Other Funds	(113,509)	-	96,803	56,967	40,261
Compensated Absences	7,152	(800)	3,317	762	10,431
Customer Deposits	11,200	-	(6,715)	1,810	6,295
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 1,387,909</u>	 <u>\$ 27,446</u>	 <u>\$ 106,636</u>	 <u>\$ 7,411</u>	 <u>\$ 1,529,402</u>

See accompanying notes.

City of Palatka, Florida
Statement of Fiduciary Net Assets
Pension Trust Funds
September 30, 2005

ASSETS

Investments:

Money Market and Other Cash Equivalents	\$ 509,590
Government Bonds and Notes	2,420,557
Corporate Bonds and Notes	8,023,371
Mututal Funds (REIT)	1,161,152
Common Stock/Equities	<u>14,382,953</u>

Total Investments 26,497,623

Accounts Receivable 84,750

TOTAL ASSETS 26,582,373

LIABILITIES -

NET ASSETS

Held in Trust for Pension Benefits \$ 26,582,373

See accompanying notes.

City of Palatka, Florida
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2005

ADDITIONS

CONTRIBUTIONS:

Employer	\$ 636,191
Member	349,381
State on behalf, through General Fund	133,717
Other	<u>653</u>

TOTAL CONTRIBUTIONS 1,119,942

INVESTMENT INCOME:

Net Appreciation in Fair Value of Investments	2,010,522
Interest	210,321
Dividends	<u>320,264</u>
	2,541,107
Less Investment Management Fee	<u>132,420</u>

NET INVESTMENT INCOME 2,408,687

TOTAL ADDITIONS 3,528,629

DEDUCTIONS

Member Benefits	1,188,427
Withdrawals	88,076
Administrative Expense	<u>96,231</u>

TOTAL DEDUCTIONS 1,372,734

CHANGE IN NET ASSETS 2,155,895

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,
Beginning of Year 24,426,478

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,
End of Year \$ 26,582,373

See accompanying notes.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

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, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2004-2005 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 enterprise 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

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

relationship between the government-wide statements and the statements for the governmental funds.

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.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 \$48,000 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

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 general infrastructure assets acquired prior to October 1, 2002.

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 2005.

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, 2005, 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, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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;

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

- ◆ The Local Government Surplus Funds Trust Fund;
- ◆ Securities and Exchange Commission registered money market funds with the highest credit quality rating.

Deposits and investments are classified in the accompanying financial statements as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and Equivalents	\$ 2,168,319	\$ 283,850
Investments	482,318	3,188,621
Restricted Cash and Equivalents	648,773	-
Restricted Investments	536,550	-
Statement of Fiduciary Net Assets:		
Investments	<u>26,497,623</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 30,333,583</u>	<u>\$ 3,472,471</u>

For purposes of risk disclosures, deposits and investments are comprised of the following:

	<u>Primary Government</u>	<u>Component Unit</u>
Deposits with Financial Institutions, including Certificates of Deposit	\$ 3,452,027	\$ 3,472,471
Investments - Other than Pension	383,933	-
Investments - Pension	<u>26,497,623</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 30,333,583</u>	<u>\$ 3,472,471</u>

The City's investments at September 30, 2005 are summarized in the following table:

		<u>Maturities</u>		
		<u>0-5 yrs</u>	<u>5-10 yrs</u>	<u>10+ yrs</u>
Pension Investments:				
Money Market & Other Cash Equivalents	\$ 509,590	\$ 509,590	\$ -	\$ -
Government Bonds and Notes	2,420,557	1,029,144	52,610	1,338,803
Corporate Bonds and Notes	8,023,371	864,393	7,158,978	-
Mutual Funds (REIT)	1,161,152	1,161,152	-	-
Common Stock	8,212,380	8,212,380	-	-
Foreign Equities	81,465	81,465	-	-
Mutual Funds (Equities)	6,089,108	6,089,108	-	-
Total Pension Investments	<u>26,497,623</u>	<u>17,947,232</u>	<u>7,211,588</u>	<u>1,338,803</u>
Other Investments:				
Money Market Mutual Funds	<u>383,933</u>	<u>383,933</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,881,556</u>	<u>\$ 18,331,165</u>	<u>\$ 7,211,588</u>	<u>\$ 1,338,803</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

The City's investments in common stock, corporate bonds and notes, and government bonds and notes are rated as follows:

<u>Common Stock</u>		<u>Corporate Bonds and Notes</u>		<u>Government Bonds and Notes</u>	
A+	16%	AAA	83%	AAA	93%
A	12%	AA2	3%	-	-
A-	9%	AA3	4%	-	-
B+	14%	A1	3%	-	-
B	8%	A2	4%	-	-
B-	2%	A3	3%	-	-
Not rated	39%	Not rated	0%	Not rated	7%
Total	100%		100%		100%

The City's investments in mutual funds, money markets and foreign equities are not rated for credit quality by a nationally recognized statistical rating organization.

The City is exposed to the following risks associated with its investment portfolio:

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.

The City does not have a formal investment policy outside of Section 218.415, Florida Statutes, for investing public funds. However, the City's three pension plans have each adopted investment policies that address the risks described above and set other investing guidelines. Those policies require the investments to be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt must be made to match investment maturities with known cash needs and anticipated cash-flow requirements. Furthermore, the policies of the Police and Firefighter Plan require diversification to the extent practical to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer or bank in which the financial instruments are bought and sold. The policies of the General Pension Plan place restrictions on investments, including limits as to quality ratings of at least Standard & Poor's A1 or Moody's P-1 for cash instruments; Standard and Poor's BBB or Moody's Baa for bonds or other evidences of indebtedness; corporations listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market for equities; real estate investments (REITs) that trade on a major exchange; or obligations issued by the United States Government or guaranteed as to principal and interest by the United States Government or an agency of the United States Government.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 3 – INTERFUND BALANCES AND TRANSFERS

At September 30, 2005, interfund balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 687,244	\$ -
Enterprise Funds:		
Water	163,404	-
Golf Course	-	793,680
Airport	-	56,968
Totals	<u>\$ 850,648</u>	<u>\$ 850,648</u>

As summarized below, the interfund balances arose because two funds had overdrawn their share of the City's pooled cash account.

	<u>Cash and Equivalents As Reported</u>	<u>Adjustment for Overdraft</u>	<u>True Balance</u>
General Fund	\$ 1,077,726	\$ 687,244	\$ 1,764,970
Water	775,597	163,404	939,001
Golf Course	1,250	(793,680)	(792,430)
Airport	900	(56,968)	(56,068)
Total	<u>\$ 1,855,473</u>	<u>\$ -</u>	<u>\$ 1,855,473</u>

Interfund transfers for the year ended September 30, 2005 consisted of the following:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 282,766	\$ 73,321
Nonmajor Governmental Funds	-	74,148
Major Enterprise Funds:		
Water Fund	2,551	158,618
Sanitation Fund	-	65,000
Golf Course Fund	31,770	-
Airport Fund	54,000	-
Total	<u>\$ 371,087</u>	<u>\$ 371,087</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, 2005

NOTE 4 – CAPITAL ASSET ACTIVITY

During the year ended September 30, 2005, the following changes in capital assets occurred:

<u>Primary Government</u>	<u>Balance October 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2005</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 2,838,043	\$ -	\$ -	\$ 2,838,043
Capital Assets Being Depreciated:				
Buildings and Improvements	3,722,734	247,163	-	3,969,897
Furniture and Equipment	1,838,036	109,361	21,800	1,925,597
Furniture and Equipment Under Capital Lease	68,431	-	-	68,431
Total Capital Assets Being Depreciated	<u>5,629,201</u>	<u>356,524</u>	<u>21,800</u>	<u>5,963,925</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,500,674	150,611	-	1,651,285
Furniture and Equipment	1,107,512	171,679	21,800	1,257,391
Furniture and Equipment Under Capital Lease	20,750	9,258	-	30,008
Total Accumulated Depreciation	<u>2,628,936</u>	<u>331,548</u>	<u>21,800</u>	<u>2,938,684</u>
Total Capital Assets Being Depreciated, Net	<u>3,000,265</u>	<u>24,976</u>	<u>-</u>	<u>3,025,241</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,838,308</u>	<u>\$ 24,976</u>	<u>\$ -</u>	<u>\$ 5,863,284</u>
	<u>Balance October 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2005</u>
<u>Business-type Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 4,606,999	\$ -	\$ -	\$ 4,606,999
Construction in Progress	2,825,984	926,501	2,838,863	913,622
Total Capital Assets Not Being Depreciated	<u>7,432,983</u>	<u>926,501</u>	<u>2,838,863</u>	<u>5,520,621</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	7,982,473	628,305	-	8,610,778
Furniture and Equipment	1,951,328	292,618	27,195	2,216,751
Water and Sewer Distribution System	7,787,952	-	-	7,787,952
Plant Assets and Equipment	12,572,183	2,577,310	15,986	15,133,507
Total Capital Assets Being Depreciated	<u>30,293,936</u>	<u>3,498,233</u>	<u>43,181</u>	<u>33,748,988</u>
Less Accumulated Depreciation for:				
Building and Improvements	4,507,346	304,690	-	4,812,036
Furniture and Equipment	1,289,970	140,980	12,008	1,418,942
Water and Sewer Distribution System	2,219,211	199,874	782	2,418,303
Plant Assets and Equipment	6,676,587	387,307	14,405	7,049,489
Total Accumulated Depreciation	<u>14,693,114</u>	<u>1,032,851</u>	<u>27,195</u>	<u>15,698,770</u>
Total Capital Assets Being Depreciated, Net	<u>15,600,822</u>	<u>2,465,382</u>	<u>15,986</u>	<u>18,050,218</u>
Business-type Activities Capital Assets, Net	<u>\$ 23,033,805</u>	<u>\$ 3,391,883</u>	<u>\$ 2,854,849</u>	<u>\$ 23,570,839</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 4 – CAPITAL ASSET ACTIVITY

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

Governmental Activities:	
General Government	\$ 158,211
Public Safety	149,289
Transportation	13,067
Human Services	5,909
Culture and Recreation	5,072
Total Depreciation Expense – Governmental Activities	<u>\$ 331,548</u>
Business-type Activities:	
Water and Sewer	\$ 654,353
Sanitation	21,547
Airport	269,075
Golf Course	87,876
Total Depreciation Expense – Business-type Activities	<u>\$ 1,032,851</u>

Discretely Presented Component Unit

Capital assets activity for the Gas Authority for the year ended September 30, 2005 follows:

	Balance October 1, 2004	Increases	Decreases	Balance September 30, 2005
Capital Assets Not Being Depreciated:				
Land	\$ 194,147	\$ -	\$ -	\$ 194,147
Capital Assets Being Depreciated:				
Buildings and Improvements	569,968	1,574	-	571,542
Furniture and Equipment	485,404	40,986	33,831	492,559
Plant Assets and Equipment	2,550,142	38,350	-	2,588,492
Total Capital Assets Being Depreciated	<u>3,605,514</u>	<u>80,910</u>	<u>33,831</u>	<u>3,652,593</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	17,507	14,270	-	31,777
Furniture and Equipment	337,735	40,207	33,831	344,111
Plant Assets and Equipment	1,635,526	60,407	-	1,695,933
Total Accumulated Depreciation	<u>1,990,768</u>	<u>114,884</u>	<u>33,831</u>	<u>2,071,821</u>
Total Capital Assets Being Depreciated, Net	<u>1,614,746</u>	<u>(33,974)</u>	<u>-</u>	<u>1,580,772</u>
Gas Authority Capital Assets, Net	<u>\$ 1,808,893</u>	<u>\$ (33,974)</u>	<u>\$ -</u>	<u>\$ 1,774,919</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

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 6.75% at year end) payable semiannually, revenue source – property tax levy, payable from Downtown Redevelopment Fund, a Special Revenue Fund	\$ 186,333
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	60,369
\$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-ad valorem revenues	265,155
\$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	7,520
\$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>17,190</u>
Total	<u>\$ 536,567</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 4.25% to 5.0%, secured by a pledge of the net revenues of the water and sewer system and public service tax revenues. For the year ended September 30, 2005, the City's Water Fund did not meet the net revenue coverage requirement of the bond covenant	\$ 6,550,000
A Water Reuse System State Revolving Loan; interest rate of 1.34%. Repayment began in September 2005 in 30 biannual payments. Secured by a pledge of the net revenues of the water and sewer system after satisfaction of senior obligations	707,138
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	265,155
Golf Course Turf Maintenance Equipment Note; payable in quarterly installments of \$6,824 including interest at 3.41%, through May 2010, revenues source - non ad valorem revenues	119,265
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	57,532
Less Unamortized Discounts and Costs	<u>(165,697)</u>
Total	<u>\$ 7,533,393</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 5 – LONG-TERM OBLIGATIONS

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 135,407	\$ 25,079	\$ 317,190	\$ 327,919
2007	129,635	19,237	397,207	311,014
2008	96,585	13,437	417,473	293,117
2009	98,492	8,072	433,014	274,423
2010	76,448	2,778	407,098	255,119
2011-2015	-	-	2,002,391	1,017,758
2016-2020	-	-	2,485,596	508,154
2021-2022	-	-	1,073,424	27,500
Totals	\$ 536,567	\$ 68,603	\$ 7,533,393	\$ 3,015,004

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

Governmental Activities

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005	Due Within One Year
Revenue Bonds and Notes Payable	\$ 674,841	\$ -	\$ 138,274	\$ 536,567	\$ 135,407
Capital Lease Obligations	16,860	-	16,860	-	-
Compensated Absences	388,300	217,700	201,800	404,200	92,900
Total	\$ 1,080,001	\$ 217,700	\$ 356,934	\$ 940,767	\$ 228,307

Business-type Activities

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005	Due Within One Year
Water and Sewer Refunding Revenue					
Bonds Series 1998	\$ 6,750,000	\$ -	\$ 200,000	\$ 6,550,000	\$ 200,000
Less: Unamortized Issuance Costs	(183,327)	-	(17,630)	(165,697)	(17,143)
Water Reuse Loan	583,356	131,558	7,776	707,138	44,495
Golf Course Revenue Bond	314,035	-	48,880	265,155	51,932
Golf Course Turf Maintenance Note	-	125,000	5,735	119,265	23,531
Airport Hangar Phase 4 Note	74,901	-	17,369	57,532	14,375
Total Revenue Bonds and Notes	7,538,965	256,558	262,130	7,533,393	317,190
Capital Leases	195,163	-	30,747	164,416	36,773
County Water/Sewer Agreement	149,680	-	13,007	136,673	-
SJRWMD Water/Sewer Agreement	11,293	-	-	11,293	-
Compensated Absences	165,384	105,397	94,966	175,815	49,277
Total	\$ 8,060,485	\$ 361,955	\$ 400,850	\$ 8,021,590	\$ 403,240

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 5 – LONG-TERM OBLIGATIONS

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>Business-type</u> <u>Activities</u>
2006	\$ 43,921
2007	43,921
2008	40,914
2009	<u>52,054</u>
Total Minimum Lease Payments	180,810
Less: Amount Representing Interest	<u>16,394</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 164,416</u></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-type</u> <u>Activities</u>
Restricted Assets:	
Cash and Equivalents	\$ 697,382
Investments	<u>536,550</u>
Total	<u>1,233,932</u>
Liabilities Payable from Restricted Assets:	
Current Portion of Debt Service:	
Principal	244,495
Interest	<u>158,836</u>
Total	<u>403,331</u>
Restricted Net Assets	<u><u>\$ 830,601</u></u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

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, 2005 the City recognized \$74,734 and \$58,983 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, 2004, are equal to total years of service times 2.5%, 2.35% and 3.0%, 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, 2004. The minimum benefit for duty disability is 45% of final average compensation for general, police officer and 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, 2005 is as follows:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active Employees	112	33	15	160
Service Retirees and Beneficiaries	47	16	4	67
Disability Retirees	0	2	0	2
Terminated Vested	2	4	2	8
DROP	4	0	2	6
Total	<u>165</u>	<u>55</u>	<u>23</u>	<u>243</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 7 – EMPLOYEE BENEFITS

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	13.20%	15.70%	0.00%
Plan Members	6.00%	6.00%	5.50%
Annual Pension Cost	\$444,247	\$191,944	\$0
Contributions Made	\$444,247	\$191,944	\$0
Actuarial Valuation Date	10/1/2004	10/1/2003	10/1/2003
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	28 Years	N/A	N/A
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.00%	8.00%	8.00%
Projected Salary Increases*	6.00%	6.00%	6.00%
* Includes Inflation at	3.00%	3.00%	3.00%

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	9/30/2005	444,247	100%	0
	9/30/2004	365,266	100%	0
	9/30/2003	266,454	100%	0
	9/30/2002	231,255	100%	0
Police Officers	9/30/2005	191,944	100%	0
	9/30/2004	135,908	100%	0
	9/30/2003	127,497	100%	0
	9/30/2002	94,848	100%	0
Firefighters	9/30/2005	0	100%	0
	9/30/2004	0	100%	0
	9/30/2003	0	100%	0
	9/30/2002	0	100%	0

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 7 – EMPLOYEE BENEFITS

Combining Statement of Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
ASSETS				
Investments:				
Money Market and Other Cash Equivalents	\$ 56,072	\$ 232,931	\$ 220,587	\$ 509,590
Government Bonds and Notes	-	1,419,146	1,001,411	2,420,557
Corporate Bonds and Notes	6,514,812	841,557	667,002	8,023,371
Mutual Funds (REIT)	-	581,660	579,492	1,161,152
Common Stock/Equities	<u>7,043,720</u>	<u>3,717,398</u>	<u>3,621,835</u>	<u>14,382,953</u>
Total Investments	13,614,604	6,792,692	6,090,327	26,497,623
Receivables	<u>58,414</u>	<u>19,989</u>	<u>6,347</u>	<u>84,750</u>
TOTAL ASSETS	13,673,018	6,812,681	6,096,674	26,582,373
LIABILITIES	-	-	-	-
NET ASSETS				
Held in Trust for Pension Benefits	<u>\$ 13,673,018</u>	<u>\$ 6,812,681</u>	<u>\$ 6,096,674</u>	<u>\$ 26,582,373</u>

Combining Statement of Changes in Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
ADDITIONS				
CONTRIBUTIONS:				
Employer	\$ 444,247	\$ 191,944	\$ -	\$ 636,191
Member	218,901	86,187	44,293	349,381
State on Behalf, through General Fund	-	74,734	58,983	133,717
Other	-	653	-	653
TOTAL CONTRIBUTIONS	663,148	353,518	103,276	1,119,942
INVESTMENT INCOME:				
Net Appreciation in Fair Value of Investments	1,223,638	378,333	408,551	2,010,522
Interest	3,633	119,747	86,941	210,321
Dividends	141,431	90,578	88,255	320,264
	<u>1,368,702</u>	<u>588,658</u>	<u>583,747</u>	<u>2,541,107</u>
Less Investment Management Fee	<u>91,780</u>	<u>21,413</u>	<u>19,227</u>	<u>132,420</u>
NET INVESTMENT INCOME	1,276,922	567,245	564,520	2,408,687
TOTAL ADDITIONS	1,940,070	920,763	667,796	3,528,629
DEDUCTIONS				
Member Benefits	557,312	429,934	201,181	1,188,427
Withdrawals	41,194	27,816	19,066	88,076
Administrative Expense	<u>12,736</u>	<u>40,503</u>	<u>42,992</u>	<u>96,231</u>
TOTAL DEDUCTIONS	611,242	498,253	263,239	1,372,734
CHANGE IN NET ASSETS	1,328,828	422,510	404,557	2,155,895
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year	12,344,190	6,390,171	5,692,117	24,426,478
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year	\$ 13,673,018	\$ 6,812,681	\$ 6,096,674	\$ 26,582,373

City of Palatka, Florida
Notes to Financial Statements
September 30, 2005

NOTE 7 – EMPLOYEE BENEFITS

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 and animal control vehicles under operating leases. Lease payments for the year ended September 30, 2005 were \$86,883. Future lease payments are as follows:

2006	\$ 109,376
2007	65,977
2008	<u>33,587</u>
Total	<u><u>\$ 208,940</u></u>

At September 30, 2005, the City had remaining commitments for approximately \$1,131,000 for airport improvements.

NOTE 10 – CONTINGENCIES

The City is sometimes 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, 2005

	<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>
REVENUES				
Taxes	\$ 5,392,821	\$ 5,253,821	\$ 5,516,790	\$ 262,969
Licenses and Permits	170,000	170,000	194,268	24,268
Intergovernmental	934,982	1,076,979	1,323,730	246,751
Charges for Services	75,100	75,100	156,139	81,039
Fines and Forfeitures	92,000	118,894	146,437	27,543
Miscellaneous	215,625	226,773	100,402	(126,371)
TOTAL REVENUES	<u>6,880,528</u>	<u>6,921,567</u>	<u>7,437,766</u>	<u>516,199</u>
EXPENDITURES				
Current:				
General Government	881,384	961,474	799,618	161,856
Public Safety	4,415,563	4,514,937	4,891,385	(376,448)
Transportation	1,077,116	1,314,760	1,165,634	149,126
Human Services	171,156	203,867	226,867	(23,000)
Culture and Recreation	402,771	402,771	454,624	(51,853)
Reserve for Contingencies	54,356	-	-	-
Debt Service:				
Principal Retirement	56,482	162,315	105,544	56,771
Interest and Fiscal Charges	16,848	16,874	19,100	(2,226)
TOTAL EXPENDITURES	<u>7,075,676</u>	<u>7,576,998</u>	<u>7,662,772</u>	<u>(85,774)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(195,148)</u>	<u>(655,431)</u>	<u>(225,006)</u>	<u>430,425</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	249,148	282,766	282,766	-
Transfers Out	(54,000)	(56,551)	(73,321)	(16,770)
TOTAL OTHER FINANCING SOURCES (USES)	<u>195,148</u>	<u>226,215</u>	<u>209,445</u>	<u>(16,770)</u>
NET CHANGE IN FUND BALANCES	-	(429,216)	(15,561)	413,655
FUND BALANCES – BEGINNING OF YEAR	<u>-</u>	<u>429,216</u>	<u>1,801,421</u>	<u>1,372,205</u>
FUND BALANCES – END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,785,860</u>	<u>\$ 1,785,860</u>

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

General Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/2005	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2004	\$ 12,505	\$ 13,162	\$ 657	95%	\$ 3,116	21%
9/30/2003	12,060	12,701	641	95%	3,263	20%
9/30/2002	11,711	12,355	644	95%	3,244	20%
9/30/2001	11,452	12,076	624	95%	3,073	20%
9/30/2000	10,999	10,999	-	100%	2,945	0%

Police Officers' Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/2005	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2004	\$ 6,594	\$ 6,692	\$ 97	99%	\$ 1,294	8%
9/30/2003	6,568	6,667	99	99%	1,150	9%
9/30/2002	6,493	6,607	114	98%	1,073	11%
9/30/2001	6,509	6,500	-	100%	1,106	0%
9/30/2000	6,316	6,316	-	100%	1,085	0%

Firefighters' Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/2005	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2004	\$ 5,534	\$ 5,930	\$ 396	93%	\$ 818	48%
9/30/2003	5,533	5,533	-	100%	630	0%
9/30/2002	5,481	5,481	-	100%	677	0%
9/30/2001	5,449	5,449	-	100%	560	0%
9/30/2000	5,146	5,146	-	100%	663	0%

N/A - Information for 2005 is not available.

City of Palatka, Florida
Schedules of Contributions From Employer and Other Contributing Entities
September 30, 2005

General Plan

Employer Contributions

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2005	\$ 444,247	\$ 444,247	100.00%
9/30/2004	365,266	365,266	100.00%
9/30/2003	266,454	266,454	100.00%
9/30/2002	231,255	231,255	100.00%
9/30/2001	142,444	142,444	100.00%
9/30/2000	148,191	148,191	100.00%

Police Officers' Plan

Employers Contributions

State Contributions

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2005	\$ 191,944	\$ 191,944	100.00%	\$ 74,734	\$ 74,734	100.00%
9/30/2004	135,908	135,908	100.00%	72,672	72,672	100.00%
9/30/2003	127,497	127,497	100.00%	71,146	71,146	100.00%
9/30/2002	94,848	94,848	100.00%	63,573	63,573	100.00%
9/30/2001	73,142	73,142	100.00%	56,869	56,869	100.00%
9/30/2000	54,027	54,027	100.00%	58,845	58,845	100.00%

Firefighters' Plan

Employers Contributions

State Contributions

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2005	\$ -	\$ -	100.00%	\$ 58,983	\$ 58,983	100.00%
9/30/2004	-	-	100.00%	57,048	57,048	100.00%
9/30/2003	-	-	100.00%	48,811	48,811	100.00%
9/30/2002	-	-	100.00%	51,314	51,314	100.00%
9/30/2001	-	-	100.00%	46,756	46,756	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	9/30/2004	9/30/2004	9/30/2004
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	N/A	N/A
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.00%	8.00%	8.00%
Projected Salary Increases	6.00%	6.00%	6.00%
Includes Inflation At	3.00%	3.00%	3.00%

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, 2005**

	Downtown Redevelopment Fund	Community Development Block Grant Fund	Total
<u>ASSETS</u>			
Cash and Equivalents	\$ 213,183	\$ 8,130	\$ 221,313
Investments	203,945	65,562	269,507
Mortgages Receivable	-	65,904	65,904
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 417,128</u>	<u>\$139,596</u>	<u>\$ 556,724</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 178	\$ -	\$ 178
Deferred Revenue	-	65,904	65,904
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	178	65,904	66,082
 <u>FUND BALANCES</u>			
Unreserved	416,950	73,692	490,642
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 417,128</u>	<u>\$139,596</u>	<u>\$ 556,724</u>

City of Palatka, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2005

	Downtown Redevelopment Fund	Community Development Block Grant Fund	Total
<u>REVENUES</u>			
Taxes	\$327,988	\$ -	\$327,988
Intergovernmental	-	16,167	16,167
Miscellaneous	<u>4,174</u>	<u>11,120</u>	<u>15,294</u>
TOTAL REVENUES	<u>332,162</u>	<u>27,287</u>	<u>359,449</u>
<u>EXPENDITURES</u>			
Physical Environment	-	16,191	16,191
Economic Environment	118,289	10,839	129,128
Debt Service:			
Principal	49,590	-	49,590
Interest	<u>8,477</u>	<u>-</u>	<u>8,477</u>
TOTAL EXPENDITURES	<u>176,356</u>	<u>27,030</u>	<u>203,386</u>
EXCESS OF REVENUES OVER EXPENDITURES	155,806	257	156,063
<u>OTHER FINANCING USES</u>			
Transfers Out	<u>(74,148)</u>	<u>-</u>	<u>(74,148)</u>
NET CHANGE IN FUND BALANCES	81,658	257	81,915
FUND BALANCES, Beginning of Year	<u>335,292</u>	<u>73,435</u>	<u>408,727</u>
FUND BALANCES, End of Year	<u>\$416,950</u>	<u>\$ 73,692</u>	<u>\$490,642</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, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>			
Taxes	\$ 327,988	\$ 327,988	\$ -
Miscellaneous	-	4,174	4,174
	<u>327,988</u>	<u>332,162</u>	<u>4,174</u>
TOTAL REVENUES			
<u>EXPENDITURES</u>			
Economic Environment	526,110	118,289	407,821
Debt Service:			
Principal	49,637	49,590	47
Interest	13,563	8,477	5,086
	<u>589,310</u>	<u>176,356</u>	<u>412,954</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(261,322)	155,806	417,128
<u>OTHER FINANCING USES</u>			
Transfers Out	(74,148)	(74,148)	-
NET CHANGE IN FUND BALANCES	(335,470)	81,658	417,128
FUND BALANCES, Beginning of Year	<u>335,470</u>	<u>335,292</u>	<u>(178)</u>
FUND BALANCES, End of Year	<u>\$ -</u>	<u>\$ 416,950</u>	<u>\$ 416,950</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, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>			
Intergovernmental	\$ -	\$ 16,167	\$ 16,167
Miscellaneous	-	<u>11,120</u>	<u>11,120</u>
TOTAL REVENUES	<u>-</u>	<u>27,287</u>	<u>27,287</u>
<u>EXPENDITURES</u>			
Physical Environment	-	16,191	(16,191)
Economic Environment	-	<u>10,839</u>	<u>(10,839)</u>
TOTAL EXPENDITURES	<u>-</u>	<u>27,030</u>	<u>(27,030)</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	257	257
FUND BALANCES, Beginning of Year	<u>-</u>	<u>73,435</u>	<u>73,435</u>
FUND BALANCES, End of Year	<u>\$ -</u>	<u>\$ 73,692</u>	<u>\$ 73,692</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, 2005

	General Retirement <u>Fund</u>	Police Officers' Retirement <u>Fund</u>	Firefighters' Retirement <u>Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Investments:				
Money Market and Other				
Cash Equivalents	\$ 56,072	\$ 232,931	\$ 220,587	\$ 509,590
Government Bonds and Notes	-	1,419,146	1,001,411	2,420,557
Corporate Bonds and Notes	6,514,812	841,557	667,002	8,023,371
Mutual Funds (REIT)	-	581,660	579,492	1,161,152
Common Stock/Equities	7,043,720	3,717,398	3,621,835	14,382,953
Receivables	58,414	19,989	6,347	84,750
TOTAL ASSETS	13,673,018	6,812,681	6,096,674	26,582,373
LIABILITIES	-	-	-	-
<u>NET ASSETS</u>				
Held in Trust for Pension Benefits	\$ 13,673,018	\$ 6,812,681	\$ 6,096,674	\$ 26,582,373

City of Palatka, Florida
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2005

	<u>General Retirement Fund</u>	<u>Police Officers' Retirement Fund</u>	<u>Firefighters'- Retirement Fund</u>	<u>Total</u>
<u>ADDITIONS</u>				
CONTRIBUTIONS:				
Employer	\$ 444,247	\$ 191,944	\$ -	\$ 636,191
Member	218,901	86,187	44,293	349,381
State on Behalf, through General Fund	-	74,734	58,983	133,717
Other	-	653	-	653
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL CONTRIBUTIONS	663,148	353,518	103,276	1,119,942
INVESTMENT INCOME:				
Net Appreciation in Fair Value of Investments	1,223,638	378,333	408,551	2,010,522
Interest	3,633	119,747	86,941	210,321
Dividends	141,431	90,578	88,255	320,264
	<hr/>	<hr/>	<hr/>	<hr/>
	1,368,702	588,658	583,747	2,541,107
Less Investment Management Fee	91,780	21,413	19,227	132,420
	<hr/>	<hr/>	<hr/>	<hr/>
NET INVESTMENT INCOME	1,276,922	567,245	564,520	2,408,687
TOTAL ADDITIONS	<hr/>	<hr/>	<hr/>	<hr/>
	1,940,070	920,763	667,796	3,528,629
<u>DEDUCTIONS</u>				
Member Benefits	557,312	429,934	201,181	1,188,427
Withdrawals	41,194	27,816	19,066	88,076
Administrative Expense	12,736	40,503	42,992	96,231
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL DEDUCTIONS	611,242	498,253	263,239	1,372,734
CHANGE IN NET ASSETS	1,328,828	422,510	404,557	2,155,895
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year	12,344,190	6,390,171	5,692,117	24,426,478
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year	<u>\$ 13,673,018</u>	<u>\$ 6,812,681</u>	<u>\$ 6,096,674</u>	<u>\$ 26,582,373</u>

STATISTICAL SECTION
(unaudited)

TABLE 1**City of Palatka, Florida****General Governmental Expenditures by Function (1)
Last Ten Fiscal Years
September 30, 2005**

Fiscal Year	General Government	Public Safety	Physical Environment	Transportation	Economic Environment	Human Services	Culture/Recreation	Debt Service	Total
1995-96	\$ 666,155	\$ 3,093,822	\$ -	\$ 426,421	\$ 791,771	(2)	\$ 378,180	\$ 265,912	\$ 5,622,261
1996-97	\$ 722,052	\$ 3,353,933	\$ -	\$ 463,520	\$ 436,494	(2)	\$ 298,017	\$ 296,422	\$ 5,570,438
1997-98	\$ 750,806	\$ 3,293,378	\$ -	\$ 471,728	\$ 454,605	\$ 99,982	\$ 263,800	\$ 380,310	\$ 5,714,609
1998-99	\$ 587,218	\$ 3,079,948	\$ -	\$ 769,969	\$ 150,297	\$ 114,308	\$ 303,730	\$ 359,101	\$ 5,364,571
1999-00	\$ 645,280	\$ 3,489,533	\$ -	\$ 636,132	\$ 673,918	\$ 224,719	\$ 493,637	\$ 375,623	\$ 6,538,842
2000-01	\$ 700,524	\$ 3,479,318	\$ -	\$ 883,130	\$ 163,566	\$ 130,696	\$ 660,149	\$ 407,762	\$ 6,425,145
2001-02	\$ 618,590	\$ 3,721,507	\$ -	\$ 508,185	\$ 35,012	\$ 142,652	\$ 499,504	\$ 288,219	\$ 5,813,669
2002-03	\$ 726,687	\$ 4,073,172	\$ -	\$ 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
2004-05	\$ 799,618	\$ 4,891,385	\$ 16,191	\$ 1,165,634	\$ 129,128	\$ 226,867	\$ 454,624	\$ 182,711	\$ 7,866,158

(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, 2005**

Fiscal Year	Taxes	Licenses & Permits	Intergovernmental	Charges For Services	Fines & Forfeitures	Interest On Investments	Other Miscellaneous	Total
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
2004-05	\$ 5,844,778	\$ 194,268	\$ 1,339,897	\$ 156,139	\$ 146,437	\$ 50,519	\$ 65,177	\$ 7,797,215

(1) INCLUDES ALL GOVERNMENTAL FUNDS.

TABLE 3**City of Palatka, Florida****Property Tax Levies and Collections
Last Ten Fiscal Years
September 30, 2005**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	% of Total Collections To Levy
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	\$ 1,530,358	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
2004-05	\$ 2,645,191	\$ 2,529,526	0.9562	\$ 59,668	\$ 2,589,194	0.9788

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, 2005**

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	
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%
2004-05	\$ 268,616,535	\$ 541,682,448	\$ 62,032,313	\$ 89,947,767	\$ 330,648,848	\$ 631,630,215	52.35%

(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, 2005
(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		
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
2004-05	8.000	9.200	6.310	2.800	0.462	26.772

(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, 2005**

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, 2005**

<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>
<hr/>			
DIRECT:			
CITY OF PALATKA	NONE		
OVERLAPPING:			
SCHOOL BOARD DISTRICT Refunding Issue 1991	<u>\$ 5,726,149</u>	<u>10.54%</u>	<u>\$ 603,536</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, 2005**

Fiscal Year	Gross Revenue(1)	Direct Operating Expenses(2)	Net Available For Debt Service	Debt Service Requirements		Total	Coverage
				Principal	Interest		
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
2004-05	\$ 6,951,731	\$ 5,005,918	\$ 1,945,813	\$323,514	\$348,961	\$672,475	2.89

(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, 2005**

Year	Population(1)	Per Capita Income		School Enrollment (2)	Median Age	Unemployment Rates(3)	
		County	City			County	City
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
2005	11,100	N/A	N/A	5,371	N/A	3.7%	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, 2005**

Fiscal Year	Property Value (In Thousands) (1)	Construction (2)	Bank Deposits (In Thousands) (3)
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
2005	\$ 330,648	\$ 20,089,451	\$ 553,021

(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, 2005**

	Total Taxable Value	Percent Of Total Taxable Value
Lifepoint Hospital, Inc.	\$ 18,039,026	4.62%
Wal-Mart Stores Inc.	\$ 13,182,559	3.38%
Bellsouth Telecommunications	\$ 8,853,530	2.27%
Florida Power and Light Co.	\$ 8,065,160	2.07%
Spipal Inc.	\$ 7,835,729	2.01%
Southern Medical Association	\$ 7,375,198	1.89%
Holly Ridge Limited Partnership	\$ 7,296,457	1.87%
FWI 5 LLC	\$ 6,456,260	1.65%
Palatka Mall LLC	\$ 6,242,404	1.60%
Barrington Apartments	\$ 4,308,220	1.10%
TOTAL	\$ 87,654,543	22.46%

SOURCE: PUTNAM COUNTY PROPERTY APPRAISER

TABLE 12

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2005**

<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:	5,840
Male:	2,287
Female:	3,437
Unknown gender:	116
	Democratic: 3,960 Republicans: 1,175 Other parties: 705

SOURCE: Putnam County Supervisor of Elections.

Education

<u>PUBLIC SCHOOLS</u>	<u>NUMBER</u>	<u>ENROLLMENT</u>
Elementary (K-5)	5	2,314
Middle School (6-8)	2	1,242
Senior High Schools (9-12)	1	1,562
Exceptional Students (K-12)	1	139
Charter School	1	114
Total		<u>5,371</u>
Personnel	389	
Non-instructional	295	

SOURCE: Putnam County School Board.

TABLE 12
(Continued)

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2005**

<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> (2005)
Palatka	10,201	10,033	11,100
 <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.

TABLE 12
(Continued)

City of Palatka, Florida
Miscellaneous Statistical Data
September 30, 2005

PUBLIC SAFETY

FIRE

Fire stations (2)	Full Time (17) Volunteers (6)
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 - 34 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	120	
Dentists	19	

SOURCE: City occupational licenses, Palatka Health Care, Nursing Homes.

TABLE 12
(Continued)

City of Palatka, Florida

Miscellaneous Statistical Data
September 30, 2005

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	2 nd weekend in March
St. Patrick's Day Festivities	March
Azalea Area Cruisers Association	4 th Saturday in April
Mug Race	1 st Saturday in May
Wolfson Children's Hospital Bass Invitational	3 rd Saturday of May
Blue Crab Festival	Memorial Day Weekend
Palatka Independence Day Celebration	July 4 th
Rod Run	1 st week of October
Palatka Railfest	3 rd Saturday of October
Azalea Marching Band Festival	2 nd Saturday of November
Light the Riverfront	1 st Saturday in December
Christmas Parade	Day after Thanksgiving

COMMUNICATIONS

Newspapers	1(Daily) 12,700 Circulation	<u>Radio Stations</u>	
		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 Explore.

TABLE 12
(Continued)

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2005**

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	City of Palatka	179
8	Lowes Home Centers, Inc.	123
9	Publix Supermarket, Inc.	120
10	Home Depot USA, Inc.	101

SOURCE: Individual employers/Chamber of Commerce

Table 12
(Concluded)

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2005**

EMPLOYEES (CITY)

<u>DIVISION</u>	<u>EMPLOYEES</u>	<u>ELECTED</u>
Commission	5	5
Attorney	1	
Administration	9	
Bronson House	1	
Mainstreet	1	
Building	6	
Police Part-time (5) Full-time (39)	44	
Fire	17	
Streets	9	
Parks and Cemetery Part-time (4) Full-time (9)	13	
Airport	4	
Utility Administration	3	
Water Plant	6	
Sewer Plant	10	
Water and Sewer Distribution	17	
Golf Part-time (6) Full-time (8)	14	
Sanitation	15	
Garage Maintenance	4	

SOURCE: City of Palatka Personnel Department.

SINGLE AUDIT SECTION



Certified Public Accountants
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Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

Members:

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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, 2005, and have issued our report thereon dated February 10, 2006. 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, the only prior audit finding, item 04-1, has been adequately resolved.

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, 2005, filed with the Department of Financial Services pursuant to

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

Page Two

Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2005.

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, Mark } Company". The signature is written in black ink and is positioned above the date and location information.

February 10, 2006
Palatka, Florida



Certified Public Accountants
& Business Consultants

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Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

Members:

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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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 10, 2006. 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. Our consideration of the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*. However, we did note an immaterial instance of noncompliance that is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

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.

February 10, 2006
Palatka, Florida

City of Palatka, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2005

<u>Federal Awards</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Local Law Enforcement Block Grant	16.592	03-LB-BX-0284	6,133
Local Law Enforcement Block Grant	16.592	04-LB-BX-0287	15,433
Program Total			<u>21,566</u>
Bullet Proof Vest Program	16.607	--	2,294
Passed Through Florida Department of Law Enforcement:			
Byrne Formula Grant	16.579	05-CJ-K3-04-64-02-118	28,859
Passed Through Florida Department of Financial Services:			
Equipment Program for Florida Strategy	16.007	--	27,905
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
FAA Airport Improvement Program	20.106	AIP 3-12-0061-011-2005	71,795
FAA Airport Improvement Program	20.106	AIP 3-12-0061-012-2004	533,710
Program Total			<u>605,505</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through State Department of Environmental			
Protection:			
State Revolving Fund Program	66.468	DW 5419-010	91,980
State Revolving Fund Program	66.468	WW 73605S	128,644
Program Total			<u>220,624</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through State Department of Community Affairs:			
Public Assistance Grant – Hurricane Jeanne	97.036	DR-1561	182,225
Passed Through Florida department of Law Enforcement:			
Terrorism Prevention	97.004	05-CJ-L2-03-64-02-023	5,100
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,094,078</u>

(Continued)

City of Palatka, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2005
(Concluded)

<u>State Financial Assistance</u>	<u>State CSFA Number</u>	<u>Contract/Grant Number</u>	<u>State Expenditures</u>
<u>STATE DEPARTMENT OF TRANSPORTATION</u>			
Aviation Development Grant – Terminal Facility	55.004	ANQ44	\$ 31,600
Aviation Development Grant – Lighting, Cable & Conduit	55.004	ANQ46	15,999
Aviation Development Grant – Storm Water Master Plan	55.004	ANC40	83,959
Aviation Development Grant – Fuel Tanks	55.004	ANC41	144,682
Program Total			<u>\$ 276,240</u>

Note 1. Significant Accounting Policies

The schedule includes the grant activity of the City of Palatka, Florida and is presented in accordance with applicable Single Audit requirements. Therefore, some amounts may differ from amounts reported in the City's financial statements prepared in conformity with generally accepted accounting principles.

Note 2. Subrecipients

The City did not provide awards to subrecipients.



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4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

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 of its major federal program for the year ended September 30, 2005. The City's major federal program is 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 its major federal program for the year ended September 30, 2005.

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

Florida Institute of
Certified Public Accountants

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 "Davis, Monk & Company". The signature is written in dark ink and is positioned above the date and location text.

February 10, 2006
Palatka, Florida

City of Palatka, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Part I – Summary of Auditors’ Results

1. The independent auditors’ report on the financial statements was unqualified.
2. The audit disclosed no reportable conditions in internal control over financial reporting.
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 the major federal award program.
5. The report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported for the major federal program.
7. The City’s major federal program was:

	<u>CFDA Number</u>
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

- 05-1 Condition – Net revenues of the Water Fund were approximately \$159,000 lower than the amount required by covenants of the 1998 Water & Sewer System Refunding Revenue Bonds.

Recommendation – Management should review the Water Fund’s operating revenues and expenses to evaluate alternatives to improve the operating results and comply with bond covenants.

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, 2005
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, 2004.

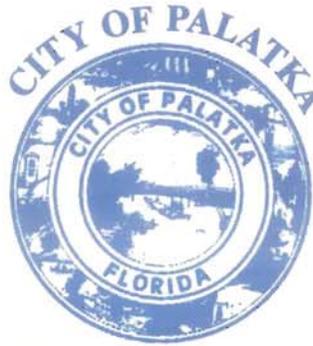
KARL N. FLAGG
MAYOR-COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

GEORGE E. SANDERS
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER

ALLEGRA KITCHENS
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

March 23, 2006

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, 2005.

Part II - Financial Statement Findings Section

05-1 Condition – Net revenues of the Water Fund were approximately \$159,000 lower than the amount required by covenants of the 1998 Water & Sewer System Refunding Revenue Bonds.

Recommendation – Management should review the Water Fund's operating revenues and expenses to evaluate alternatives to improve the operating results and comply with bond covenants.

Resolution – Management will review the Water Fund's operating revenues and expenses and make the necessary adjustments to improve the operating results and comply with bond covenants.

Sincerely,

Ruby M. Williams
Finance Director