

CITY OF PALATKA,  
FLORIDA

COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2007

PREPARED BY:

ELWIN BOYNTON  
CITY MANAGER

RUBY M. WILLIAMS  
FINANCE DIRECTOR

**City of Palatka, Florida  
Comprehensive Annual Financial Report  
For The Year Ended September 30, 2007**

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KARL N. FLAGG  
MAYOR - COMMISSIONER

MARY LAWSON BROWN  
VICE MAYOR - COMMISSIONER

ALLEGRA KITCHENS  
COMMISSIONER

VERNON MYERS  
COMMISSIONER

JAMES NORWOOD, JR.  
COMMISSIONER



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

ELWIN C. "WOODY" BOYNTON, JR.  
CITY MANAGER

BETSY JORDAN DRIGGERS  
CITY CLERK

RUBY M. WILLIAMS  
FINANCE DIRECTOR

GARY S. GETCHELL  
CHIEF OF POLICE

MICHAEL LAMBERT  
CHIEF FIRE DEPT.

DONALD E. HOLMES  
CITY ATTORNEY

May 27, 2008

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, 2007.

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 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 is in excess of 11,000 persons according to the last University of Florida estimate. Due to current economic conditions, the City of Palatka like many communities is experiencing serious budget constraints. Many of the proposed residential developments envisioned by the City in past years

## **ECONOMIC CONDITION (Concluded)**

have not materialized. Due to Amendment 1, the City is expected to lose over \$300,000.00 in revenue from last years ad valorem tax calculation. The sales tax projected for this current fiscal year is less than what was originally estimated. In addition, the City's boundaries did not increase this past year, further restricting new revenue streams that are usually experienced by the City in years past.

Increases in fuel costs are also having a significant effect on budgets city-wide, for the first time in many years, the City is looking to reduce its budget from the previous year (due to Amendment 1). The City continues to experience a considerable demand on its infrastructure that will require a significant investment over the next few years.

The budget for the year ending September 30, 2007 was again balanced with reserve funds for the third consecutive year. The millage rate was lowered to 8.5 mils down from 8.65 mils the previous year. The major challenge the City faces in the next few years is maintaining the current level of service it provides its citizens without increasing the millage rate significantly.

Whether enough growth takes place in the coming year to offset increases in operating cost is questionable. Normal personnel increases in payroll, pension and health coverage may outpace any additional revenues, which become available. Due to this concern and Amendment 1, balancing the budget in the short-term will remain difficult.

## **MAJOR INITIATIVES**

### **CURRENT PROJECTS**

The City's Riverfront Redevelopment Project is moving forward. The City has recently purchased additional property on the riverfront to expand the project size to 3.5 acres of riverfront property. We currently are in negotiations with a developer and look to finalize these negotiations by the end of the year. The anticipated project will add commercial properties to downtown, increase the number of people visiting and shopping in the area and have a positive effect on all property in the Community Redevelopment District.

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 goal is to attract development and at the same time retain the natural qualities, which draw people to the area.

The first step in wastewater reclamation was completed with 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. The next phase of the project is to construct a pump station and 12,000 linear feet of transmission line to service the school department's and City's recreational fields, local cemeteries and the St. Johns River Community College. This project will be completed by the end of the year.

The City has secured 85% state funding for additional treatment facilities at its potable water plant. These improvements are part of the City's long-range plan to stay ahead of tightening EPA regulations on potable water supplies. This year the City began construction of a \$12 million water quality improvement project. This project includes degasification and ultra-filtration treatment of the water and will treat 6 mgd of water.

The one-cent sales tax money (Better Place Funds) is dedicated to capital improvements within the City. This year's improvements were primarily for sidewalk renovation and a match for a CDBG grant.

## **MAJOR INITIATIVES (Concluded)**

Approximately one-third of the Better Place monies were used to purchase a building for an expansion to the City's police department. Other improvements are 'one time' improvements to City facilities. This revenue has led to noticeable improvements to the City's road and sidewalks.

The City continued its upgrade of pavement and drainage at the airport with the help of Federal Aviation Administration and Florida Department of Transportation grants. The City is commencing construction of a new \$1.7 million terminal building. The City has grants to cover approximately 75% of this cost. Additionally, the City later this year will begin construction of two hangars at the airport at an approximate cost of one million dollars.

### Future Projects

Better Place Funds raised through the local sales tax initiative will continue to be used to improve the City's infrastructure and for major equipment purchases. The improvements to the City's roads and sidewalks are clearly visible. This use of Better Place Funds will continue next fiscal year and thereafter until all streets and sidewalks in the City are addressed.

The City anticipates another FAA grant, completing the rehabilitation of its runways, taxiways, drainage and lighting. Long-term improvements will include the eventual construction of a business park north of the primary runway and the extension of that runway.

Other projects that will need further evaluation and discussion over the next few years are: upgrading the City's water transmission lines, expansion of the City's wastewater treatment plant and expansion of current utilities to outside of the City's current boundaries. The priority of these projects will change as the City grows.

## **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.

## **FINANCIAL INFORMATION (Concluded)**

### **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. Total taxes increased by \$741,943 from the prior year.

Ad valorem taxes, which were accounted for in the general and special revenue funds was 8.65 mills and generated \$3,805,051, an increase of \$470,667 from the prior year.

Police overtime and an additional code enforcement officer increased expenditures in public safety. Transportation increases were due to street and sidewalk improvements that are paid for by the Better Place Funds (discretionary sales tax). Parks and recreation expenditures increased due to grants that were received during the year.

Unreserved fund balance in the General Fund decreased \$1,352,668 or 76.5% from the prior year. Reserved for advances was \$1,269,605. These funds were an advance to the Golf fund.

## **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 \$1,042,741 at September 30, 2007.

## **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.

## **ENTERPRISE FUNDS (Concluded)**

### 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 are directly relate to the Water Revenue Fund. Beginning net assets were restated by (\$693,933.) to properly reflect ownership of certain capital assets. Net assets increased by \$836,517 or 10.5% from the prior year.

### SANITATION FUND

There was an increase in operating revenue of \$87,737. Net assets increased by \$24,531.

### GOLF COURSE FUND

Revenue showed a decrease of \$10,278 from the prior year. Operating expenses increased by \$95,711. Operating expenses, which include depreciation, exceeded operating revenues by \$252,927. Beginning net assets were restated by \$693,933 to properly reflect ownership of certain capital assets. Net assets decreased by \$236,037.

### AIRPORT FUND

Operating revenue decreased by \$61,614 from the prior year. The airport received \$1,495,891 from state and federal grants. Net assets increased by \$1,181,571.

## **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, 2007, the employees' retirement fund had net assets available for benefits of \$32,310,524. 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, 2007, the governmental capital assets of the City amounted to \$12,087,065, net of depreciation. This was an increase of \$6,208,482 over the prior year. The majority of this increase was due to roads and sidewalks that were recorded in accordance with GASB Statement No. 34. 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.

## **DEBT ADMINISTRATION**

At September 30, 2007, the City had \$1,453,001 of revenue bonds & notes payable from specific general fund revenue sources other than ad valorem taxes. Also, outstanding were, \$6,075,000 Water and Sewer System Improvement and Refunding Bonds, Series 1998, payable from the net revenues of the Water

### **DEBT ADMINISTRATION (Concluded)**

and Sewer system and Public Service Tax Revenues; \$617,550 Water Reuse System Construction loan, payable from the net revenues of the Water and Sewer system; \$943,012 interim construction loan that is due August 2010; \$158,849 of Golf Course Revenue Bonds & a \$71,473 Golf Course Turf Equipment note payable from the net revenues of the Golf Course, Southern Bell and Cable TV franchise fees; Airport Hangar Revenue Bond and note payable, \$28,782 payable from net revenues of the Airport operations; \$576,439 Sanitation note payable from the net revenues of the Sanitation system.

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, 2007.

### **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 5.15% to a low of 1.55%. Total interest income decreased from the prior year by \$3,188.

### **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, 2006. This was the fifteenth 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.

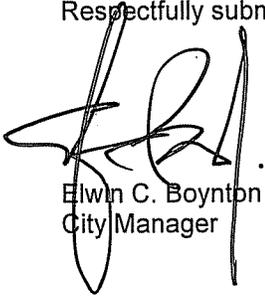
Honorable Mayor and  
Members of the City Commission  
City of Palatka  
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#### ACKNOWLEDGMENTS

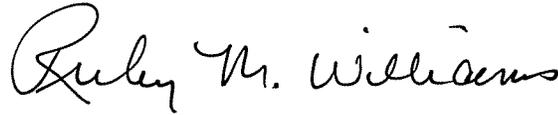
The preparation of this report was accomplished through the efforts and dedication of the City's financial staff.

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,



Elwin C. Boynton  
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, 2006 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, 2006

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.



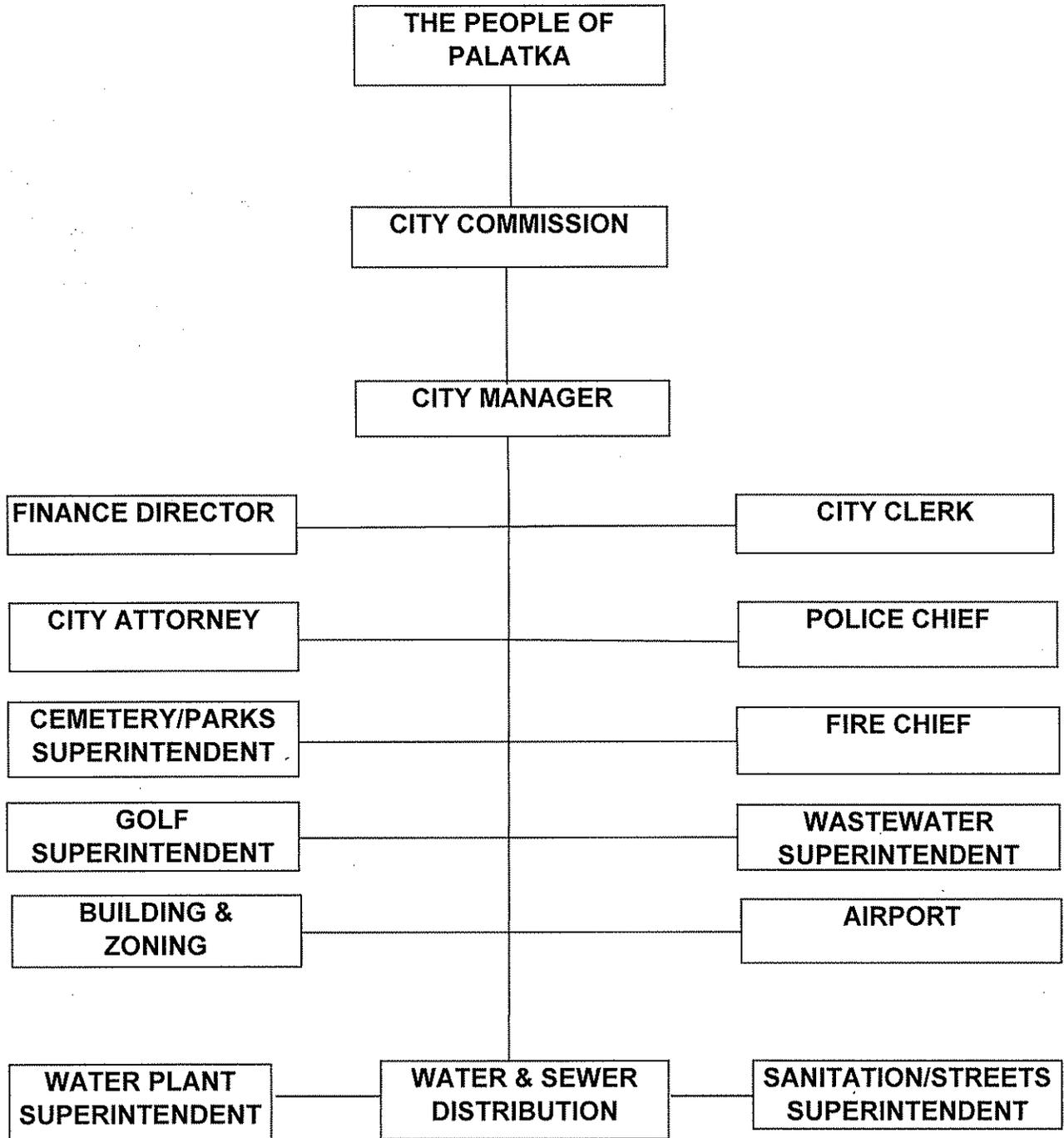
*Oliver S. Cox*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF PALATKA, FLORIDA  
ORGANIZATION CHART**



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

**ELECTED OFFICIALS**

Mayor-Commissioner  
Vice Mayor-Commissioner  
Commissioner  
Commissioner  
Commissioner

Karl N. Flagg  
Mary Lawson Brown  
James Norwood, Jr.  
Vernon Myers  
Allegra Kitchens

**APPOINTED OFFICIALS**

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

Elwin C. Boynton  
Ruby M. Williams  
Betsy Jordan Driggers  
Donald E. Holmes  
Gary Getchell  
William M. Lambert

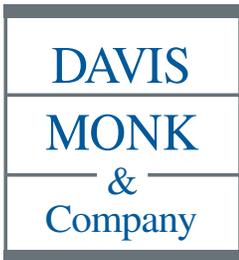
**DEPARTMENT SUPERINTENDENTS**

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

Joffre Fillion  
James Lee  
Michael Aaron  
Jeff Norton  
Ed Chandler  
Melvin Register  
Platt Drew  
Rhett McCamey

**AUDITORS**

Davis Monk & Company



Certified Public Accountants  
& Business Consultants

*A Partnership Consisting of  
Professional Associations*

*Gainesville*

4010 N.W. 25th Place  
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Phone: (904) 471-3445  
Fax: (904) 471-3825

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[www.davismonk.com](http://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, 2007, 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, 2007, 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 May 27, 2008 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.

As discussed in Note 9 to the financial statements, the City restated beginning net assets to retroactively apply the capitalization requirements to all major general governmental infrastructure assets, and to correct certain capital assets that had not been properly reported in previous years.

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.



May 27, 2008  
Palatka, Florida

**City of Palatka  
Management's Discussion and Analysis  
September 30, 2007**

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, 2007. 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 \$32,480,139. Of this amount, \$2,130,729. may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,794,725. (9.41%). Due to the millage rate of 8.50 mills, grants and one-cent discretionary sales tax, governmental net assets increased by \$988,143 (or 8.34%). The Enterprise funds net assets increased by \$1,806,582 (or 10.13%) due to grants received during the fiscal year.
- The total net assets in the Enterprise funds were: Water \$8,814,722, Sanitation \$393,998, Golf \$490,590 and Airport \$9,942,914.
- As of September 30, 2007, the City's governmental funds reported combined ending fund balances of \$2,726,966, an increase of \$ 278,201.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$414,620 or 3.73% 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 \$2,193,666, \$685,970 and \$345,179, 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 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 and the Downtown Redevelopment Agency fund, which are considered major funds. Data from the non-major governmental fund is included in the Other Governmental fund column.

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 and Downtown Redevelopment special revenue fund in the required supplementary information section.

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

### ***Proprietary Funds***

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

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

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

### ***Fiduciary Funds***

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

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

### **Notes to the Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 31 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 32 – 36 of this report.

Combining fund statements can be found on pages 37 – 38 of this report immediately following the required supplementary information.

### **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 \$32,480,139 at the close of the most recent fiscal year.

The majority of the City's net assets (87.8%) 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, 2007**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$3,254,698	\$2,682,689	2,999,227	\$1,683,805	\$ 6,253,925	\$4,366,494
Capital assets	\$12,087,065	5,878,583	26,561,885	25,250,584	\$ 38,648,950	31,129,167
Total assets	15,341,763	8,561,272	29,561,112	26,934,389	\$ 44,902,875	35,495,661
Long-term liabilities						
Outstanding	\$2,020,872	785,041	8,706,341	8,370,655	\$ 10,727,213	9,155,696
Other liabilities	\$482,976	174,225	1,212,547	728,092	\$ 1,695,523	902,317
Total liabilities	2,503,848	959,266	9,918,888	9,098,747	\$ 12,422,736	10,058,013
Net assets:						
Invested in capital assets,						
net of related debt	\$10,466,693	5,506,649	18,066,125	17,072,755	\$ 28,532,818	22,579,404
Restricted	\$1,042,741	598,837	773,851	779,907	\$ 1,816,592	1,378,744
Unrestricted	\$1,328,481	1,496,520	802,248	(17,020)	\$ 2,130,729	1,479,500
Total net assets	\$12,837,915	\$7,602,006	19,642,224	\$17,835,642	\$ 32,480,139	\$25,437,648

An additional portion of the City's net assets \$1,816,592 (5.59%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,130,729 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 \$988,143 thereby accounting for 35.36% of the total growth in the net assets of the City. Key elements of this increase were the ad valorem revenue due to property values in the city, historic and downtown districts increasing and grants that the city received during the year.

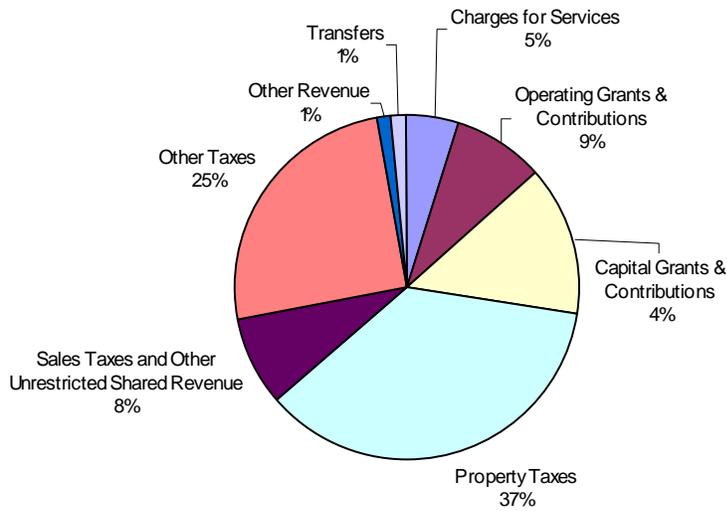
### City of Palatka Changes in Net Assets For the year ended September 30, 2007

	Governmental Activities		Business-type Activities			Total
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$534,163	\$592,572	6,235,867	\$5,874,519	6,770,030	\$6,467,091
Operating Grants & Contributions	\$912,670	832,506	7,000		919,670	832,506
Capital Grants & Contributions	\$1,463,953	874,390	2,451,986	1,423,874	3,915,939	2,298,264
General Revenues:						
Property Taxes	\$3,805,051	3,334,384			3,805,051	3,334,384
Sales Taxes and Other Unrestricted					0	0
Shared Revenues	\$894,912	888,738			894,912	888,738
Other Taxes	\$2,658,806	2,415,503			2,658,806	2,415,503
Other Revenue	\$148,749	143,811	473,533	220,062	622,282	363,873
<b>Total Revenues</b>	<b>10,418,304</b>	<b>9,081,904</b>	<b>9,168,386</b>	<b>7,518,455</b>	<b>19,586,690</b>	<b>16,600,359</b>
<b>Expenses:</b>						
General Government	\$677,251	882,002			677,251	882,002
Public Safety	\$6,203,873	5,611,944			6,203,873	5,611,944
Physical Environment	\$481,343	14,028			481,343	14,028
Transportation	\$1,282,350	1,382,910			1,282,350	1,382,910
Economic Environment	\$102,299	134,348			102,299	134,348
Human Services	\$227,525	212,165			227,525	212,165
Culture/Recreation	\$561,238	505,841			561,238	505,841
Interest on Long-Term Debt	\$37,155	23,797			37,155	23,797
Water			3,809,776	3,692,108	3,809,776	3,692,108
Sanitation			1,430,766	1,391,125	1,430,766	1,391,125
Golf Course			1,004,007	933,767	1,004,007	933,767
Airport			974,382	854,457	974,382	854,457
<b>Total Expenses</b>	<b>9,573,034</b>	<b>8,767,035</b>	<b>7,218,931</b>	<b>6,871,457</b>	<b>16,791,965</b>	<b>15,638,492</b>
Increase in Net Assets before Transfers	\$845,270	314,869	1,663,709	646,998	2,508,979	961,867
Transfers	\$142,873	22,214	(142,873)	(22,214)	0	0
Increase in Net Assets	\$988,143	337,083	1,806,582	624,784	2,794,725	961,867
Net Assets-Beginning of Year, as restated	\$11,849,772	7,264,923	17,835,642	17,210,858	29,685,414	24,475,781
Net Assets-End of Year	\$12,837,915	\$7,602,006	\$19,642,224	\$17,835,642	32,480,139	\$25,437,648

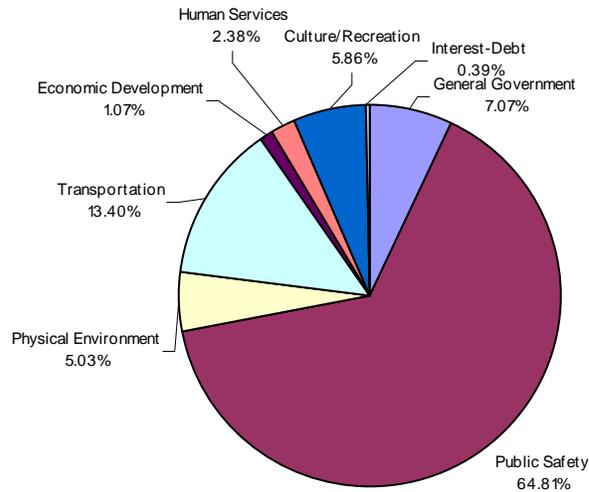
## Governmental Activities

The City's total net assets increased \$2,794,725 over the previous year with an increase of \$988,143 resulting from governmental activities and an increase of \$1,806,582 from business activities. The primary reasons for these changes were an increase of the ad-valorem due to property appraisal increases, telecommunications tax and grants that were received during the year.

### Revenue by Source - Governmental Activity



### Expenses - Governmental Activities



### ***Business-type Activities***

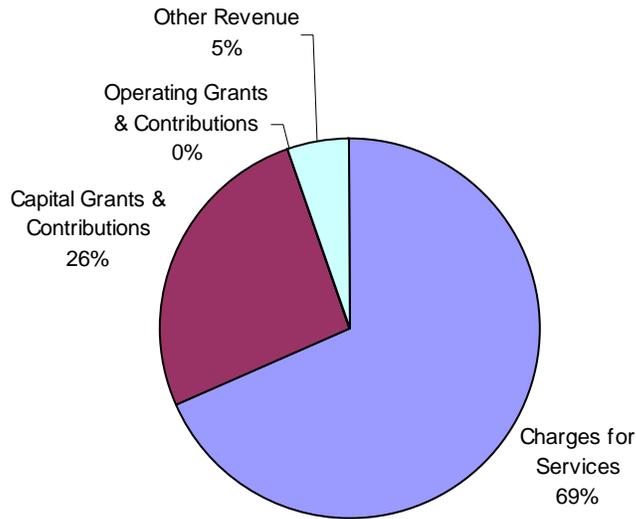
Business-type activities increased the City's net assets by \$1,806,582 accounting for a 64.64% growth in the City's net assets. Key elements in this increase are as follows:

The Airport fund received state and federal grants of \$1,495,891 during the fiscal year.

The Water fund received grant funds of \$956,095 from the Department of Environmental Protection.

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 \$2,726,966, an increase of \$278,201 in comparison to the prior year. This total constitutes unreserved fund balance of \$1,457,361, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year General fund balance was \$1,684,225 with an unreserved fund balance of \$414,620. Reserved fund balance increased by \$1,269,605 for advances.

#### **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, 2007, total net assets amounted to \$19,642,224.

Unrestricted net assets of the water fund at the end of the year amounted to \$1,966,710, the airport fund \$42,803 and the sanitation fund \$70,521. The golf course increased their deficit in unrestricted net assets by \$286,952 during the fiscal year. The condition of the course continues to improve and the city is working on a business plan to increase revenue. 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 \$2,322,627 (including transfers) an increase of 24.69% 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 of \$112,712 was from the Discretionary Sales Tax that was pledged but not spent in fiscal year 2006. This was primarily spent in Public Safety and Transportation. Prior year Impact fee balance was \$71,005 that was spent in Public Safety. Other balance forwards of \$108,579 were from an assortment of contribution accounts that were earmarked in the police and fire department. The Intergovernmental was increased to show the Division of Retirement 175/185 contribution of \$149,843 to the police and fire pension plans. Increases in taxes were the franchise electric of \$100,000 and \$237,781 in telecommunications which were used for contingency. Loan proceeds of \$850,000 for a fire truck and \$353,000 for the purchase of a police annex building. Other contributions and services of \$161,375 for various programs in the police, parks and cemetery department.
- Federal and state grants received during the year that amounted to \$178,332.

A comparison of actual revenues versus the final budget reflects that actual revenues, excluding transfers and debt issuance, were only \$8,074 less than budgeted.

Significant variances in actual versus final budget expenditures were as follows:

- Physical environment actual expenditures were \$240,882 below budget because the grant project was not completed and the balance will be brought forward in the next fiscal year.
- Culture and recreation actual expenditures were \$152,512 less than anticipated due to grant projects that were not completed during the fiscal year. The balance of these funds will be brought forward in the next fiscal year.
- \$141,486 reserves for contingencies was budgeted, but not used.

## Capital Asset and Debt Administration

### City of Palatka Capital Assets (Net of Depreciation) For the Year Ended September 30, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land and Improvements	\$3,954,430	\$2,838,043	\$4,580,159	\$4,606,999	\$8,534,589	\$7,445,042
Buildings and Improvements	2,693,691	2,296,803	7,448,511	5,422,207	10,142,202	7,719,010
Infrastructure	3,097,425				3,097,425	
Equipment	1,816,873	692,173	1,225,858	1,441,973	3,042,731	2,134,146
Water and Sewer Distriubtions System			12,067,285	12,879,542	12,067,285	12,879,542
Construction in Progress	524,646	51,564	1,240,072	899,863	1,764,718	951,427
	<u>\$12,087,065</u>	<u>\$5,878,583</u>	<u>\$26,561,885</u>	<u>\$25,250,584</u>	<u>\$38,648,950</u>	<u>\$31,129,167</u>

## Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007, (net of accumulated depreciation) amounts to \$38,648,950. This investment in capital assets includes land, buildings, infrastructure, improvements, furniture, equipment, water and sewer distribution system and construction in progress. The total increase in the City's investment in capital assets was \$7,519,783.

Major capital asset events during the fiscal year were in airport, water and transportation. The city received FAA and FDOT grants that paid 80% to 95% of the projects at the airport. The water fund received grants from the Department of Environmental Protection. The capital asset expenditures of \$5,603,852 were for the following:

- Rehabilitation of runways, runway lights and signage that were being installed at the airport.
- Design and bidding for terminal building and t-hangars. Installing security fence at airport.
- Design and bidding of a new water treatment plant.
- Water and sewer line improvements.
- Purchase of building for new police annex.
- Purchase of a new snorkel fire truck and vehicles for public safety.
- Construction and replacing of sidewalks.

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 \$10,116,133. Of this amount, \$3,419,607 comprises debt backed by the full faith and credit of the City, \$147,966 water/sewer agreements with other agencies, \$176,149 of capital leases 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	
	2007	2006	2007	2006	2007	2006
Revenue Bonds	\$270,649	\$362,539	\$6,101,762	\$6,414,918	\$6,372,411	\$6,777,457
Notes Payable	1,182,352	25,402	2,237,255	1,487,045	3,419,607	1,512,447
Capital Lease Obligations	167,371	0	8,778	127,900	176,149	127,900
Water/Sewer Agreements			147,966	147,966	147,966	147,966
<b>Total</b>	<b>\$1,620,372</b>	<b>\$387,941</b>	<b>\$8,495,761</b>	<b>\$8,177,829</b>	<b>\$10,116,133</b>	<b>\$8,565,770</b>

The City's total long-term debt increased \$1,550,363 from the prior year, while the long-term liability for compensated absences increased by \$21,154.

### Governmental Activities:

- The City entered into a note payable for a new snorkel ladder truck for \$850,000.
- The City made the following principal payments during the year: revenue bonds - \$91,890; notes payable - \$46,050.
- Governmental obligations for compensated absences increased by .085% or \$3,400.

***Business-type activities:***

- The following principal payments were made during the year: revenue bonds - \$329,622, notes payable - \$192,802.
- Compensated absences increased by 9.2. or \$17,754.

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***

Amendment One has placed an extra burden on the city to maintain the level of service that we provide our citizens, with reduced tax revenues. 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. Due to this concern and Amendment 1, balancing the budget in the short-term will remain difficult.

The riverfront property that the City and the Palatka Housing Authority have maintained ownership of for the past several years will be advertised for development. These transactions would provide for additional tax base.

The City has prepared balanced budgets for the current fiscal year. Department Heads are preparing the next fiscal year budgets with significant cuts and restructuring to maintain their budgets at or below last year's budget. This includes no pay raises for all personnel.

In addition, we are striving to maintain all fees and rate structures at the current level within each enterprise fund. Rising fuel costs will impact this decision. The City will also need to address budget issues associated with the golf course. Overages in this department are and will continue to have impacts on the overall budget if not addressed this fiscal year.

***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. 2<sup>nd</sup> Street, Palatka, Florida 32177.

**City of Palatka, Florida**  
**Statement of Net Assets**  
**September 30, 2007**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Palatka Gas Authority</b>
<b><u>ASSETS</u></b>				
Cash and Equivalents	\$ 893,061	\$ 344,573	1,237,634	\$ 210,598
Investments	560,976	-	560,976	3,388,867
Accounts Receivable	15,589	434,612	450,201	155,306
Internal Balances	1,368,984	(1,368,984)	-	-
Due From Other Governments	371,332	2,094,324	2,465,656	-
Inventory	-	239,741	239,741	91,618
Note Receivable	-	-	-	353,000
Mortgages Receivable	44,756	-	44,756	-
Other Assets	-	-	-	41,499
Restricted Cash and Equivalents	-	648,091	648,091	-
Restricted Investments	-	606,870	606,870	-
Capital Assets:				
Non-Depreciable	4,479,076	5,820,231	10,299,307	194,147
Depreciable, Net	7,607,989	20,741,654	28,349,643	1,513,664
<b>TOTAL ASSETS</b>	<b>15,341,763</b>	<b>29,561,112</b>	<b>44,902,875</b>	<b>5,948,699</b>
<b><u>LIABILITIES</u></b>				
Accounts Payable and Accrued Liabilities	481,176	839,417	1,320,593	84,415
Deposits	1,800	373,130	374,930	206,665
Noncurrent Liabilities:				
Due Within One Year	667,022	601,093	1,268,115	-
Due in More Than One Year	1,353,850	8,105,248	9,459,098	27,800
<b>TOTAL LIABILITIES</b>	<b>2,503,848</b>	<b>9,918,888</b>	<b>12,422,736</b>	<b>318,880</b>
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, Net of Related Debt	10,466,693	18,066,125	28,532,818	1,707,811
Restricted For:				
Downtown Redevelopment	984,320	-	984,320	-
Housing and Community Development	58,421	-	58,421	-
Debt Service	-	14,908	14,908	-
Bond Reserve	-	593,188	593,188	-
Renewal and Replacement	-	50,000	50,000	-
Rate Stabilization	-	115,755	115,755	-
Unrestricted	1,328,481	802,248	2,130,729	3,922,008
<b>TOTAL NET ASSETS</b>	<b>\$ 12,837,915</b>	<b>\$ 19,642,224</b>	<b>\$ 32,480,139</b>	<b>\$ 5,629,819</b>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Activities**  
**For the Year Ended September 30, 2007**

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	\$ 677,251	\$ 100,431	\$ -	\$ -	\$ (576,820)	\$ -	\$ (576,820)	\$ -
Public Safety	6,203,873	234,747	217,765	-	(5,751,361)	-	(5,751,361)	-
Physical Environment	481,343	-	-	375,765	(105,578)	-	(105,578)	-
Transportation	1,282,350	51,654	386,101	877,433	32,838	-	32,838	-
Economic Environment	102,299	-	-	-	(102,299)	-	(102,299)	-
Human Services	227,525	132,657	214,447	-	119,579	-	119,579	-
Culture and Recreation	561,238	14,674	94,357	210,755	(241,452)	-	(241,452)	-
Interest on Long-Term Debt	37,155	-	-	-	(37,155)	-	(37,155)	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>9,573,034</b>	<b>534,163</b>	<b>912,670</b>	<b>1,463,953</b>	<b>(6,662,248)</b>	<b>-</b>	<b>(6,662,248)</b>	<b>-</b>
BUSINESS-TYPE ACTIVITIES:								
Water	3,809,776	3,459,388	-	956,095	-	605,707	605,707	-
Sanitation	1,430,766	1,518,191	-	-	-	87,425	87,425	-
Golf Course	1,004,007	751,903	-	-	-	(252,104)	(252,104)	-
Airport	974,382	506,385	7,000	1,495,891	-	1,034,894	1,034,894	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>7,218,931</b>	<b>6,235,867</b>	<b>7,000</b>	<b>2,451,986</b>	<b>-</b>	<b>1,475,922</b>	<b>1,475,922</b>	<b>-</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 16,791,965</b>	<b>\$ 6,770,030</b>	<b>\$ 919,670</b>	<b>\$ 3,915,939</b>	<b>(6,662,248)</b>	<b>1,475,922</b>	<b>(5,186,326)</b>	<b>-</b>
COMPONENT UNIT:								
Palatka Gas Authority	\$ 1,511,245	\$ 1,280,870	\$ -	\$ -	-	-	-	(230,375)
GENERAL REVENUES:								
Property Taxes					3,805,051	-	3,805,051	-
Sales Tax and Intergovernmental Unrestricted Shared Revenues					894,912	-	894,912	-
Franchise Taxes					915,447	-	915,447	-
Utility Taxes					832,062	-	832,062	-
Communications Service Tax					911,297	-	911,297	-
Investment Earnings					62,975	17,786	80,761	174,808
Gain on Sale of Assets					-	147,494	147,494	3,500
Miscellaneous					85,774	308,253	394,027	-
Transfers					142,873	(142,873)	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>7,650,391</b>	<b>330,660</b>	<b>7,981,051</b>	<b>178,308</b>
<b>CHANGE IN NET ASSETS</b>					<b>988,143</b>	<b>1,806,582</b>	<b>2,794,725</b>	<b>(52,067)</b>
<b>NET ASSETS – BEGINNING OF YEAR, As Restated</b>					<b>11,849,772</b>	<b>17,835,642</b>	<b>29,685,414</b>	<b>5,681,886</b>
<b>NET ASSETS – END OF YEAR</b>					<b>\$ 12,837,915</b>	<b>\$ 19,642,224</b>	<b>\$ 32,480,139</b>	<b>\$ 5,629,819</b>

See accompanying notes.

**City of Palatka, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2007**

	<b>General Fund</b>	<b>Downtown Redevelopment Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>				
Cash and Equivalents	\$ 242,981	\$ 624,767	\$ 25,313	\$ 893,061
Investments	114,344	366,329	80,303	560,976
Accounts Receivable	15,589	-	-	15,589
Due From Other Funds	99,379	-	-	99,379
Due From Other Governments	240,585	-	130,747	371,332
Advances to Golf Course Fund	1,269,605	-	-	1,269,605
Mortgages Receivable	-	-	44,756	44,756
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,982,483</u></b>	<b><u>\$ 991,096</u></b>	<b><u>\$ 281,119</u></b>	<b><u>\$ 3,254,698</u></b>
<b><u>LIABILITIES</u></b>				
Accounts Payable and Accrued Liabilities	\$ 296,458	\$ 6,776	\$ 177,942	\$ 481,176
Deposits	1,800	-	-	1,800
Deferred Revenue	-	-	44,756	44,756
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES</b>	<b><u>298,258</u></b>	<b><u>6,776</u></b>	<b><u>222,698</u></b>	<b><u>527,732</u></b>
<b><u>FUND BALANCES</u></b>				
Reserved for Advances	1,269,605	-	-	1,269,605
Unreserved, Reported In:				
General Fund	414,620	-	-	414,620
Special Revenue Funds	-	984,320	58,421	1,042,741
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL FUND BALANCES</b>	<b><u>1,684,225</u></b>	<b><u>984,320</u></b>	<b><u>58,421</u></b>	<b><u>2,726,966</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,982,483</u></b>	<b><u>\$ 991,096</u></b>	<b><u>\$ 281,119</u></b>	<b><u>\$ 3,254,698</u></b>

See accompanying notes.

**City of Palatka, Florida**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**September 30, 2007**

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS

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.....

Long-term liabilities are not reported in the governmental funds.

Bonds and Notes Payable.....

Capital Leases.....

Compensated Absences.....

Liabilities for earned but unavailable revenue are reported in the governmental funds but not in the statement of net assets.

Deferred Revenue.....

NET ASSETS OF GOVERNMENTAL ACTIVITIES

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2007**

	<b>General Fund</b>	<b>Downtown Redevelopment Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 7,107,720	\$ 573,857	\$ -	\$ 7,681,577
Licenses and Permits	199,194	-	-	199,194
Intergovernmental	1,676,773	-	375,765	2,052,538
Charges for Services	196,549	-	-	196,549
Fines and Forfeitures	75,607	-	-	75,607
Miscellaneous	188,746	13,495	25,541	227,782
<b>TOTAL REVENUES</b>	<b>9,444,589</b>	<b>587,352</b>	<b>401,306</b>	<b>10,433,247</b>
<b>EXPENDITURES</b>				
Current:				
General Government	1,022,291	-	-	1,022,291
Public Safety	7,546,297	-	-	7,546,297
Physical Environment	57,554	-	423,789	481,343
Transportation	1,393,241	-	-	1,393,241
Economic Environment	-	100,563	1,736	102,299
Human Services	257,208	-	-	257,208
Culture and Recreation	708,890	-	-	708,890
Debt Service:				
Principal Retirement	109,527	37,267	-	146,794
Interest and Fiscal Charges	29,826	7,329	-	37,155
<b>TOTAL EXPENDITURES</b>	<b>11,124,834</b>	<b>145,159</b>	<b>425,525</b>	<b>11,695,518</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,680,245)</b>	<b>442,193</b>	<b>(24,219)</b>	<b>(1,262,271)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	247,957	-	-	247,957
Transfers Out	(30,000)	(56,710)	-	(86,710)
Debt Issued	1,379,225	-	-	1,379,225
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,597,182</b>	<b>(56,710)</b>	<b>-</b>	<b>1,540,472</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(83,063)</b>	<b>385,483</b>	<b>(24,219)</b>	<b>278,201</b>
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<b>1,767,288</b>	<b>598,837</b>	<b>82,640</b>	<b>2,448,765</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>\$ 1,684,225</b>	<b>\$ 984,320</b>	<b>\$ 58,421</b>	<b>\$ 2,726,966</b>

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, 2007**

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 278,201

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.....	2,459,657
Current Year Depreciation Expense.....	(498,941)

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets.....	(1,379,225)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities. Principal Payments.....	146,794
--	---------

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.....	(3,400)
--	---------

The timing of revenue recognition sometimes differs between the governmental funds and governmental activities. Change in Deferred Revenues.....	<u>(14,943)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 988,143</u></u>
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See accompanying notes.

**City of Palatka, Florida**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2007**

	<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>	
<b><u>CURRENT ASSETS</u></b>					
Cash and Equivalents	\$ 342,327	\$ -	\$ 1,346	\$ 900	\$ 344,573
Accounts Receivable	279,915	113,989	5,635	35,073	434,612
Due from Other Funds	282,033	49,995	-	-	332,028
Due From Other Governments	1,912,977	-	-	181,347	2,094,324
Inventory	145,839	-	38,152	55,750	239,741
<b>TOTAL CURRENT ASSETS</b>	<b>2,963,091</b>	<b>163,984</b>	<b>45,133</b>	<b>273,070</b>	<b>3,445,278</b>
<b><u>NONCURRENT ASSETS</u></b>					
Restricted Cash and Equivalents	648,091	-	-	-	648,091
Restricted Investments	606,870	-	-	-	606,870
Capital Assets, Net	13,725,600	899,916	2,007,476	9,928,893	26,561,885
<b>TOTAL NONCURRENT ASSETS</b>	<b>14,980,561</b>	<b>899,916</b>	<b>2,007,476</b>	<b>9,928,893</b>	<b>27,816,846</b>
<b>TOTAL ASSETS</b>	<b>17,943,652</b>	<b>1,063,900</b>	<b>2,052,609</b>	<b>10,201,963</b>	<b>31,262,124</b>
<b><u>CURRENT LIABILITIES</u></b>					
Accounts Payable and Accrued Liabilities	698,688	51,119	16,123	73,487	839,417
Deposits	344,497	-	21,798	6,835	373,130
Due to Other Funds	284,672	-	-	146,735	431,407
Current Portion of Long-Term Liabilities	368,761	117,909	97,880	16,543	601,093
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,696,618</b>	<b>169,028</b>	<b>135,801</b>	<b>243,600</b>	<b>2,245,047</b>
<b><u>NONCURRENT LIABILITIES</u></b>					
Long-term Liabilities	7,432,312	500,874	156,613	15,449	8,105,248
Advances from General Fund	-	-	1,269,605	-	1,269,605
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>7,432,312</b>	<b>500,874</b>	<b>1,426,218</b>	<b>15,449</b>	<b>9,374,853</b>
<b>TOTAL LIABILITIES</b>	<b>9,128,930</b>	<b>669,902</b>	<b>1,562,019</b>	<b>259,049</b>	<b>11,619,900</b>
<b><u>NET ASSETS</u></b>					
Invested in Capital Assets, Net of Related Debt	6,074,161	323,477	1,768,376	9,900,111	18,066,125
Restricted For Debt Service	14,908	-	-	-	14,908
Restricted for Bond Reserve	593,188	-	-	-	593,188
Restricted for Renewal and Replacement	50,000	-	-	-	50,000
Restricted for Rate Stabilization	115,755	-	-	-	115,755
Unrestricted	1,966,710	70,521	(1,277,786)	42,803	802,248
<b>TOTAL NET ASSETS</b>	<b>\$ 8,814,722</b>	<b>\$ 393,998</b>	<b>\$ 490,590</b>	<b>\$ 9,942,914</b>	<b>\$ 19,642,224</b>

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, 2007**

	<b>Business-type Activities – Enterprise Funds</b>				<b>Total Enterprise Funds</b>
	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Golf Course Fund</b>	<b>Airport Fund</b>	
<b>OPERATING REVENUES</b>					
User Fees	\$ 3,459,388	\$ 1,518,191	\$ 751,903	\$ 506,385	\$ 6,235,867
Other Operating Revenues	324,521	2,106	-	-	326,627
<b>TOTAL OPERATING REVENUES</b>	<b>3,783,909</b>	<b>1,520,297</b>	<b>751,903</b>	<b>506,385</b>	<b>6,562,494</b>
<b>OPERATING EXPENSES</b>					
Personal Services	1,826,186	751,653	392,515	140,933	3,111,287
Operating Expenses	979,874	586,567	542,094	496,359	2,604,894
Depreciation and Amortization	693,095	67,139	70,221	335,191	1,165,646
<b>TOTAL OPERATING EXPENSES</b>	<b>3,499,155</b>	<b>1,405,359</b>	<b>1,004,830</b>	<b>972,483</b>	<b>6,881,827</b>
<b>OPERATING INCOME (LOSS)</b>	<b>284,754</b>	<b>114,938</b>	<b>(252,927)</b>	<b>(466,098)</b>	<b>(319,333)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Operating Grants	-	-	-	7,000	7,000
Investment Earnings	17,786	-	-	-	17,786
Interest Expense	(295,921)	(25,407)	(13,877)	(1,899)	(337,104)
Gain on Disposal of Capital Assets	50	-	-	116,677	116,727
Other	-	-	30,767	-	30,767
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(278,085)</b>	<b>(25,407)</b>	<b>16,890</b>	<b>121,778</b>	<b>(164,824)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>6,669</b>	<b>89,531</b>	<b>(236,037)</b>	<b>(344,320)</b>	<b>(484,157)</b>
Capital Contributions	956,095	-	-	1,495,891	2,451,986
Transfers In	-	-	-	30,000	30,000
Transfers Out	(126,247)	(65,000)	-	-	(191,247)
<b>CHANGE IN NET ASSETS</b>	<b>836,517</b>	<b>24,531</b>	<b>(236,037)</b>	<b>1,181,571</b>	<b>1,806,582</b>
<b>NET ASSETS – BEGINNING OF YEAR, As Restated</b>	<b>7,978,205</b>	<b>369,467</b>	<b>726,627</b>	<b>8,761,343</b>	<b>17,835,642</b>
<b>NET ASSETS – END OF YEAR</b>	<b>\$ 8,814,722</b>	<b>\$ 393,998</b>	<b>\$ 490,590</b>	<b>\$ 9,942,914</b>	<b>\$ 19,642,224</b>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	<u>Business-type Activities – Enterprise Funds</u>				<b>Total Enterprise Funds</b>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
<b><u>OPERATING ACTIVITIES</u></b>					
Receipts From Customers	\$ 2,796,313	\$ 1,511,729	\$ 755,594	\$ 497,980	\$ 5,561,616
Payments to Suppliers	(243,001)	(624,637)	(258,995)	(514,973)	(1,641,606)
Payments to Employees	(1,809,928)	(749,707)	(392,258)	(141,693)	(3,093,586)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>743,384</u>	<u>137,385</u>	<u>104,341</u>	<u>(158,686)</u>	<u>826,424</u>
<b><u>NONCAPITAL FINANCING ACTIVITIES</u></b>					
Operating Grants	-	-	-	7,000	7,000
Transfers In	-	-	-	30,000	30,000
Transfers Out	(126,247)	(65,000)	-	-	(191,247)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(126,247)</u>	<u>(65,000)</u>	<u>-</u>	<u>37,000</u>	<u>(154,247)</u>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>					
Capital Contributions	956,095	-	-	1,495,891	2,451,986
Acquisitions of Capital Assets	(1,064,285)	-	-	(1,499,948)	(2,564,233)
Principal Paid on Debt	(320,093)	(109,029)	(90,368)	(14,375)	(533,865)
Interest Paid on Debt	(301,834)	(25,407)	(13,877)	(1,899)	(343,017)
Proceeds From Sale of Capital Assets	50	-	-	142,017	142,067
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(730,067)</u>	<u>(134,436)</u>	<u>(104,245)</u>	<u>121,686</u>	<u>(847,062)</u>
<b><u>INVESTING ACTIVITIES</u></b>					
Interest Received	17,786	-	-	-	17,786
Purchase of Investments	(26,266)	-	-	-	(26,266)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(8,480)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,480)</u>
<b>CHANGE IN CASH AND EQUIVALENTS</b>	<u>(121,410)</u>	<u>(62,051)</u>	<u>96</u>	<u>-</u>	<u>(183,365)</u>
<b>CASH AND EQUIVALENTS – BEGINNING OF YEAR</b>	<u>1,111,828</u>	<u>62,051</u>	<u>1,250</u>	<u>900</u>	<u>1,176,029</u>
<b>CASH AND EQUIVALENTS – END OF YEAR</b>	<u>\$ 990,418</u>	<u>\$ -</u>	<u>\$ 1,346</u>	<u>\$ 900</u>	<u>\$ 992,664</u>

(continued)

**City of Palatka, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

(concluded)

	<b>Business-type Activities – Enterprise Funds</b>				<b>Total Enterprise Funds</b>
	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Golf Course Fund</b>	<b>Airport Fund</b>	
OPERATING INCOME (LOSS)	\$ 284,754	\$ 114,938	\$ (252,927)	\$ (466,098)	\$ (319,333)
Depreciation and Amortization	693,095	67,139	70,221	335,191	1,165,646
Change In:					
Accounts Receivable	(70,932)	(8,568)	(2,129)	(9,442)	(91,071)
Due From Other Funds	31,437	-	-	-	31,437
Due From Other Governments	(956,095)	(49,995)	525	(101,310)	(1,106,875)
Inventory	5,722	-	(1,956)	(15,454)	(11,688)
Accounts Payable and Accrued Liabilities	447,329	12,194	720	16,772	477,015
Due to Other Funds	284,672	-	284,329	79,687	648,688
Compensated Absences	15,407	1,677	(261)	931	17,754
Customer Deposits	7,995	-	5,819	1,037	14,851
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 743,384</u>	<u>\$ 137,385</u>	<u>\$ 104,341</u>	<u>\$ (158,686)</u>	<u>\$ 826,424</u>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**September 30, 2007**

ASSETS

Investments:	
Money Market and Other Cash Equivalents	\$ 1,909,875
Government Bonds and Notes	3,120,277
Corporate Bonds and Notes	8,663,098
Mutual Funds (REIT)	626,763
Mutual Funds - Equities	11,196,123
Common Stock/Equities	<u>6,729,042</u>
Total Investments	32,245,178
Accounts Receivable	<u>65,346</u>
TOTAL ASSETS	32,310,524
<u>LIABILITIES</u>	<u>-</u>
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	<u><u>\$ 32,310,524</u></u>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2007**

ADDITIONS

CONTRIBUTIONS:

Employer	\$ 980,134
Member	366,084
State on behalf, through General Fund	<u>149,842</u>

TOTAL CONTRIBUTIONS 1,496,060

INVESTMENT INCOME:

Net Appreciation in Fair Value of Investments	3,164,110
Interest	218,866
Dividends	<u>301,442</u>
	3,684,418
Less Investment Management Fee	<u>146,808</u>

NET INVESTMENT INCOME 3,537,610

TOTAL ADDITIONS 5,033,670

DEDUCTIONS

Member Benefits	1,281,949
Withdrawals	420,900
Administrative Expense	<u>106,006</u>

TOTAL DEDUCTIONS 1,808,855

CHANGE IN NET ASSETS 3,224,815

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,  
Beginning of Year 29,085,709

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,  
End of Year \$ 32,310,524

See accompanying notes.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**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, 2007**

**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 2006-2007 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. Interfund services provided and used, if any, are not eliminated in the process of consolidation. *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

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The City reports the following major governmental funds:

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

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

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, 2007**

**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 \$88,000 allowance. Accounts receivable of the Gas Authority are net of a \$51,800 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. Expense is charged as items are consumed.

**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 generally uses a capitalization threshold of \$5,000 for all classes of capital assets, other than infrastructure. General infrastructure assets, such as dirt to pavement roads, mill and resurface road projects and all sidewalk projects, use a capitalization threshold of \$100,000.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City began prospective reporting of general infrastructure assets at the effective date of GASB Statement No. 34. Effective October 1, 2006, the City began retroactive reporting of all major general governmental infrastructure assets. The estimated cost of the initial reporting of these assets was obtained through backtrending (i.e. estimating the current replacement cost of the infrastructure and using appropriate indices to deflate the cost to the estimated acquisition year). The reported values exclude basic road resurfacing, or other normal maintenance and repairs that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

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
General infrastructure	35 – 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 2007.

**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, 2007, property taxes receivable were not material.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Investments**

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

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

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	\$ 1,237,634	\$ 210,598
Investments	560,976	3,388,867
Restricted Cash and Equivalents	648,091	-
Restricted Investments	606,870	-
Statement of Fiduciary Net Assets:		
Investments	32,245,178	-
Total Deposits and Investments	<u>\$ 35,298,749</u>	<u>\$ 3,599,465</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	\$ 2,562,040	\$ 3,599,465
Investments - Other than Pension	491,531	-
Investments - Pension	32,245,178	-
Total Deposits and Investments	<u>\$ 35,298,749</u>	<u>\$ 3,599,465</u>

The City's investments at September 30, 2007 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	\$ 1,909,875	\$ 1,909,875	\$ -	\$ -
Government Bonds and Notes	3,120,277	947,373	949,540	1,223,364
Corporate Bonds and Notes	8,663,098	761,881	7,901,217	-
Common Stock	6,729,042	6,729,042	-	-
Mutual Funds (REIT)	626,763	626,763	-	-
Mutual Funds (Foreign Equities)	1,184,668	1,184,668	-	-
Mutual Funds (Equities)	10,011,455	10,011,455	-	-
Total Pension Investments	<u>32,245,178</u>	<u>22,171,057</u>	<u>8,850,757</u>	<u>1,223,364</u>
Other Investments:				
Money Market Mutual Funds	491,531	491,531	-	-
Total	<u>\$ 32,736,709</u>	<u>\$ 22,662,588</u>	<u>\$ 8,850,757</u>	<u>\$ 1,223,364</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**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	87%	AAA	100%
-	-	AA1	1%	-	-
A	14%	AA2	2%	-	-
A-	7%	AA3	3%	-	-
B+	25%	A1	5%	-	-
B	18%	A2	1%	-	-
B-	4%	A3	0%	-	-
C	-	BAA1	1%	-	-
Not rated	16%	Not rated	0%	Not rated	-
Total	<u>100%</u>		<u>100%</u>		<u>100%</u>

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.

*Concentration of Credit Risk* – the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The City does not have a formal investment policy relating to the aforementioned risks, other than Section 218.415, Florida Statutes, for investing public funds. That statute limits the City's exposure to credit risk and interest rate risk by limiting authorized investment options as previously described. 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. As of September 30, 2007, more than 5 percent of the investments in the General Pension Fund are in STI Classic Fund International Equity Index Fund, Suntrust Retirement High Grade Intermediate Bond Fund, Suntrust Retirement Relative Value Bond Fund and Suntrust Retirement Midcap Equity Fund. These investments are 13%, 27%, 16% and 6%, respectively, of the total General Pension investments. 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, 2007**

**NOTE 3 – INTERFUND BALANCES AND TRANSFERS**

At September 30, 2007, interfund balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 1,368,984	\$ -
Enterprise Funds:		
Water	282,033	284,672
Sanitation	49,995	-
Golf Course	-	1,269,605
Airport	-	146,735
Total	<u>\$ 1,701,012</u>	<u>\$ 1,701,012</u>

As summarized below, the interfund balances arose because three funds had overdrawn their share of the City's pooled cash account. The interfund balance to the Golf Course from the General Fund is an advance, which is not expected to be repaid within one year.

	<u>Cash and Equivalents As Reported</u>	<u>Adjustment For Overdraft</u>	<u>True Balance</u>
General Fund	\$ 242,981	\$ 1,368,984	\$ 1,611,965
Water	342,327	(2,639)	339,688
Sanitation	-	49,995	49,995
Golf Course	1,346	(1,269,605)	(1,268,259)
Airport	900	(146,735)	(145,835)
Total	<u>\$ 587,554</u>	<u>\$ -</u>	<u>\$ 587,554</u>

Interfund transfers for the year ended September 30, 2007 consisted of the following:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 247,957	\$ 30,000
Downtown Redevelopment Agency Fund	-	56,710
Major Enterprise Funds:		
Water Fund	-	126,247
Sanitation Fund	-	65,000
Airport Fund	30,000	-
Total	<u>\$ 277,957</u>	<u>\$ 277,957</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, 2007**

**NOTE 4 – CAPITAL ASSET ACTIVITY**

During the year ended September 30, 2007, the following changes in capital assets occurred:

<b><u>Primary Government</u></b>	<b>Balance October 1, 2006 (Restated)</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2007</b>
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 3,954,430	\$ -	\$ -	\$ 3,954,430
Construction in Progress	51,564	473,082	-	524,646
Total Capital Assets Not Being Depreciated	<u>4,005,994</u>	<u>473,082</u>	<u>-</u>	<u>4,479,076</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	4,102,837	557,281	-	4,660,118
Infrastructure	7,873,007	148,416	-	8,021,423
Furniture and Equipment	1,850,024	1,280,878	18,374	3,112,528
Total Capital Assets Being Depreciated	<u>13,825,868</u>	<u>1,986,575</u>	<u>18,374</u>	<u>15,794,069</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,806,034	160,393	-	1,966,427
Infrastructure	4,741,628	182,370	-	4,923,998
Furniture and Equipment	1,157,851	156,178	18,374	1,295,655
Total Accumulated Depreciation	<u>7,705,513</u>	<u>498,941</u>	<u>18,374</u>	<u>8,186,080</u>
Total Capital Assets Being Depreciated, Net	<u>6,120,355</u>	<u>1,487,634</u>	<u>-</u>	<u>7,607,989</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,126,349</u>	<u>\$ 1,960,716</u>	<u>\$ -</u>	<u>\$ 12,087,065</u>
<b><u>Business-type Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 4,606,999	\$ -	\$ 26,840	\$ 4,580,159
Construction in Progress	899,863	920,171	579,962	1,240,072
Total Capital Assets Not Being Depreciated	<u>5,506,862</u>	<u>920,171</u>	<u>606,802</u>	<u>5,820,231</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	11,263,664	1,733,345	-	12,997,009
Furniture and Equipment	2,755,861	27,000	162,150	2,620,711
Water and Sewer Distribution System	7,787,952	463,679	-	8,251,631
Plant Assets and Equipment	14,462,782	-	-	14,462,782
Total Capital Assets Being Depreciated	<u>36,270,259</u>	<u>2,224,024</u>	<u>162,150</u>	<u>38,332,133</u>
Less Accumulated Depreciation for:				
Building and Improvements	5,161,524	386,974	-	5,548,498
Furniture and Equipment	1,313,888	166,202	85,237	1,394,853
Water and Sewer Distribution System	2,618,177	206,689	-	2,824,866
Plant Assets and Equipment	7,432,948	389,314	-	7,822,262
Total Accumulated Depreciation	<u>16,526,537</u>	<u>1,149,179</u>	<u>85,237</u>	<u>17,590,479</u>
Total Capital Assets Being Depreciated, Net	<u>19,743,722</u>	<u>1,074,845</u>	<u>76,913</u>	<u>20,741,654</u>
Business-type Activities Capital Assets, Net	<u>\$ 25,250,584</u>	<u>\$ 1,995,016</u>	<u>\$ 683,715</u>	<u>\$ 26,561,885</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 4 – CAPITAL ASSET ACTIVITY**

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

Governmental Activities:	
General Government	\$ 352,836
Public Safety	110,200
Transportation	23,361
Human Services	2,068
Culture and Recreation	<u>10,476</u>
 Total Depreciation Expense – Governmental Activities	 <u><u>\$ 498,941</u></u>
 Business-type Activities:	
Water and Sewer	\$ 676,628
Sanitation	67,139
Airport	335,191
Golf Course	<u>70,221</u>
 Total Depreciation Expense – Business-type Activities	 <u><u>\$ 1,149,179</u></u>

**Discretely Presented Component Unit**

Capital assets activity for the Gas Authority for the year ended September 30, 2007 follows:

	<b>Balance October 1, 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2007</b>
Capital Assets Not Being Depreciated:				
Land	\$ 194,147	\$ -	\$ -	\$ 194,147
Capital Assets Being Depreciated:				
Buildings and Improvements	571,542	-	-	571,542
Furniture and Equipment	512,467	22,231	14,910	519,788
Plant Assets and Equipment	2,650,979	32,993	-	2,683,972
Total Capital Assets Being Depreciated	<u>3,734,988</u>	<u>55,224</u>	<u>14,910</u>	<u>3,775,302</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	46,057	14,280	-	60,337
Furniture and Equipment	362,224	35,892	14,910	383,206
Plant Assets and Equipment	1,757,887	60,208	-	1,818,095
Total Accumulated Depreciation	<u>2,166,168</u>	<u>110,380</u>	<u>14,910</u>	<u>2,261,638</u>
Total Capital Assets Being Depreciated, Net	<u>1,568,820</u>	<u>(55,156)</u>	<u>-</u>	<u>1,513,664</u>
Gas Authority Capital Assets, Net	<u><u>\$ 1,762,967</u></u>	<u><u>\$ (55,156)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,707,811</u></u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**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	\$ 111,800
Fire truck loan, payable in quarterly installments through 10/1/2021, plus interest at 3.85%, revenue source - non-ad valorem revenues.	829,352
\$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	158,849
\$353,000 interest free loan from the Palatka Gas Authority, due July 2008 from Better Place Funds. The proceeds were used for the purchase of a building for the expansion of the police department.	<u>353,000</u>
Total	<u>\$ 1,453,001</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.	\$ 6,075,000
Sanitation Equipment Note; payable in monthly installments of \$10,341 including interest at 3.70% variable rate through October 31, 2012.	576,439
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.	617,549
\$943,012 interim construction loan at 5.02% interest, due August 2010, payable from the Water Fund. The proceeds were used for construction of a new water treatment plant.	943,012
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.	158,850
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.	71,473
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.	28,782
Less Unamortized Discounts and Costs	<u>(132,088)</u>
Total	<u>\$ 8,339,017</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 5 – LONG-TERM OBLIGATIONS**

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

<b>Year Ending</b> <b>September 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 492,779	\$ 44,772	\$ 538,115	\$ 312,655
2009	144,874	37,586	541,830	290,014
2010	125,087	30,522	1,463,655	313,953
2011	50,033	25,863	481,441	245,851
2012	51,954	23,943	502,412	224,758
2013-2017	292,054	87,427	2,205,395	829,026
2018-2022	296,220	26,339	2,606,169	263,886
<b>Totals</b>	<b>\$ 1,453,001</b>	<b>\$ 276,452</b>	<b>\$ 8,339,017</b>	<b>\$ 2,480,143</b>

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

**Governmental Activities**

	<b>Balance</b> <b>October 1,</b> <b>2006</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b> <b>September 30,</b> <b>2007</b>	<b>Due</b> <b>Within</b> <b>One Year</b>
Revenue Bonds and Notes Payable	\$ 387,941	\$ 1,203,000	\$ 137,940	\$ 1,453,001	\$ 492,779
Capital Leases	-	176,225	8,854	167,371	64,043
Compensated Absences	397,100	252,200	248,800	400,500	110,200
<b>Total</b>	<b>\$ 785,041</b>	<b>\$ 1,631,425</b>	<b>\$ 395,594</b>	<b>\$ 2,020,872</b>	<b>\$ 667,022</b>

**Business-type Activities**

	<b>Balance</b> <b>October 1,</b> <b>2006</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b> <b>September 30,</b> <b>2007</b>	<b>Due</b> <b>Within</b> <b>One Year</b>
Water and Sewer Refunding Revenue					
Bonds Series 1998	\$ 6,350,000	\$ -	\$ 275,000	\$ 6,075,000	\$ 290,000
Less: Unamortized Issuance Costs	(148,554)	-	(16,466)	(132,088)	-
Sanitation Equipment	685,468	-	109,029	576,439	104,901
Water Reuse Loan	662,643	-	45,093	617,550	45,699
Florida Rural Utility Loan	-	943,012	-	943,012	-
Golf Course Revenue Bond	213,472	-	54,623	158,849	57,956
Golf Course Turf Maintenance Note	95,777	-	24,304	71,473	25,184
Airport Hangar Phase 4 Note	43,157	-	14,375	28,782	14,375
<b>Total Revenue Bonds and Notes</b>	<b>7,901,963</b>	<b>943,012</b>	<b>505,958</b>	<b>8,339,017</b>	<b>538,115</b>
Capital Leases	127,900	-	119,122	8,778	8,778
County Water/Sewer Agreement	136,673	-	-	136,673	-
SJRWMD Water/Sewer Agreement	11,293	-	-	11,293	-
Compensated Absences	192,826	132,380	114,626	210,580	54,200
<b>Total</b>	<b>\$ 8,370,655</b>	<b>\$ 1,075,392</b>	<b>\$ 739,706</b>	<b>\$ 8,706,341</b>	<b>\$ 601,093</b>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 5 – LONG-TERM OBLIGATIONS**

The City has a \$84,225, 5.25% capital lease for a street sweeper due in annual installments of \$44,711, maturing October 2008 and a \$92,000, 4.45% capital lease for police vehicles due in monthly installments of \$2,098 payable from the General Fund and reported in governmental activities. The City also has a \$55,538, 2.6% capital lease for golf course maintenance equipment due in monthly payments of \$986, maturing June 2008.

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

<b><u>Year Ending</u></b> <b><u>September 30</u></b>	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>
2008	69,898	8,873
2009	69,898	-
2010	25,186	-
2011	14,534	-
Total Minimum Lease Payments	<u>179,516</u>	<u>8,873</u>
Less: Amount Representing Interest	<u>12,145</u>	<u>95</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 167,371</u></u>	<u><u>\$ 8,778</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.

	<b><u>Business-type</u></b> <b><u>Activities</u></b>
Restricted Assets:	
Cash and Equivalents	\$ 648,091
Investments	<u>606,870</u>
Total	<u>1,254,961</u>
Liabilities Payable from Restricted Assets:	
Current Portion of Debt Service:	
Principal	335,699
Interest	<u>145,411</u>
Total	<u>481,110</u>
Restricted Net Assets	<u><u>\$ 773,851</u></u>

The City has no net assets reported on the Statement of Net Assets that are restricted by enabling legislation.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**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, 2007 the City recognized \$77,732 and \$72,110 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, 2005, are equal to total years of service times 2.5%, 2.5% and 3.2%, respectively, of final average compensation (highest 3 consecutive years of the last five). No other changes in benefit provisions have been made for the plan year beginning October 1, 2005. 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, 2007 is as follows:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active Employees	127	34	16	177
Service Retirees and Beneficiaries	56	17	6	79
Disability Retirees	-	2	-	2
Terminated Vested	5	3	3	11
DROP	12	-	4	16
Total	<u>200</u>	<u>56</u>	<u>29</u>	<u>285</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 7 – EMPLOYEE BENEFITS**

*Funding Policy and Annual Pension Cost.* Administrative costs of the Plan are financed through investment earnings. 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	17.4%	17.3%	14.7%
Plan Members	6.0%	6.0%	6.0%
Annual Pension Cost	602,616	256,341	121,177
Contributions Made	602,616	256,341	121,177
Actuarial Valuation Date	10/1/2005	10/1/2005	10/1/2005
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Entry Age Normal
Amortization Method	Level % of Payroll-Closed	Level % of Payroll-Closed	Level % of Payroll-Closed
Remaining Amortization Period	28 Years	27 Years	30 Years
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.0%	8.0%	8.0%
Projected Salary Increases*	6.0%	6.0%	6.0%
* Includes Inflation at	3.0%	3.0%	3.0%

**THREE YEAR TREND INFORMATION**

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
General	9/30/2007	\$602,616	100%	-
	9/30/2006	482,801	100%	-
	9/30/2005	444,247	100%	-
Police Officers	9/30/2007	\$256,341	100%	-
	9/30/2006	195,000	100%	-
	9/30/2005	191,944	100%	-
Firefighters	9/30/2007	\$121,177	100%	-
	9/30/2006	113,054	100%	-
	9/30/2005	-	100%	-

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 7 – EMPLOYEE BENEFITS**

**Combining Statement of Fiduciary Net Assets**

	<b>General Retirement Fund</b>	<b>Police Officers' Retirement Fund</b>	<b>Firefighters' Retirement Fund</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
Investments:				
Money Market and Other Cash Equivalents	\$ 566,538	\$ 748,523	\$ 594,814	\$ 1,909,875
Government Bonds and Notes	-	1,691,454	1,428,823	3,120,277
Corporate Bonds and Notes	7,409,899	697,660	555,539	8,663,098
Mutual Funds (REIT)	-	321,506	305,257	626,763
Mutual Funds - Equities	6,083,251	2,672,741	2,440,131	11,196,123
Common Stock/Equities	3,068,040	1,927,981	1,733,021	6,729,042
Total Investments	<u>17,127,728</u>	<u>8,059,865</u>	<u>7,057,585</u>	<u>32,245,178</u>
Receivables	23,841	7,278	34,227	65,346
<b>TOTAL ASSETS</b>	<u>17,151,569</u>	<u>8,067,143</u>	<u>7,091,812</u>	<u>32,310,524</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>NET ASSETS</u></b>				
Held in Trust for Pension Benefits	<u>\$ 17,151,569</u>	<u>\$ 8,067,143</u>	<u>\$ 7,091,812</u>	<u>\$ 32,310,524</u>

**Combining Statement of Changes in Fiduciary Net Assets**

	<b>General Retirement Fund</b>	<b>Police Officers' Retirement Fund</b>	<b>Firefighters' Retirement Fund</b>	<b>Total</b>
<b><u>ADDITIONS</u></b>				
<b>CONTRIBUTIONS:</b>				
Employer	\$ 602,616	\$ 256,341	\$ 121,177	\$ 980,134
Member	222,165	105,197	38,722	366,084
State on Behalf, through General Fund	-	77,732	72,110	149,842
<b>TOTAL CONTRIBUTIONS</b>	<u>824,781</u>	<u>439,270</u>	<u>232,009</u>	<u>1,496,060</u>
<b>INVESTMENT INCOME:</b>				
Net Appreciation in Fair Value of Investments	2,039,436	594,690	529,984	3,164,110
Interest	-	118,452	100,414	218,866
Dividends	88,038	113,170	100,234	301,442
	<u>2,127,474</u>	<u>826,312</u>	<u>730,632</u>	<u>3,684,418</u>
Less Investment Management Fee	107,177	22,461	17,170	146,808
<b>NET INVESTMENT INCOME</b>	<u>2,020,297</u>	<u>803,851</u>	<u>713,462</u>	<u>3,537,610</u>
<b>TOTAL ADDITIONS</b>	<u>2,845,078</u>	<u>1,243,121</u>	<u>945,471</u>	<u>5,033,670</u>
<b><u>DEDUCTIONS</u></b>				
Member Benefits	610,143	452,730	219,076	1,281,949
Withdrawals	28,873	55,549	336,478	420,900
Administrative Expense	12,396	48,872	44,738	106,006
<b>TOTAL DEDUCTIONS</b>	<u>651,412</u>	<u>557,151</u>	<u>600,292</u>	<u>1,808,855</u>
<b>CHANGE IN NET ASSETS</b>	<u>2,193,666</u>	<u>685,970</u>	<u>345,179</u>	<u>3,224,815</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year</b>	<u>14,957,903</u>	<u>7,381,173</u>	<u>6,746,633</u>	<u>29,085,709</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year</b>	<u>\$ 17,151,569</u>	<u>\$ 8,067,143</u>	<u>\$ 7,091,812</u>	<u>\$ 32,310,524</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**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 – RESTATEMENTS**

Beginning net assets of the Governmental Activities has been restated to include the retroactive reporting of all major general governmental infrastructure as described in Note 1, net of depreciation, and to include certain land that had not been reported in previous years. Beginning net assets of the Water Fund and the Golf Course Fund were restated to properly reflect ownership of certain capital assets.

	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Golf Fund</u>
Beginning Net Assets, As Previously Reported	\$ 7,602,006	\$ 8,672,138	\$ 32,694
Plant Improvements Infrastructure	-	(714,000)	714,000
Accumulated Depreciation	7,873,007	-	-
Land	(4,741,628)	20,067	(20,067)
Beginning Net Assets, As Restated	<u>1,116,387</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,849,772</u>	<u>\$ 7,978,205</u>	<u>\$ 726,627</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2007**

**NOTE 10 – COMMITMENTS**

The City leases some of its police and animal control vehicles and golf carts under operating leases. Lease payments for the year ended September 30, 2007 were \$255,160. Future lease payments are as follows:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
2008	\$ 181,297	\$ 33,900
2009	110,783	33,900
2010	-	33,900
2011	-	33,900
2012	-	16,950
Total	<u>\$ 292,080</u>	<u>\$ 152,550</u>

At September 30, 2007, the City had remaining commitments for approximately \$200,000 for airport improvements, \$208,000 for road drainage improvements, and \$11,230,000 for water treatment plant.

**NOTE 11 – 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.

**NOTE 12 – SUBSEQUENT EVENTS**

In March 2008, the City authorized the issuance of bonds, not to exceed \$3.2 million for the purchase of the Frank George building, and related demolition and site prep for resale. The bonds repayment is secured by the City's share of infrastructure surtax revenues, sale proceeds of the subject land and non-ad valorem revenues.

**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, 2007**

	<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>
<b><u>REVENUES</u></b>				
Taxes	\$ 6,743,529	\$ 7,081,310	\$ 7,107,720	\$ 26,410
Licenses and Permits	180,000	180,000	199,194	19,194
Intergovernmental	1,375,740	1,711,122	1,676,773	(34,349)
Charges for Services	136,650	170,800	196,549	25,749
Fines and Forfeitures	64,000	89,000	75,607	(13,393)
Miscellaneous	176,846	220,431	188,746	(31,685)
<b>TOTAL REVENUES</b>	<b>8,676,765</b>	<b>9,452,663</b>	<b>9,444,589</b>	<b>(8,074)</b>
<b><u>EXPENDITURES</u></b>				
Current:				
General Government	966,485	1,033,086	1,022,291	10,795
Public Safety	5,768,958	7,558,085	7,546,297	11,788
Physical Environment	-	298,436	57,554	240,882
Transportation	1,535,881	1,394,144	1,393,241	903
Human Services	217,621	289,019	257,208	31,811
Culture and Recreation	740,078	861,402	708,890	152,512
Reserve for Contingencies	76,135	141,486	-	141,486
Debt Service:				
Principal Retirement	62,184	97,509	109,527	(12,018)
Interest and Fiscal Charges	11,146	27,948	29,826	(1,878)
<b>TOTAL EXPENDITURES</b>	<b>9,378,488</b>	<b>11,701,115</b>	<b>11,124,834</b>	<b>576,281</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(701,723)</b>	<b>(2,248,452)</b>	<b>(1,680,245)</b>	<b>568,207</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers In	288,524	247,957	247,957	-
Transfers Out	(30,000)	(30,000)	(30,000)	-
Debt Issued	-	1,295,000	1,379,225	84,225
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>258,524</b>	<b>1,512,957</b>	<b>1,597,182</b>	<b>84,225</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(443,199)</b>	<b>(735,495)</b>	<b>(83,063)</b>	<b>652,432</b>
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<b>443,199</b>	<b>735,495</b>	<b>1,767,288</b>	<b>1,031,793</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,684,225</b>	<b>\$ 1,684,225</b>

**City of Palatka, Florida**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – Downtown Redevelopment Agency Fund**  
**For the Year Ended September 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Taxes	\$ 573,858	\$ 573,858	\$ 573,857	\$ (1)
Miscellaneous	-	-	13,495	13,495
<b>TOTAL REVENUES</b>	<b>573,858</b>	<b>573,858</b>	<b>587,352</b>	<b>13,494</b>
<b><u>EXPENDITURES</u></b>				
Economic Environment	1,013,373	1,013,373	100,563	912,810
Debt Service:				
Principal Retirement	92,865	92,865	37,267	55,598
Interest and Fiscal Charges	9,728	9,728	7,329	2,399
<b>TOTAL EXPENDITURES</b>	<b>1,115,966</b>	<b>1,115,966</b>	<b>145,159</b>	<b>970,807</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(542,108)</b>	<b>(542,108)</b>	<b>442,193</b>	<b>984,301</b>
<b><u>OTHER FINANCING USES</u></b>				
Transfers Out	(56,814)	(56,814)	(56,710)	104
<b>NET CHANGE IN FUND BALANCES</b>	<b>(598,922)</b>	<b>(598,922)</b>	<b>385,483</b>	<b>984,405</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>598,922</b>	<b>598,922</b>	<b>598,837</b>	<b>(85)</b>
<b>FUND BALANCES - End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 984,320</b>	<b>\$ 984,320</b>

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

**General Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Assets (000's)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (000's)</b>	<b>Unfunded AAL (UAAL) (000's)</b>	<b>Funded Ratio</b>	<b>Covered Payroll (000's)</b>	<b>UAAL As A Percent Of Covered Payroll</b>
9/30/2007	\$ 15,435	\$ 16,116	\$ 681	96%	\$ 3,594	19%
9/30/2006	14,209	14,956	747	95%	3,421	22%
9/30/2005	13,196	13,802	605	96%	3,340	18%
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%

**Police Officers' Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Assets (000's)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (000's)</b>	<b>Unfunded AAL (UAAL) (000's)</b>	<b>Funded Ratio</b>	<b>Covered Payroll (000's)</b>	<b>UAAL As A Percent Of Covered Payroll</b>
9/30/2007	\$ 7,847	\$ 7,921	\$ 74	99%	\$ 1,629	5%
9/30/2006	7,317	7,368	51	99%	1,817	3%
9/30/2005	6,830	6,850	21	100%	1,452	1%
9/30/2004	6,594	6,604	10	100%	1,294	1%
9/30/2003	6,568	6,667	99	99%	1,150	9%
9/30/2002	6,493	6,607	114	98%	1,073	11%

**Firefighters' Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Assets (000's)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (000's)</b>	<b>Unfunded AAL (UAAL) (000's)</b>	<b>Funded Ratio</b>	<b>Covered Payroll (000's)</b>	<b>UAAL As A Percent Of Covered Payroll</b>
9/30/2007	\$ 6,150	\$ 7,241	\$ 1,091	85%	\$ 646	169%
9/30/2006	5,883	7,054	1,171	83%	600	195%
9/30/2005	5,638	6,613	976	85%	804	121%
9/30/2004	5,534	6,228	694	89%	751	92%
9/30/2003	5,533	5,533	-	100%	630	0%
9/30/2002	5,481	5,481	-	100%	677	0%

**City of Palatka, Florida**  
**Schedules of Contributions From Employer and Other Contributing Entities**  
**September 30, 2007**

**General Plan**

<u>Year Ended</u>	<u>Employer Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2007	\$ 602,616	\$ 602,616	100.00%
9/30/2006	482,801	482,801	100.00%
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%

**Police Officers' Plan**

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2007	\$ 256,341	\$ 256,341	100.00%	\$ 77,732	\$ 77,732	100.00%
9/30/2006	195,000	195,000	100.00%	76,219	76,219	100.00%
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%

**Firefighters' Plan**

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2007	\$ 121,177	\$ 121,177	100.00%	\$ 72,110	\$ 72,110	100.00%
9/30/2006	113,054	113,054	100.00%	64,624	64,624	100.00%
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%

**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**

	<b>General <u>Plan</u></b>	<b>Police Officers' <u>Plan</u></b>	<b>Firefighters' <u>Plan</u></b>
Valuation date	9/30/2005	9/30/2005	9/30/2005
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Entry Age Normal
Amortization method	Level Percentage of Pay-Closed	Level Percentage of Pay-Closed	Level Percentage of Pay-Closed
Remaining Amortization Period	28 Years	27 Years	30 Years
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**

## **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, 2007**

	<b>General Retirement Fund</b>	<b>Police Officers' Retirement Fund</b>	<b>Firefighters' Retirement Fund</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
Investments:				
Money Market and Other				
Cash Equivalents	\$ 566,538	\$ 748,523	\$ 594,814	\$ 1,909,875
Government Bonds and Notes	-	1,691,454	1,428,823	3,120,277
Corporate Bonds and Notes	7,409,899	697,660	555,539	8,663,098
Mutual Funds (REIT)	-	321,506	305,257	626,763
Mutual Funds - Equities	6,083,251	2,672,741	2,440,131	11,196,123
Common Stock/Equities	3,068,040	1,927,981	1,733,021	6,729,042
Receivables	23,841	7,278	34,227	65,346
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	17,151,569	8,067,143	7,091,812	32,310,524
<b><u>LIABILITIES</u></b>				
Accounts Payable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>NET ASSETS</u></b>				
Held in Trust for Pension Benefits	<u>\$ 17,151,569</u>	<u>\$ 8,067,143</u>	<u>\$ 7,091,812</u>	<u>\$ 32,310,524</u>

**City of Palatka, Florida**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2007**

	<b>General Retirement Fund</b>	<b>Police Officers' Retirement Fund</b>	<b>Firefighters'- Retirement Fund</b>	<b>Total</b>
<b><u>ADDITIONS</u></b>				
<b>CONTRIBUTIONS:</b>				
Employer	\$ 602,616	\$ 256,341	\$ 121,177	\$ 980,134
Member	222,165	105,197	38,722	366,084
State on Behalf, through General Fund	-	77,732	72,110	149,842
<b>TOTAL CONTRIBUTIONS</b>	<b><u>824,781</u></b>	<b><u>439,270</u></b>	<b><u>232,009</u></b>	<b><u>1,496,060</u></b>
<b>INVESTMENT INCOME:</b>				
Net Appreciation in Fair Value of Investments	2,039,436	594,690	529,984	3,164,110
Interest	-	118,452	100,414	218,866
Dividends	88,038	113,170	100,234	301,442
	<u>2,127,474</u>	<u>826,312</u>	<u>730,632</u>	<u>3,684,418</u>
Less Investment Management Fee	107,177	22,461	17,170	146,808
<b>NET INVESTMENT INCOME</b>	<b><u>2,020,297</u></b>	<b><u>803,851</u></b>	<b><u>713,462</u></b>	<b><u>3,537,610</u></b>
<b>TOTAL ADDITIONS</b>	<b><u>2,845,078</u></b>	<b><u>1,243,121</u></b>	<b><u>945,471</u></b>	<b><u>5,033,670</u></b>
<b><u>DEDUCTIONS</u></b>				
Member Benefits	610,143	452,730	219,076	1,281,949
Withdrawals	28,873	55,549	336,478	420,900
Administrative Expense	12,396	48,872	44,738	106,006
<b>TOTAL DEDUCTIONS</b>	<b><u>651,412</u></b>	<b><u>557,151</u></b>	<b><u>600,292</u></b>	<b><u>1,808,855</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>2,193,666</b>	<b>685,970</b>	<b>345,179</b>	<b>3,224,815</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year</b>	<b><u>14,957,903</u></b>	<b><u>7,381,173</u></b>	<b><u>6,746,633</u></b>	<b><u>29,085,709</u></b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year</b>	<b><u>\$ 17,151,569</u></b>	<b><u>\$ 8,067,143</u></b>	<b><u>\$ 7,091,812</u></b>	<b><u>\$ 32,310,524</u></b>

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**STATISTICAL SECTION**  
(unaudited)

## Statistical Section

This part of the City of Palatka comprehensive annual financial report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

<u>Contents</u>	<u>Page</u>
<b>Financial Trends</b>	<b>40</b>
These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	<b>44</b>
These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.	
<b>Debt Capacity</b>	<b>48</b>
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	<b>53</b>
These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.	
<b>Operating Information</b>	<b>54</b>
These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table 1  
City of Palatka, Florida

Net Assets by Component - Last Five Fiscal Years

	Fiscal Years Ending September 30 -----				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Governmental Activities</b>					
Invested in Capital Assets, Net of Related Debt	\$4,844,714	\$5,146,607	\$5,387,086	\$5,506,649	\$10,466,693
Restricted	\$268,690	\$335,292	\$416,950	\$598,837	\$1,042,741
Unrestricted	<u>\$1,224,152</u>	<u>\$1,731,832</u>	<u>\$1,460,887</u>	<u>\$1,496,520</u>	<u>\$1,328,481</u>
<b>Total Governmental Activities Net Assets</b>	<b><u>\$6,337,556</u></b>	<b><u>\$7,213,731</u></b>	<b><u>\$7,264,923</u></b>	<b><u>\$7,602,006</u></b>	<b><u>\$12,837,915</u></b>
<b>Business-Type Activities</b>					
Invested in Capital Assets, Net of Related Debt	\$14,199,619	\$15,138,704	\$15,725,064	\$17,072,755	\$18,066,125
Restricted	\$1,542,942	\$806,035	\$830,601	\$779,907	\$773,851
Unrestricted	<u>\$88,458</u>	<u>\$943,366</u>	<u>\$655,193</u>	<u>-\$17,020</u>	<u>\$802,248</u>
<b>Total Business-Type Activities Net Assets</b>	<b><u>\$15,831,019</u></b>	<b><u>\$16,888,105</u></b>	<b><u>\$17,210,858</u></b>	<b><u>\$17,835,642</u></b>	<b><u>\$19,642,224</u></b>
<b>Primary Government</b>					
Invested in Capital Assets, Net of Related Debt	\$19,044,333	\$20,285,311	\$21,112,150	\$22,579,404	\$28,532,818
Restricted	\$1,811,632	\$1,141,327	\$1,247,551	\$1,378,744	\$1,816,592
Unrestricted	<u>\$1,312,610</u>	<u>\$2,675,198</u>	<u>\$2,116,080</u>	<u>\$1,479,500</u>	<u>\$2,130,729</u>
<b>Total Primary Government Net Assets</b>	<b><u>\$22,168,575</u></b>	<b><u>\$24,101,836</u></b>	<b><u>\$24,475,781</u></b>	<b><u>\$25,437,648</u></b>	<b><u>\$32,480,139</u></b>

Note: The city began to report accrual information when it implemented GASB statement 34 in fiscal year 2003.

Table 2  
City of Palatka, Florida

Changes in Net Assets - Last Five Fiscal Years

	Fiscal Years Ending September 30 ---				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
Governmental Activities:					
General Government	\$805,254	\$879,252	\$957,828	\$882,002	\$677,251
Public Safety	\$4,217,475	\$4,614,844	\$4,873,998	\$5,611,944	\$6,203,873
Physical Environment	n/a	n/a	\$16,191	\$14,028	\$481,343
Transportation	\$568,028	\$631,355	\$1,142,443	\$1,382,910	\$1,282,350
Economic Environment	\$50,538	\$66,979	\$63,715	\$134,348	\$102,299
Human Services	\$147,360	\$186,242	\$176,399	\$212,165	\$227,525
Culture and Recreation	\$341,136	\$540,808	\$443,796	\$505,841	\$561,238
Interest on Long-Term Debt	\$35,016	\$30,625	\$27,577	\$23,797	\$37,155
<b>Total Governmental Activities Expenses</b>	<b>\$6,164,807</b>	<b>\$6,950,105</b>	<b>\$7,701,947</b>	<b>\$8,767,035</b>	<b>\$9,573,034</b>
Business-type Activities:					
Airport	\$617,672	\$654,561	\$659,324	\$854,457	\$974,382
Water	\$3,113,053	\$3,239,058	\$3,461,247	\$3,692,108	\$3,809,776
Golf	\$803,795	\$773,144	\$803,434	\$933,767	\$1,004,007
Sanitation	\$1,227,770	\$1,273,168	\$1,481,355	\$1,391,125	\$1,430,766
<b>Total Business-type Activities Expenses</b>	<b>\$5,762,290</b>	<b>\$5,939,931</b>	<b>\$6,405,360</b>	<b>\$6,871,457</b>	<b>\$7,218,931</b>
<b>Total Primary Government Expenses</b>	<b>\$11,927,097</b>	<b>\$12,890,036</b>	<b>\$14,107,307</b>	<b>\$15,638,492</b>	<b>\$16,791,965</b>
<b>Program Revenues</b>					
Governmental Activities:					
Charges for Services:					
General Government	\$102,144	\$115,774	\$108,424	\$102,416	\$100,431
Public Safety	\$230,062	\$316,470	\$279,116	\$322,191	\$234,747
Other	\$170,592	\$152,957	\$179,865	\$167,965	\$198,985
Operating Grants and Contributions	\$314,102	\$777,845	\$573,201	\$832,506	\$912,670
Capital Grants and Contributions	\$267,530	\$1,816,727	\$765,763	\$874,390	\$1,463,953
<b>Total Governmental Activities Program Revenue</b>	<b>\$1,084,430</b>	<b>\$3,179,773</b>	<b>\$1,906,369</b>	<b>\$2,299,468</b>	<b>\$2,910,786</b>
Business-type Activities:					
Charges for Services :					
Airport	\$275,335	\$305,496	\$386,036	\$567,999	\$506,385
Water	\$2,993,651	\$3,089,418	\$3,134,799	\$3,113,887	\$3,459,388
Golf	\$645,426	\$531,170	\$711,672	\$762,061	\$751,903
Sanitation	\$1,297,709	\$1,329,226	\$1,426,784	\$1,430,572	\$1,518,191
Operating Grants and Contributions	\$20,095	\$61,500	\$139,118	\$0	\$7,000
Capital Grants and Contributions	\$1,293,561	\$929,654	\$981,176	\$1,423,874	\$2,451,986
<b>Total Business-type Activities Program Revenue</b>	<b>\$6,525,777</b>	<b>\$6,246,464</b>	<b>\$6,779,585</b>	<b>\$7,298,393</b>	<b>\$8,694,853</b>
<b>Total Primary Government Program Revenue</b>	<b>\$7,610,207</b>	<b>\$9,426,237</b>	<b>\$8,685,954</b>	<b>\$9,597,861</b>	<b>\$11,605,639</b>
<b>Net (Expense)/Revenue</b>					
Governmental Activities	(\$5,080,377)	(\$3,770,332)	(\$5,795,578)	(\$6,467,567)	(\$6,662,248)
Business-type Activities	\$763,487	\$306,533	\$374,225	\$426,936	\$1,475,922
<b>Total Primary Government Net Expense</b>	<b>(\$4,316,890)</b>	<b>(\$3,463,799)</b>	<b>(\$5,421,353)</b>	<b>(\$6,040,631)</b>	<b>(\$5,186,326)</b>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental Activities:					
Taxes:					
Property Taxes	\$2,117,963	\$2,440,143	\$2,765,692	\$3,334,384	\$3,805,051
Sales Tax and Other State Shared Revenue	\$765,778	\$794,003	\$848,661	\$888,738	\$894,912
Franchise Fees	\$547,816	\$611,540	\$684,678	\$911,188	\$915,447
Other Taxes	\$2,028,649	\$1,282,812	\$1,307,119	\$1,504,315	\$1,743,359
Investment Earnings	\$27,686	\$30,041	\$50,519	\$64,090	\$62,975
Miscellaneous	\$44,862	\$57,250	\$54,804	\$79,721	\$85,774
Transfers	\$184,832	(\$569,282)	\$135,297	\$22,214	\$142,873
<b>Total Governmental Activities</b>	<b>\$5,717,586</b>	<b>\$4,646,507</b>	<b>\$5,846,770</b>	<b>\$6,804,650</b>	<b>\$7,650,391</b>
Business-type Activities:					
Investment Earnings	\$7,322	\$6,749	\$11,071	\$19,859	\$17,786
Miscellaneous	(\$2,587)	\$174,522	\$72,754	\$200,203	\$455,747
Transfers	(\$184,832)	\$569,282	(\$135,297)	(\$22,214)	(\$142,873)
<b>Total Business-type Activities</b>	<b>(\$180,097)</b>	<b>\$750,553</b>	<b>(\$51,472)</b>	<b>\$197,848</b>	<b>\$330,660</b>
<b>Total Primary Government</b>	<b>\$5,537,489</b>	<b>\$5,397,060</b>	<b>\$5,795,298</b>	<b>\$7,002,498</b>	<b>\$7,981,051</b>
<b>Changes in Net Assets</b>					
Governmental Activities	\$637,209	\$876,175	\$51,192	\$337,083	\$988,143
Business-type Activities	\$583,390	\$1,057,086	\$322,753	\$624,784	\$1,806,582
<b>Total Primary Government</b>	<b>\$1,220,599</b>	<b>\$1,933,261</b>	<b>\$373,945</b>	<b>\$961,867</b>	<b>\$2,794,725</b>

Note: The city began to report accrual information when it implemented GASB statement 34 in fiscal year 2003

Table 3  
City of Palatka, Florida

Fund Balances, Governmental Funds - Last Ten Fiscal Years

	Fiscal Years Ending September 30 ---									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>General Fund</b>										
Reserved	\$104,727	\$73,445	\$73,445	\$0	\$0	\$0	\$0	\$0	\$0	\$1,269,605
Unreserved	\$954,649	\$1,273,818	\$1,321,801	\$1,086,552	\$1,152,879	\$1,446,537	\$1,801,421	\$1,785,860	\$1,767,288	\$414,620
<b>Total General Fund</b>	<b><u>\$1,059,376</u></b>	<b><u>\$1,347,263</u></b>	<b><u>\$1,395,246</u></b>	<b><u>\$1,086,552</u></b>	<b><u>\$1,152,879</u></b>	<b><u>\$1,446,537</u></b>	<b><u>\$1,801,421</u></b>	<b><u>\$1,785,860</u></b>	<b><u>\$1,767,288</u></b>	<b><u>\$1,684,225</u></b>
<b>All Other Governmental Funds</b>										
Reserved	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unreserved, reported in:										
Special Revenue Funds	\$132,003	\$160,508	\$219,404	\$303,141	\$285,883	\$338,928	\$408,727	\$490,642	\$681,477	\$1,042,741
Debt Service	\$12,711	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total All Other Governmental Funds</b>	<b><u>\$132,003</u></b>	<b><u>\$160,508</u></b>	<b><u>\$219,404</u></b>	<b><u>\$303,141</u></b>	<b><u>\$285,883</u></b>	<b><u>\$338,928</u></b>	<b><u>\$408,727</u></b>	<b><u>\$490,642</u></b>	<b><u>\$681,477</u></b>	<b><u>\$1,042,741</u></b>

Source: Audited financial statements

Table 4  
City of Palatka, Florida

Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues</b>										
Taxes	\$3,446,955	\$3,494,848	\$3,568,182	\$3,846,536	\$3,909,720	\$4,694,428	\$5,350,377	\$5,844,778	\$6,939,634	\$7,681,577
License and Permits	\$127,608	\$143,424	\$163,876	\$172,552	\$273,989	\$199,014	\$303,236	\$194,268	\$219,316	\$199,194
Intergovernmental	\$1,502,144	\$1,453,756	\$1,846,646	\$1,447,852	\$1,189,233	\$1,434,787	\$2,246,481	\$1,339,897	\$1,414,018	\$2,052,538
Charges for Services	\$67,998	\$79,608	\$140,605	\$118,495	\$153,156	\$144,096	\$118,285	\$156,139	\$138,910	\$196,549
Fines and Forfeitures	\$95,725	\$119,719	\$109,075	\$91,395	\$85,065	\$86,905	\$127,217	\$146,437	\$151,038	\$75,607
Miscellaneous	\$290,198	\$225,269	\$306,728	\$337,834	\$137,425	\$65,376	\$81,166	\$115,696	\$225,377	\$227,782
<b>Total Revenues</b>	<b>\$5,530,628</b>	<b>\$5,516,624</b>	<b>\$6,135,112</b>	<b>\$6,014,664</b>	<b>\$5,748,588</b>	<b>\$6,624,606</b>	<b>\$8,226,762</b>	<b>\$7,797,215</b>	<b>\$9,088,293</b>	<b>\$10,433,247</b>
<b>Expenditures</b>										
General Government	\$750,806	\$587,218	\$645,280	\$700,524	\$618,590	\$726,687	\$726,240	\$799,618	\$869,487	\$1,022,291
Public Safety	\$3,293,378	\$3,079,948	\$3,489,533	\$3,479,318	\$3,721,507	\$4,073,172	\$4,539,971	\$4,891,385	\$5,571,450	\$7,546,297
Physical Environment	\$0	\$0	\$0	\$0	\$0	\$0	\$716,608	\$16,191	\$14,028	\$481,343
Transportation	\$471,728	\$769,969	\$636,132	\$883,130	\$508,185	\$638,457	\$614,119	\$1,165,634	\$1,387,665	\$1,393,241
Economic Environment	\$454,605	\$90,072	\$673,918	\$163,566	\$35,012	\$50,538	\$66,979	\$129,128	\$134,348	\$102,299
Human Services	\$99,982	\$114,308	\$224,719	\$130,696	\$142,652	\$147,126	\$179,312	\$226,867	\$217,471	\$257,208
Culture and Recreation	\$263,800	\$303,730	\$493,637	\$660,149	\$499,504	\$673,638	\$915,684	\$454,624	\$571,372	\$708,890
Debt Service										
Principal Retirement	\$314,604	\$351,389	\$303,247	\$346,598	\$245,693	\$200,382	\$159,867	\$155,134	\$148,626	\$146,794
Interest and Fiscal Charges	\$65,706	\$67,937	\$72,376	\$61,164	\$42,526	\$35,016	\$30,625	\$27,577	\$23,797	\$37,155
<b>Total Expenditures</b>	<b>\$5,714,609</b>	<b>\$5,364,571</b>	<b>\$6,538,842</b>	<b>\$6,425,145</b>	<b>\$5,813,669</b>	<b>\$6,545,016</b>	<b>\$7,949,405</b>	<b>\$7,866,158</b>	<b>\$8,938,244</b>	<b>\$11,695,518</b>
<b>Excess of Revenues Over (Under) Expenditure:</b>	<b>(\$183,981)</b>	<b>\$152,053</b>	<b>(\$403,730)</b>	<b>(\$410,481)</b>	<b>(\$65,081)</b>	<b>\$79,590</b>	<b>\$277,357</b>	<b>(\$68,943)</b>	<b>\$150,049</b>	<b>(\$1,262,271)</b>
<b>Other Financing Sources (Uses)</b>										
Proceeds From Borrowing	\$65,440	\$15,844	\$633,175	\$59,000	\$24,150	\$38,000	\$0	\$0	\$0	\$1,379,225
Capital Leases	\$0	\$0	\$0	\$0	\$0	\$44,281	\$0	\$0	\$0	\$0
Transfers In	\$193,861	\$224,703	\$151,434	\$237,327	\$234,000	\$291,480	\$284,974	\$282,766	\$332,837	\$247,957
Transfers Out	(\$88,781)	(\$88,919)	(\$274,000)	(\$110,803)	(\$144,000)	(\$106,648)	(\$137,648)	(\$147,469)	(\$310,623)	(\$86,710)
<b>Total Other Financing Sources (Uses)</b>	<b>\$170,520</b>	<b>\$151,628</b>	<b>\$510,609</b>	<b>\$185,524</b>	<b>\$114,150</b>	<b>\$267,113</b>	<b>\$147,326</b>	<b>\$135,297</b>	<b>\$22,214</b>	<b>\$1,540,472</b>
<b>Net Change in Fund Balances</b>	<b>(\$13,461)</b>	<b>\$303,681</b>	<b>\$106,879</b>	<b>(\$224,957)</b>	<b>\$49,069</b>	<b>\$346,703</b>	<b>\$424,683</b>	<b>\$66,354</b>	<b>\$172,263</b>	<b>\$278,201</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	<b>6.66%</b>	<b>7.82%</b>	<b>5.74%</b>	<b>6.35%</b>	<b>4.96%</b>	<b>3.60%</b>	<b>2.40%</b>	<b>2.32%</b>	<b>1.93%</b>	<b>1.57%</b>

Source: Finance Department, audited financial statements

Table 5  
CITY OF PALATKA, FLORIDA

TAXABLE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS  
September 30, 2007

Fiscal Year	REAL PROPERTY		PERSONAL PROPERTY (1)		TOTALS			Ratio Total Taxable Value to Estimated Actual Value
	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Total Direct Tax Rate	
1997-98	\$158,744,108	\$338,068,831	\$50,232,215	\$77,924,638	\$208,976,323	\$415,993,469	7.555	50.24%
1998-99	\$170,172,776	\$355,403,866	\$53,215,597	\$84,077,549	\$223,388,373	\$439,481,415	7.213	50.83%
1999-00	\$178,778,331	\$373,256,035	\$55,367,259	\$81,801,666	\$234,145,590	\$455,057,701	7.042	51.45%
2000-01	\$183,889,211	\$386,706,053	\$59,094,480	\$88,746,448	\$242,983,691	\$475,452,501	6.907	51.11%
2001-02	\$197,230,902	\$407,954,372	\$60,338,363	\$91,163,410	\$257,569,265	\$499,117,782	7.300	51.60%
2002-03	\$218,334,521	\$452,698,286	\$56,587,231	\$86,030,561	\$274,921,752	\$538,728,847	7.800	51.03%
2003-04	\$245,544,610	\$493,678,930	\$59,022,315	\$88,864,358	\$304,566,925	\$582,543,288	8.000	52.28%
2004-05	\$268,616,535	\$541,682,448	\$62,032,313	\$89,947,767	\$330,648,848	\$631,630,215	8.000	52.35%
2005-06	\$320,669,058	\$619,824,299	\$69,748,674	\$95,461,683	\$390,417,732	\$715,285,982	8.650	54.58%
2006-07	\$353,141,525	\$701,211,013	\$70,909,071	\$96,205,495	\$424,050,596	\$797,416,508	8.650	53.18%

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

SOURCE: PUTNAM COUNTY PROPERTY APPRAISER

Table 6  
City of Palatka, Florida

Property Tax Levies and Collections  
Last Ten Fiscal Years  
September 30, 2007

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Levy</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>% of Total Collections to Levy</b>
1998	\$1,578,816	\$1,523,396	0.9649	\$6,962	\$1,530,358	0.9693
1999	\$1,611,300	\$1,562,616	0.9698	\$2,408	\$1,565,024	0.9713
2000	\$1,655,242	\$1,589,976	0.9606	\$4,761	\$1,594,737	0.9634
2001	\$1,678,289	\$1,608,225	0.9583	\$17,947	\$1,626,172	0.9689
2002	\$1,880,256	\$1,754,044	0.9329	\$5,427	\$1,759,471	0.9358
2003	\$2,144,390	\$1,990,690	0.9283	\$10,232	\$2,000,922	0.9331
2004	\$2,436,535	\$2,290,702	0.9401	\$14,777	\$2,305,479	0.9462
2005	\$2,645,191	\$2,529,526	0.9563	\$59,668	\$2,589,194	0.9788
2006	\$3,377,114	\$3,108,434	0.9204	\$4,343	\$3,112,777	0.9217
2007	\$3,688,668	\$3,132,637	0.8493	\$711	\$3,133,348	0.8495

Source: Putnam County Tax Collector

Table 7  
City of Palatka

Property Tax Rates - Direct and Overlapping Governments  
Last Ten Fiscal Years  
September 30, 2007

Fiscal Year	City of Palatka	Putnam County	<u>District School Board</u>		St. Johns River Water Management District	Total
			Operating	Bond Debt/Cap Outlay		
1998	7.555	8.900	7.099	2.995	0.482	27.031
1999	7.213	8.900	7.128	2.970	0.482	26.693
2000	7.042	8.800	7.131	2.760	0.482	26.215
2001	6.907	8.800	6.827	2.911	0.472	25.917
2002	7.300	8.800	6.684	2.870	0.462	26.116
2003	7.800	8.800	6.466	2.800	0.462	26.328
2004	8.000	9.200	5.720	2.800	0.462	26.182
2005	8.000	9.200	6.310	2.800	0.462	26.772
2006	8.650	9.200	5.934	2.600	0.462	26.846
2007	8.500	9.319	5.490	2.000	0.4158	25.725

Source: Putnam County Property Appraiser

Table 8  
City of Palatka, Florida

Principal Taxpayers  
Current and Nine Years Ago

<u>Taxpayer</u>	<u>Fiscal Year 2007</u>			<u>Fiscal Year 1998</u>		
	<u>Taxable</u>	<u>Rank</u>	<u>Percentage of</u>	<u>Taxable</u>	<u>Rank</u>	<u>Percentage of</u>
	<u>Assessed</u>		<u>Total County</u>	<u>Assessed</u>		<u>Total County</u>
	<u>Value</u>		<u>Value</u>	<u>Assessed Value</u>		<u>Value</u>
Lifepoint Hospital	\$17,426,703	1	4.11%	\$14,111,219	1	6.80%
Wal-Mart Inc.	\$13,302,600	2	3.14%	\$3,475,352	9	1.70%
Lowe's	\$8,250,272	3	1.95%	-	-	-
Home Depot	\$8,144,593	4	1.92%	-	-	-
Florida Power & Light	\$7,907,370	5	1.86%	\$7,438,169	3	3.60%
Bellsouth Telecommunications	\$7,822,805	6	1.84%	\$9,873,617	2	4.70%
Revenue Properties Town & Country	\$6,901,153	7	1.63%	\$5,300,988	5	2.50%
Southern Medical Associates, Inc	\$5,949,089	8	1.40%	\$6,225,194	4	3.00%
FWI 5 Inc.	\$4,735,191	9	1.12%	-	-	-
Palatka Mall	\$4,647,902	10	1.10%	\$4,139,030	7	2.00%
Florida Furniture	-	-	-	\$4,819,940	6	2.30%
Winn Dixie	-	-	-	\$3,589,205	8	1.70%
Central States Diversified	-	-	-	\$2,986,283	10	1.40%
<b>Total</b>	<b>\$85,087,678</b>		<b>20.07%</b>	<b>\$61,958,997</b>		<b>29.70%</b>

Source: Putnam County Property Appraiser

Table 9  
City of Palatka, Florida

Ratios of Net General Bonded Debt Outstanding  
Last Ten Fiscal Years  
September 30, 2007

<b>Fiscal year</b>	<b>Franchise Fee Bond</b>	<b>Tax Increment Bond</b>	<b>Road Improvement Bond</b>	<b>Total</b>	<b>Net GBD to Personal Income</b>	<b>Net GBD Per Capita</b>
1998	\$75,000	\$447,200	\$0	\$522,200	0.29%	\$48
1999	\$0	\$409,933	\$0	\$409,933	0.22%	\$38
2000	\$0	\$372,667	\$0	\$372,667	0.19%	\$35
2001	\$0	\$335,400	\$445,312	\$780,712	0.41%	\$78
2002	\$0	\$298,133	\$403,966	\$702,099	0.35%	\$68
2003	\$0	\$260,867	\$360,225	\$621,092	0.29%	\$59
2004	\$0	\$223,600	\$314,035	\$537,635	0.24%	\$50
2005	\$0	\$186,333	\$265,155	\$451,488	0.19%	\$41
2006	\$0	\$149,067	\$213,472	\$362,539	0.14%	\$31
2007	\$0	\$111,800	\$158,849	\$270,649	0.10%	\$24

Note: Personal income was determined to be the relevant base for analysis.

Source: Putnam County Tax Collector

Table 10  
City of Palatka, Florida

Computation of Legal Debt Margin  
September 30, 2007

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

Table 11  
City of Palatka, Florida

Computation of Direct and Overlapping  
General Obligation Bonds  
September 30, 2007

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Palatka</u>	<u>Amount Applicable to City of Palatka</u>
Direct:			
City of Palatka	NONE		
Overlapping:			
School Board District Refunding Issue 1999	<u>\$1,865,000</u>	<u>10.54%</u>	<u>\$196,571</u>

Source: Putnam County School Board, Putnam County Property Appraiser

Table 12  
City of Palatka, Florida

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Year	Governmental Activities-----			Business Type Activities-----			Total Primary Government	Percentage of Personal Income(1)	Outstanding Debt Per Capita(1)
	Loans/Notes Payable	Revenue Bonds	Capital Leases	Loans/Notes Payable	Revenue Bonds	Capital Leases			
1998	\$780,783	\$703,646	-	\$238,816	\$7,361,718	\$53,064	\$9,138,027	5.13%	\$850
1999	\$593,386	\$555,498	-	\$185,076	\$7,285,574	-	\$8,619,534	4.58%	\$792
2000	\$513,944	\$964,868	-	\$229,614	\$7,617,084	-	\$9,325,510	4.66%	\$848
2001	\$342,506	\$848,708	-	\$168,020	\$7,497,462	-	\$8,856,696	4.66%	\$882
2002	\$223,051	\$728,172	\$18,448	\$105,514	\$7,309,356	-	\$8,384,541	4.23%	\$819
2003	\$191,100	\$621,092	\$39,376	\$86,282	\$7,093,787	\$51,944	\$8,083,581	3.80%	\$770
2004	\$137,206	\$537,635	\$16,860	\$658,257	\$6,880,708	\$195,163	\$8,425,829	3.76%	\$779
2005	\$85,079	\$451,488	-	\$883,935	\$6,649,458	\$164,416	\$8,234,376	3.47%	\$742
2006	\$25,402	\$362,539	-	\$1,487,045	\$6,414,918	\$127,900	\$8,417,804	3.34%	\$736
2007	\$1,182,352	\$270,649	\$167,371	\$2,237,255	\$6,233,850	\$8,778	\$10,100,255	3.87%	\$881

Notes: (1) See the demographic statistics table 10 for population and annual personal income data. The figures provided represent ratios of total primary government outstanding debt to annual personal income and population.

Table 13  
City of Palatka, Florida

Pledged Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Water Revenue Bond						Golf Revenue Bonds					
	Utility Service Charges	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage(1)	Golf Service Charges	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage (1)
				Principal	Interest					Principal	Interest	
1998	\$2,592,201	\$2,086,245	\$505,956	\$4,828,490	\$488,852	n/a	\$876,706	\$785,539	\$91,167	\$50,221	\$10,859	1.49%
1999	\$2,679,917	\$1,837,640	\$842,277	\$0	\$358,872	2.34%	\$870,543	\$794,842	\$75,701	\$53,841	\$7,239	1.24%
2000	\$2,763,969	\$1,834,897	\$929,072	\$25,000	\$338,500	2.55%	\$745,683	\$800,181	(\$54,498)	\$104,311	\$2,891	n/a
2001	\$2,750,443	\$2,042,596	\$707,847	\$60,000	\$336,190	1.79%	\$797,971	\$818,087	(\$20,116)	\$39,097	\$26,019	n/a
2002	\$2,932,327	\$1,973,656	\$958,671	\$140,000	\$330,590	2.04%	\$633,999	\$760,653	(\$126,654)	\$41,346	\$23,770	n/a
2003	\$3,104,778	\$2,172,018	\$932,760	\$175,000	\$323,503	1.87%	\$645,426	\$741,808	(\$96,382)	\$43,740	\$21,376	n/a
2004	\$3,182,217	\$2,293,009	\$889,208	\$185,000	\$319,711	1.76%	\$618,037	\$707,727	(\$89,690)	\$46,190	\$18,926	n/a
2005	\$3,216,565	\$2,474,061	\$742,504	\$200,000	\$307,515	1.46%	\$711,672	\$685,303	\$26,369	\$48,880	\$16,236	0.40%
2006	\$3,299,223	\$2,678,856	\$620,367	\$200,000	\$299,017	1.24%	\$762,181	\$815,457	(\$53,276)	\$51,683	\$13,433	n/a
2007	\$3,801,745	\$2,806,060	\$995,685	\$275,000	\$287,193	1.77%	\$782,670	\$934,609	(\$151,939)	\$54,622	\$10,493	n/a

Note:

1. Loans were refinanced this year with additional loans added.

Source: Finance department, audited financial statements

Table 14  
City of Palatka, Florida

Demographic Statistics  
Last Ten Fiscal Years  
September 30, 2007

<b>Fiscal Year</b>	<b>Population(1)</b>	<b>Personal Income(million of dollars) (2)</b>	<b>Per Capita Personal Income(3)</b>	<b>School (4) Enrollment</b>	<b>Unemployment Rate(5)</b>
1998	10,734	\$178	\$16,565	6141	5.4%
1999	10,874	\$188	\$17,300	5725	5.2%
2000	11,005	\$200	\$18,195	5807	4.3%
2001	10,033	\$190	\$18,922	5885	5.4%
2002	10,250	\$198	\$19,354	5629	6.6%
2003	10,510	\$213	\$20,263	5623	5.7%
2004	10,820	\$224	\$20,711	5716	5.5%
2005	11,100	\$237	\$21,371	5371	4.5%
2006	11,417	\$252	\$22,031	5508	3.8%
2007	11,470	\$260	\$22,736	5555	4.8%

Sources:

- (1) University of Florida, Bureau of Economic and Business Research, Florida Estimate of Population
- (2) Personal Income figures are the results of multiplying Per Capita Personal Income by the population
- (3) U.S. Department of Commerce, Bureau of Economic Analysis  
Figures from 2001 - 2007 are projected estimates based on trend analysis calculations.
- (4) District School Board of Putnam County
- (5) State of Florida, Agency for Workforce Innovation-Bureau of Labor Statistics

Table 15  
City of Palatka, Florida

Operating Indicators by Function/Program  
Last Ten Fiscal Years

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government:										
Building permits issued	148	650	752	717	767	846	821	982	884	804
Building inspections conducted	208	1500	1837	1933	1944	1931	2280	1905	1843	1987
Code enforcements	182	308	231	391	338	382	417	532	281	547
Occupational license issued	667	1340	912	1016	905	973	1016	1014	904	1072
Police:										
Calls for service	n/a	n/a	n/a	29,910	28,547	26,683	27,132	30,595	36,196	32,350
Physical arrests	1,671	1,693	1,331	1,361	1,610	2,185	1,507	1,989	2,264	2,003
Citations	3,851	3,114	2,961	3,073	3,538	3,282	1,568	1,989	2,747	2,299
Fire:										
Emergency responses	1,379	1,623	1,106	1,454	1,432	1,660	2,189	1,987	1,958	2,063
Fires extinguished	493	481	924	621	646	999	1,093	1,020	923	721
Refuse collection:										
Customers	4,785	4,865	4,579	4,900	4,745	4,985	5,100	4,998	5,062	5,027
Other public works:										
Street resurfaced (miles)	n/a	n/a	n/a	n/a	2.5	2.5	2.5	6	0	1.2
Potholes repaired	200	200	200	200	175	175	150	125	100	100
Parks and recreation:										
Community center rentals	n/a	54	92	88	101	55	69	75	68	68
Human Services:										
Interments	88	157	120	133	120	131	124	113	150	145
Water:										
Water main breaks	12	12	12	12	12	12	12	12	12	30
Average daily consumption (thousands of gallons)	1,996	1,990	2,084	1,932	1,940	1,887	1,727	1,905	2,366	1,735
Peak daily consumption (thousands of gallons)	3,072	2,661	2,966	2,790	2,819	2,883	2,359	2,757	3,189	2,300
Wastewater:										
Average daily treatment (thousands of gallons)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Airport:										
Rentals-thangars	49	49	49	49	49	49	49	49	49	49
Building	2	2	2	2	2	2	2	2	2	2
Land leases	2	2	2	2	2	2	2	2	2	2

Source: Departments of the city

Table 16  
City of Palatka, Florida

Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	25	25	25	25	25	25	25	25	25	26
Fire station	2	2	2	2	2	2	2	2	2	2
Firefighters	17	17	17	17	17	17	17	17	20	20
Refuse collection:										
Collection trucks	6	6	6	6	6	6	6	6	6	6
Other public works:										
Streets(miles)	70.89	71.09	71.18	71.18	71.18	71.18	71.18	71.18	71.18	71.18
Traffic signals	16	16	16	16	16	16	16	16	16	22
Parks and recreation:										
Acreage	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3
Playgrounds	10	10	10	10	10	10	10	10	10	10
Baseball/softball diamonds	5	5	5	5	5	5	5	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water:										
Water mains	100	100	100	101	102	103	104	105	106	106
Fire hydrants	425	425	425	430	435	440	445	150	455	455
Storage capacity (in millions)	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Wastewater:										
Sanitary sewers (miles)	70	70	70	71	72	73	74	75	76	80
Storm sewers (miles)	60	60	60	60	60	60	60	60	60	60
Treatment capacity(millions of gals.)	912	912	912	912	912	912	912	912	912	912
Golf Courses:										
Acreage	99	99	99	99	99	99	99	99	99	99
Airports:										
Runways	3	3	3	3	3	3	3	3	3	3

Source:

Individual departments of the city

Table 17  
City of Palatka, Florida

Principal Employers  
Current and Nine Years Ago

<u>Employer</u>	<u>Fiscal Year 2007</u>			<u>Fiscal Year 1998</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Putnam County School District	870	1	18.96%	918	1	21.38%
Putnam County	656	2	14.30%	461	5	10.74%
Putnam Community Medical Center	533	3	11.62%	492	4	11.46%
Wal-Mart Stores, Inc.	523	4	11.40%	237	6	5.52%
St. Johns River Water Management	686	5	14.95%	515	3	11.99%
St. Johns River Community College	225	6	4.90%	197	7	4.59%
City of Palatka	194	7	4.23%	160	9	3.73%
Lowe's Home Centers, Inc.	123	8	2.68%	-	-	-
Publix Supermarket, Inc.	120	9	2.62%	175	8	4.08%
Home Depot USA, Inc.	101	10	2.20%	-	-	-
Florida Furniture Industries	-	-	-	620	2	14.44%
Central States Diversified	-	-	-	115	10	2.68%
Total	4,031		87.86%	3,890		90.59%

Note: Percentages was derived from 40% of population of the City of Palatka  
Source: Individual employers/Chamber of Commerce

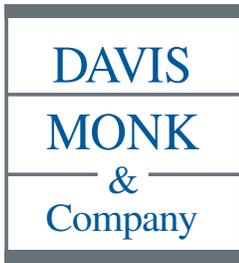
Table 18  
City of Palatka, Florida

Full-time Equivalent City Government Employees by Function  
Last Ten Fiscal Years

<u>Function</u>	Full-Time Equivalent Employees(FTE) as of September 30 -----									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>General Government</b>										
General Administration	8	8	8	8	8	8	8	9	9	8
Attorney	1	1	1	1	1	1	1	1	1	1
General Service Director	0	0	0	0	0	0	0	0	1	0
Mainstreet	0	0	0	0	1	1	0	1	1	0
<b>Public Safety</b>										
Building & Zoning	5	5	5	5	6	6	6	6	7	7
Police Officers	32	32	32	35	35	35	33	32	39	39
Police Clerical	5	5	5	7	7	7	8	8	7	7
Firefighters	17	17	17	17	17	17	17	17	20	20
<b>Transportation</b>										
Streets	7	8	9	9	9	9	9	9	9	9
<b>Human Services</b>										
Cemeteries	4	4	4	4	4	4	4	5	5	5
Culture/Recreation	5	5	5	5	5	5	6	6	7	7
<b>Business Type Activities:</b>										
Airport	2	2	3	3	3	3	3	4	4	4
Water	35	36	36	36	36	36	37	36	37	37
Golf	7	7	14	14	14	7	8	8	7	10
Sanitation	20	19	20	20	20	20	19	19	19	19

Source: City of Palatka Personnel Department

**SINGLE AUDIT SECTION**



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## 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, 2007, and have issued our report thereon dated May 27, 2008. We have also issued reports on internal control and on compliance and other matters. Those reports 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, there were no prior audit findings.

### 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 revealed evidence of "deteriorating financial condition" as that term is defined in Rule 10.554. "Deteriorating financial condition" means a circumstance determined as of fiscal year-end that significantly impairs a local governmental entity's ability to generate enough revenues to meet its expenditures without causing a condition described in Section 218.503(1), Florida Statutes, to occur. The City's Golf Course Fund incurred net losses of \$236,037 and \$149,111 for 2007 and 2006, respectively. As a result, at September 30, 2007, there was an unrestricted net assets deficit of approximately \$1.2 million in the Golf Course Fund.

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

Page Two

Other available unreserved resources of the City were sufficient to offset the deficit. However, actions should be taken by the City to address the deteriorating financial condition of the Golf Course Fund.

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, 2007, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2007.

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

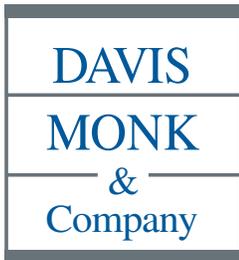
Our audit did not reveal any other matters that we are required to include in this management letter.

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.



May 27, 2008  
Palatka, Florida



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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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 27, 2008. Our report on the financial statements included a paragraph explaining that the City restated beginning net assets. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as condition 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 07-1 to be a material weakness.

Compliance and Other Matters

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

The City's response to the finding identified in our audit is described in its accompanying letter of response. We did not audit the City's response and, accordingly, we express no opinion on it.

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

May 27, 2008  
Palatka, Florida

**City of Palatka, Florida**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Year Ended September 30, 2007**

<u>Federal Awards</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Thru Florida Dept of Agriculture and Consumer Services Cooperative Forestry Assistance	10.664	11105	\$ 15,000
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through State Department of Community Affairs: Community Development Block Grant	14.228	06DB-3K04-64-02N43	423,790
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Byrne Formula Grant	16.579	2005DJBX1152	6,504
Byrne Justice Assistance Grant Program	16.738	2006JAGDJBX0979	7,207
Passed Through Florida Department of Law Enforcement: Byrne Justice Assistance Grant Program	16.738	2007JAGC-PUTN-2P3175	17,665
Program Total			<u>24,872</u>
Community Capacity Development - Weed & Seed	16.595	2005WS-Q5-0290	75,309
Community Capacity Development - Weed & Seed	16.595	2005WS-Q6-0227	136,287
Program Total			<u>211,596</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
FAA Airport Improvement Program	20.106	AIP 3-12-0061-013-2005	101,914
FAA Airport Improvement Program	20.106	AIP 3-12-0061-014-2006	1,074,030
Program Total			<u>1,175,944</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Wastewater Treatment Works	66.418	LP6771	32,604
Drinking Water State Revolving Funds	66.468	DW5419010	669,781
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Hazard Mitigation Grant	97.039	07HM-6@-04-64-02-031	16,768
Emergency Management Performance Grant	97.042	07DS-5N-04-64-02-237	5,900
Program Total			<u>22,668</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,582,759</u>

(Continued)

**City of Palatka, Florida**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Year Ended September 30, 2007**

(Concluded)

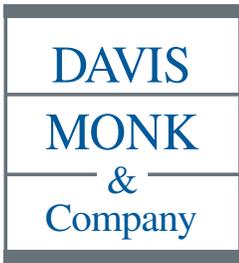
<u>State Financial Assistance</u>	<u>State CSFA Number</u>	<u>Contract/Grant Number</u>	<u>State Expenditures</u>
<u>STATE DEPARTMENT OF TRANSPORTATION</u>			
Aviation Development Grant – Terminal Facility	55.004	ANQ44	\$ 8,400
Aviation Development Grant – Security Fencing & Runway	55.004	AOL47	56,779
Aviation Development Grant – Bulk T-Hangar	55.004	AOF35	32,057
Aviation Development Grant – Terminal Building	55.004	AOF36	102,103
Aviation Development Grant – T-Hangar	55.004	AOF37	21,149
Aviation Development Grant – Taxiways, Lighting, Drainage	55.004	AOK24	104
Program Total			<u>220,592</u>
<u>STATE DEPARTMENT OF ENVIRONMENTAL PROTECTION</u>			
Florida Recreation Development Assistance Program	37.017	FO6148	9,145
Florida Recreation Development Assistance Program	37.017	FO6257	144,232
Program Total			<u>153,377</u>
<u>STATE DEPARTMENT OF HEALTH</u>			
Passed Through State Department of Community Affairs:			
Emergency Medical Services Matching Award	64.003	M7045	7,832
Emergency Medical Services Matching Award	64.003	M7028	41,589
Program Total			<u>49,421</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 423,390</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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## Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Program

The Honorable Mayor and City Commissioners  
City of Palatka, Florida

### Compliance

We have audited the compliance of the City of Palatka, Florida (the "City") with the types of compliance requirements described in the *U. S Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

### 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, but not for the purpose of expressing an opinion

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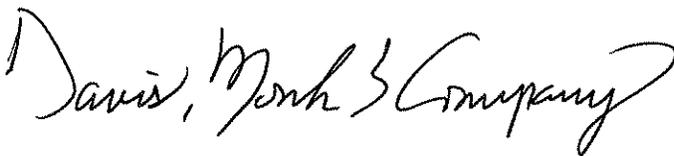
on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



May 27, 2008  
Palatka, Florida

**City of Palatka, Florida**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2007**

**Part I – Summary of Auditors’ Results**

1. The independent auditors’ report on the financial statements was unqualified.
2. The audit disclosed a significant deficiency in internal control over financial reporting. The significant deficiency was considered to be a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. The audit did not disclose any significant deficiencies in internal control over compliance with requirements applicable to the major federal award programs.
5. The report on compliance with requirements applicable to the major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported for the major federal programs.
7. The City’s major federal programs were:

	<u>CFDA Number</u>
Community Development Block Grant	14.228
Drinking Water State Revolving Fund	66.468

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**

07-1 *Condition* – As part of the audit process, we proposed material adjustments to the City’s financial statements. It was also necessary for us to assist with the preparation of the City’s financial statements. Our proposed adjustments were accepted by management, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles.

*Recommendation* – We recommend that you consider and evaluate the cost and benefits of improving internal controls relative to the financial reporting process.

**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, 2007  
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, 2006.

KARL N. FLAGG  
MAYOR - COMMISSIONER

MARY LAWSON BROWN  
VICE MAYOR - COMMISSIONER

ALLEGRA KITCHENS  
COMMISSIONER

VERNON MYERS  
COMMISSIONER

JAMES NORWOOD, JR.  
COMMISSIONER



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

ELWIN C. "WOODY" BOYNTON, JR.  
CITY MANAGER

BETSY JORDAN DRIGGERS  
CITY CLERK

RUBY M. WILLIAMS  
FINANCE DIRECTOR

GARY S. GETCHELL  
CHIEF OF POLICE

MICHAEL LAMBERT  
CHIEF FIRE DEPT.

DONALD E. HOLMES  
CITY ATTORNEY

May 27, 2008

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, 2007.

#### Part II - Financial Statement Findings Section

07-1 Condition – As part of the audit process, we proposed material adjustments to the City's financial statements. It was also necessary for us to assist with the preparation of the City's financial statements. Our proposed adjustments were accepted by management, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles.

Recommendation – We recommend that you consider and evaluate the cost and benefits of improving internal controls relative to the financial reporting process.

Resolution – We have evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in our best interests to outsource this task to our independent auditors.

In reference to the management letter about a "deteriorating financial condition" concern, the city is working on resolving this condition. The city's golf course has incurred net losses for 2006 and 2007. The city is working on a business plan to generate more revenues. The city is also checking into other avenues that would address this concern.

Sincerely,

Ruby M. Williams  
Finance Director