

CITY OF PALATKA, FLORIDA  
COMPREHENSIVE ANNUAL FINANCIAL  
REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

PREPARED BY:

MATTHEW D. REYNOLDS  
FINANCE DIRECTOR

**City of Palatka, Florida  
Comprehensive Annual Financial Report  
For The Year Ended September 30, 2011**

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**VERNON MYERS**  
MAYOR - COMMISSIONER

**MARY LAWSON BROWN**  
VICE MAYOR - COMMISSIONER

**ALLEGRA KITCHENS**  
COMMISSIONER

**PHIL LEARY**  
COMMISSIONER

**JAMES NORWOOD, JR.**  
COMMISSIONER



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

**BETSY JORDAN DRIGGERS**  
CITY CLERK

**MATTHEW D. REYNOLDS**  
FINANCE DIRECTOR

**GARY S. GETCHELL**  
CHIEF OF POLICE

**MICHAEL LAMBERT**  
CHIEF FIRE DEPT.

**DONALD E. HOLMES**  
CITY ATTORNEY

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

May 21, 2012

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, 2011.

This report was completed by the Finance Director, with close cooperation of the external auditors, Carr, Riggs & Ingram, 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 10,558 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.

## **THE REPORTING ENTITY (Concluded)**

Accordingly, these component units are included in the City's Comprehensive Annual Financial Report.

## **ECONOMIC CONDITION**

Palatka's population is 10,558 persons according to the United States 2010 Census. Due to current economic conditions, the City of Palatka like many communities continues to experience serious budget constraints. During the budget planning for fiscal year 2011-12, the City proposed a budget that was 9.62% less than it was last year being reduced from \$9.306 million to \$8.411 million. Much of this loss was due to a decrease in all revenues across the board as well as reduction in operating grants and transfers from other funds received by the City. As in prior years, the City eliminated most capital improvement projects that were not funded by grant monies as well as reduced operating budgets and did not fill positions vacated by attrition or retirement.

Although revenues across the board were reduced, the millage rate was again maintained at 8.65 mills. With a continued decline in state share revenues as well as ad valorem taxes, 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. Department Heads were asked to maintain their proposed budget from the previous year and to propose 5% reductions in their operating budgets. Nominal increases in pension and health plans necessitated this change as revenues are not expected to make-up for this shortfall.

Although the General Fund total fund balance increased by approximately \$684,000, over a third is nonspendable due to advances to other funds, so the City will not have this portion available for use anytime soon. The unassigned fund balance, which was unreserved fund balance in prior years, is 10.20% of general operating expenditures. This is below minimum balances recommended by the GFOA of approximately 16.66% or two months worth of operating expenditures. The net assets of the water, sanitation and airport funds increased by approximately \$51,000, \$74,000 and \$664,000 respectively, while the net assets of the golf course fund decreased by approximately \$404,000. resulting in a negative net asset balance of approximately \$631,000. The City's golf course continues to operate at a financial deficit with money from the general fund being held to offset this deficit. In an attempt to minimize these losses, several changes have been made at the course including a proposed increasing fee schedule to bring user fees in line with other nearby courses within the next few years as well as some course renovations in an attempt to attract more players from surrounding areas.

## **MAJOR INITIATIVES**

### CURRENT PROJECTS

As has been discussed in previous reports, the City's Riverfront Redevelopment Project continues to be an important project. However, the economic slow-down has caused the developer that was selected by RFQ in 2007 to back away from this project. An RFQ has been released in order to acquire a new developer for this project. We hope that a new developer will be selected and begin construction on the project in the very near future. The City still anticipates this project being the centerpiece of its revitalization efforts.

As discussed last year, the City committed approximately \$300,000 in 2009/2010 to formulate a new conceptual master plan for the Riverfront. This master plan led directly to the City obtaining over \$1,000,000 in grants to complete parking, stormwater improvements, landscaping improvements as well other improvements to site amenities in the riverfront area which are currently under construction and nearing completion. In addition, the City is in position to obtain additional funding to improve the boat launch facility, docking facilities, lighting improvements as well as constructing a new restroom facility.

The City's wastewater reclamation is also nearing completion and is the primary "green" initiative undertaken by the City. The fourth and final phase of this project consists of constructing additional filtration capacity due to a new chlorine contact chamber. The completion of this project should allow the City to remove 100-percent of its wastewater effluent from the St. Johns River with the effluent now being provided as reclaimed water for irrigation throughout the City.

Other major projects underway by the City in 2011 included: refurbishment of two riverboats (approximately \$1,500,000), energy conservation upgrades (approximately \$4,000,000) and Crill and Moseley drainage improvements (approximately \$200,000).

The one-cent sales surtax money (Better Place Funds) is dedicated to capital improvements within the City. This year's improvements were primarily for grant match, sidewalk replacement, drainage improvements, building renovations and repayment of loan obligations.

The City continues to upgrade the pavement and drainage systems at the airport with the help of Federal Aviation Administration and Florida Department of Transportation grants. Last year, the City completed drainage improvements on Taxiway B and Rehabilitation of the Transient Apron associated with Taxiway B. The approximate cost of this project was approximately \$770,000. Other projects currently underway at the airport include reconstruction of runway 9-27, upgrading the old terminal building, construction of a new equipment building and restroom at the fuel storage compound, security upgrades at the new terminal building and site improvements to the existing entrance

## **MAJOR INITIATIVES (Concluded)**

### Future Projects

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

With the assistance of grant monies, the City anticipates commencing two projects in 2012. These projects are expansion of the boat ramp and construction of a new restroom facility on the riverfront (approximately \$400,000) and community center restroom ADA upgrades (approximately \$50,000).

Improvements at the airport continue to be funded primarily by grants from the Florida Department of Transportation and the Federal Aviation Authority. Projects envisioned for 2012 include rehabilitation of a taxiway along with other drainage improvements.

Other projects that will need further evaluation and discussion over the next few years are upgrading the City's water transmission lines and expansion of current utilities to outside of the City's current boundaries.

## **FINANCIAL POLICIES**

### 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.

**FINANCIAL POLICIES  
(Concluded)**

INTERNAL CONTROL STRUCTURE (continued)

The evaluation of costs and benefits requires estimates and judgments by management.

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

BUDGETARY CONTROL

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

**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, 2010. This was the nineteenth 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,



Vernon Myers  
Mayor/Interim City Manager



Matthew D. Reynolds  
Finance Director

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**GFOA Certificate of Achievement**

The City's Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2010 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, 2010

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.



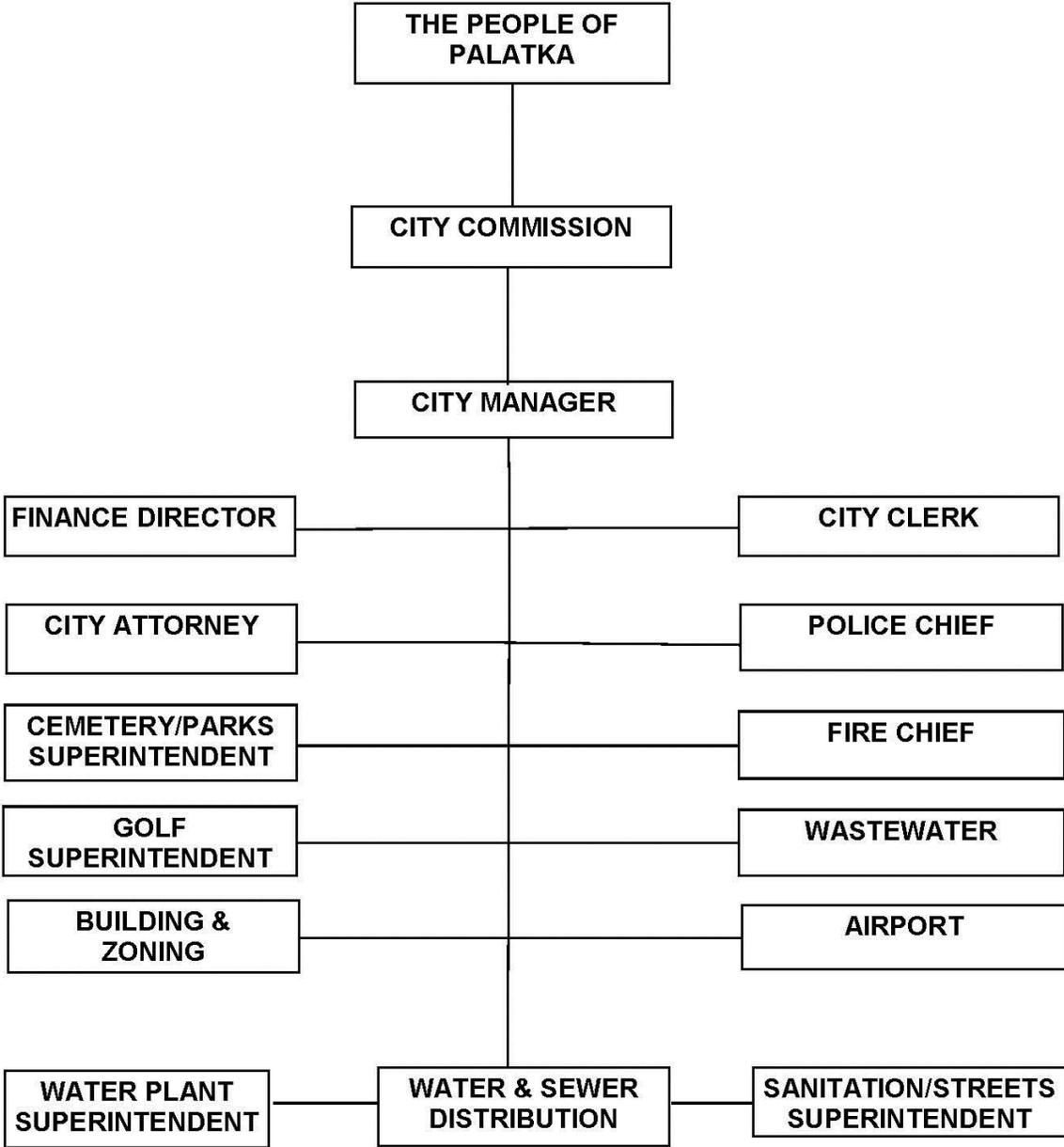
*Linda C. Sandison*

President

*Jeffrey R. Emen*

Executive Director

**CITY OF PALATKA, FLORIDA  
ORGANIZATION CHART**



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

**ELECTED OFFICIALS**

Mayor-Commissioner	Vernon H. Myers
Vice Mayor-Commissioner	Mary Lawson Brown
Commissioner	James Norwood, Jr.
Commissioner	Allegra Kitchens
Commissioner	Phil Leary

**APPOINTED OFFICIALS**

City Manager	Elwin C. Boynton
City Clerk	Betsy Jordan Driggers
Finance Director	Matthew D. Reynolds
City Attorney	Donald E. Holmes
Police Chief	Gary Getchell
Fire Chief	William M. Lambert

**DEPARTMENT SUPERINTENDENTS**

Airport	John Youell
Building Official	Joffre Filion
Planning Director	Thad Crowe
Golf	Andy Hartz
Parks & Cemeteries	Jeff Norton
Sanitation, Maintenance & Streets	Ed Chandler
Water Treatment Plant	Melvin Register
Wastewater Treatment Plant	Platt Drew
Water/Sewer Distribution	Rhett McCamey

**AUDITORS**

Carr, Riggs & Ingram, LLC

## 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, 2011, 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.

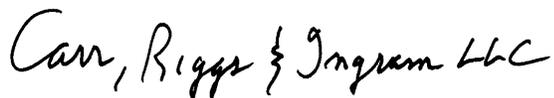
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 21, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



May 21, 2012  
Palatka, Florida

**City of Palatka  
Management's Discussion and Analysis  
September 30, 2011**

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, 2011. 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 \$48,473,626. Of this amount, \$2,454,953 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,130,092 (2.39%). Due to a decrease in expenditures and transfers from the prior year, governmental net assets increased by \$745,342 (5.20%). The Enterprise funds net assets increased by \$384,750 (1.17%) due to a decrease in expenditures and an increase in charges for service during the fiscal year.
- The total net assets in the Enterprise funds were: Water \$19,131,973, Sanitation \$633,007, Golf \$(631,201) and Airport \$14,249,161.
- As of September 30, 2011, the City's governmental funds reported combined ending fund balances of \$2,938,494, an increase of \$132,619 (4.73%).
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$858,214 or 9.21% of total General Fund expenditures. Downtown Redevelopment Agency fund balance was \$558,501.
- Net assets of the General, Police Officers' and Firefighters' Pension Trust Funds decreased by \$838,042, \$431,111 and \$575,987, respectively. These decreases were the result of net depreciation in the fair value of investments combined with member benefit deductions.

***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 - 36 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 37 – 42 of this report.

Combining fund statements can be found on pages 43 – 44 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 \$48,473,626 at the close of the most recent fiscal year.

The majority of the City's net assets (92.95%) 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, 2011**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$3,458,853	\$3,016,358	\$2,149,918	\$1,946,925	\$5,608,771	\$4,963,283
Capital assets	\$15,601,477	\$15,312,014	\$47,966,263	\$47,739,935	\$63,567,740	\$63,051,949
Total assets	\$19,060,330	\$18,328,372	\$50,116,181	\$49,686,860	\$69,176,511	\$68,015,232
Long-term liabilities						
Outstanding	\$3,472,136	\$3,807,163	\$15,490,800	\$16,251,161	\$18,962,936	\$20,058,324
Other liabilities	\$497,508	\$175,865	\$1,242,441	\$437,509	\$1,739,949	\$613,374
Total liabilities	\$3,969,644	\$3,983,028	\$16,733,241	\$16,688,670	\$20,702,885	\$20,671,698
Net assets:						
Invested in capital assets, net of related debt	\$12,545,081	\$11,915,772	\$32,510,103	\$31,509,858	\$45,055,184	\$43,425,630
Restricted	\$576,702	\$1,128,395	\$386,787	\$519,204	\$963,489	\$1,647,599
Unrestricted	\$1,968,903	\$1,301,177	\$486,050	\$969,128	\$2,454,953	\$2,270,305
Total net assets	\$15,090,686	\$14,345,344	\$33,382,940	\$32,998,190	\$48,473,626	\$47,343,534

An additional portion of the City's net assets \$963,489 (1.99%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,454,953 (5.06%) 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 \$745,342 thereby accounting for 65.95% of the total growth in the net assets of the City. A key element of this increase was a reduction in the amount of transfers out as well as a reduction in the amount of total expenses.

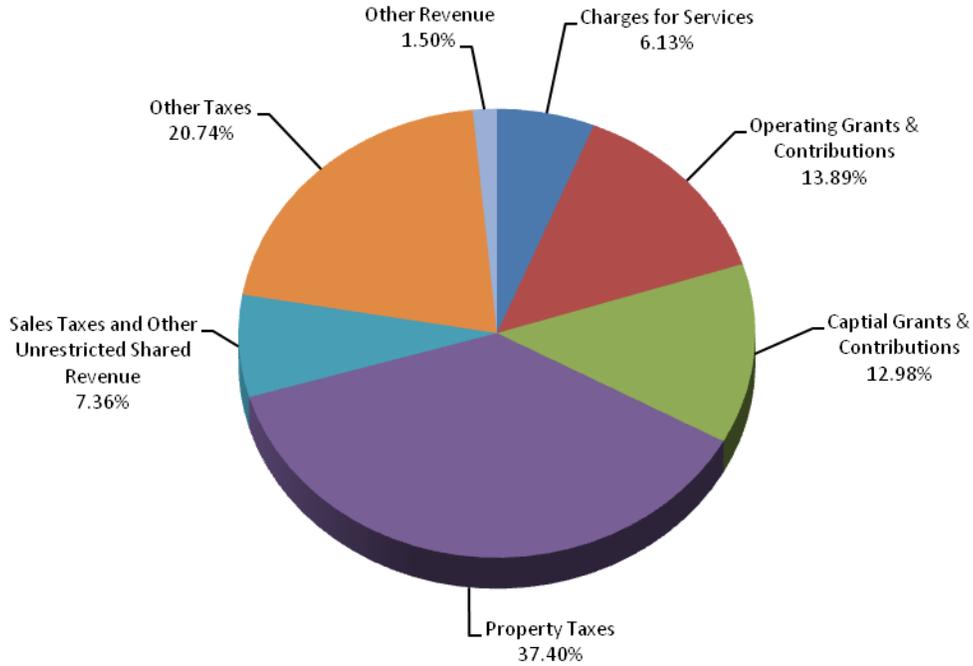
#### City of Palatka Changes in Net Assets For the year ended September 30, 2011

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$613,157	\$583,247	\$6,884,105	\$6,628,540	\$7,497,262	\$7,211,787
Operating Grants & Contributions	\$1,390,057	\$1,341,212			\$1,390,057	\$1,341,212
Capital Grants & Contributions	\$1,299,627	\$2,016,675	\$2,281,761	\$2,413,721	\$3,581,388	\$4,430,396
General Revenues:						
Property Taxes	\$3,743,535	\$3,774,261			\$3,743,535	\$3,774,261
Sales Taxes and Other Unrestricted Shared Revenues	\$737,011	\$785,219			\$737,011	\$785,219
Other Taxes	\$2,075,811	\$2,288,708			\$2,075,811	\$2,288,708
Other Revenue	\$150,420	\$66,326	\$148,796	\$417,920	\$299,216	\$484,246
<b>Total Revenues</b>	<b>\$10,009,618</b>	<b>\$10,855,648</b>	<b>\$9,314,662</b>	<b>\$9,460,181</b>	<b>\$19,324,280</b>	<b>\$20,315,829</b>
<b>Expenses:</b>						
General Government	\$1,630,295	\$1,472,469			\$1,630,295	\$1,472,469
Public Safety	\$5,611,920	\$5,968,153			\$5,611,920	\$5,968,153
Physical Environment	-	-			-	-
Transportation	\$681,907	\$697,212			\$681,907	\$697,212
Economic Environment	\$741,467	\$816,722			\$741,467	\$816,722
Human Services	\$177,551	\$209,332			\$177,551	\$209,332
Culture/Recreation	\$430,962	\$538,150			\$430,962	\$538,150
Interest on Long-Term Debt	\$165,174	\$182,996			\$165,174	\$182,996
Water			\$4,750,830	\$4,978,295	\$4,750,830	\$4,978,295
Sanitation			\$1,359,544	\$1,347,455	\$1,359,544	\$1,347,455
Golf Course			\$1,017,307	\$982,862	\$1,017,307	\$982,862
Airport			\$1,627,231	\$1,593,744	\$1,627,231	\$1,593,744
<b>Total Expenses</b>	<b>\$9,439,276</b>	<b>\$9,885,034</b>	<b>\$8,754,912</b>	<b>\$8,902,356</b>	<b>\$18,194,188</b>	<b>\$18,787,390</b>
Increase in Net Assets before Transfers	\$570,342	\$970,614	\$559,750	\$557,825	\$1,130,092	\$1,528,439
Transfers	\$175,000	(\$803,896)	(\$175,000)	\$803,896	\$0	\$0
Increase in Net Assets	\$745,342	\$166,718	\$384,750	\$1,361,721	\$1,130,092	\$1,528,439
Net Assets-Beginning of Year	\$14,345,344	\$14,178,626	\$32,998,190	\$31,636,469	\$47,343,534	\$45,815,095
Net Assets-End of Year	\$15,090,686	\$14,345,344	\$33,382,940	\$32,998,190	\$48,473,626	\$47,343,534

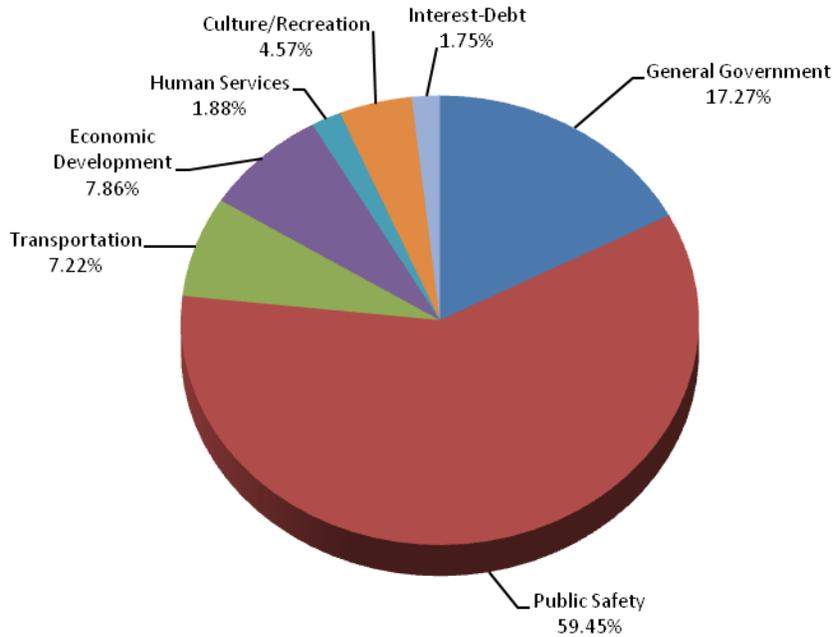
### Governmental Activities

The City's total net assets increased \$1,130,092 over the previous year with an increase of \$745,342 resulting from governmental activities and an increase of \$384,750 from business activities. The primary reason for this change was a decrease in expenses and an increase in charges for services during the year.

**Revenue by Source - Governmental Activity**



**Expenses - Governmental Activities**



***Business-type Activities***

Business-type activities increased the City's net assets by \$384,750 accounting for 34.05% of growth in the City's net assets. Key elements in this increase are as follows:

The Water Revenue fund received grant funds of \$909,647 from the Department of Energy and St. Johns River Water Management District. These funds were used for capital improvement projects for upgrading wastewater reuse lines and wastewater treatment plant upgrades. These projects ultimately created an increase in net assets in the Water fund of \$50,736. The net assets at the end of the fiscal year in the Water fund totaled \$19,131,973.

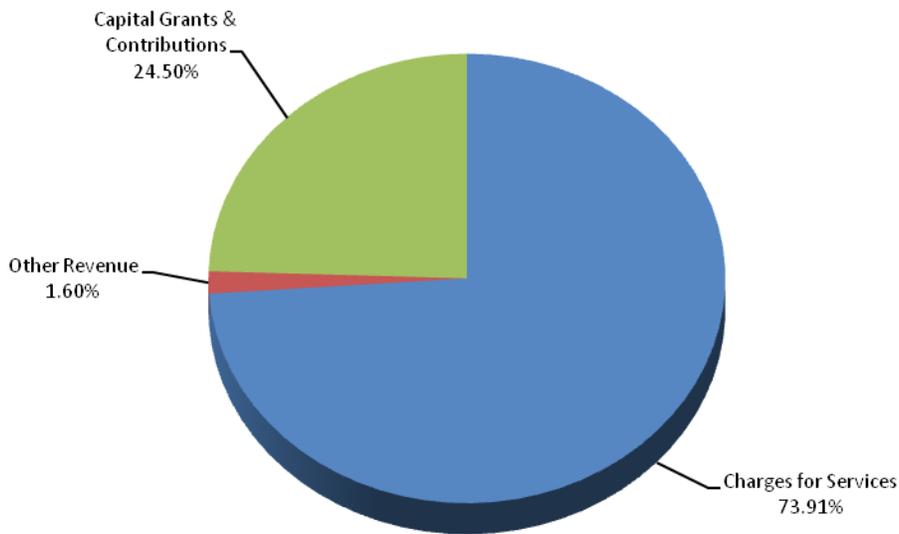
The Sanitation fund net assets increased by \$73,730 due to slight reductions in personnel and depreciation and amortization expenses. The net assets at the end of the fiscal year in the Sanitation fund totaled \$633,007.

The Golf Course fund net assets decreased by \$404,090 due to a substantial shortfall in anticipated revenues as well as an increase in total operating expenses. The net assets at the end of the fiscal year in the Golf Course fund had a negative balance of \$631,201.

The Airport fund received state and federal grants of \$1,372,114 during the fiscal year. These funds were used for several capital improvement projects that included rehabilitation of a runway as well as drainage rehabilitation. These projects ultimately created an increase in net assets in the Airport fund of \$664,374. The net assets at the end of the fiscal year in the Airport fund totaled \$14,249,161.

The most significant expenses were improvements related to grants received. Operating expenses, which includes personnel and depreciation, for all enterprise funds increased by \$337,320.

### 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, unassigned 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 \$2,938,494, an increase of \$132,619 (4.73%) in comparison to the prior year. This total includes a nonspendable fund balance of \$867,346, a restricted fund balance of \$1,088,272, a committed fund balance of \$17,246, an assigned fund balance of \$107,416 and an unassigned fund balance of \$858,214 in the General Fund, which is available for spending at the government's discretion.

### ***General Fund***

The general fund is the chief operating fund of the City. At the end of the current fiscal year General fund balance was \$2,361,792, an increase of \$684,312 (40.79%) from the prior year. This was due to decreases in expenditures as well as an increase in the amount of transfers in from the Downtown Redevelopment Agency Fund.

Local tax revenues are the primary sources of the City's tax revenue and are a combination of property tax, franchise, utility, sales tax and local option gas tax. Total taxes decreased by \$956,076 from the prior year.

Ad valorem taxes, which were accounted for in the general and special revenue funds was 8.65 mills and generated \$3,193,677, a decrease of \$15,192 from the prior year.

The General Fund had a decrease of \$381,900 in expenditures due to decreases in public safety and culture and recreation expenditures.

Unassigned fund balance in the General Fund was lower than the unreserved fund balance from the prior year by \$404,508 because of the changes to the different classifications of fund balance due to GASB Statement 54.

### ***Special Revenue Funds***

The Downtown Redevelopment fund balance was \$558,501, a decrease of \$562,388 from the prior year. This decrease was caused by expenditures from two ongoing grant programs as well as transfers to the General Fund.

Other Governmental Funds fund balance was \$18,201, an increase of \$10,695 (142.49%) from the prior year. This was due to grant funds that were received for a Community Development Block Grant from the Department of Economic Opportunity.

### ***Proprietary Funds***

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

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, 2011, total proprietary fund net assets amounted to \$33,382,940.

### ***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 related to the Water Revenue Fund. Operating revenue increased by \$21,657 or .54% from the prior year while expenses increased by a total of \$241,363. Even though personal services and operating expenses decreased from the prior year, the large increase in depreciation and amortization caused the net increase in expenses. Unrestricted net assets at the end of the fiscal year for the water revenue fund amounted to \$1,168,907.

### ***Sanitation Fund***

There was a slight decrease in operating revenue of \$24,477 or 1.61% from the prior year. Expenses increased slightly by a total of \$16,325 due to increased operating expenses. Unrestricted net assets for the sanitation fund totaled \$160,864.

### ***Golf Course Fund***

Operating revenues decreased slightly by \$11,245 or 1.80% from the prior year. Operating expenses increased by \$39,098 or 4.47%, exceeding operating revenues by \$301,312. Unrestricted net assets decreased by \$466,759 to arrive at a negative unrestricted net asset balance of \$935,983 for the year. The city is still in the process of restoring the course in order to increase the amount of play which will have a positive impact on revenues.

### ***Airport Fund***

Operating revenue increased by \$189,005 from the prior year due to substantial increases in user fees. The airport received \$1,372,114 from state and federal grants. Unrestricted net assets of the airport fund totaled \$92,262 at fiscal year end.

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 \$441,850 (including transfers) an increase of 5.02% over the original projections. These increases were mostly attributed to unanticipated revenues received during the year from grants and other sources. The variance between original and final budget amounts for the year is composed of the following:

- A grant for air packs for the fire department totaling \$123,880, purchase of a new financial software package for \$83,938 as well as storm water drainage and hazard mitigation grants in the amount of \$165,013 that were received during the fiscal year, and other smaller balance forwards along with police and fire special expense accounts totaling \$69,019.

A comparison of actual revenues versus the final budget reflects that actual revenues, excluding transfers, were \$195,447 more than budgeted.

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

- Public Safety actual expenditures were \$221,461 less than final budget due to reductions in overtime and holiday pay as well as savings on health insurance.
- Transportation actual expenditures were \$229,665 less than final budget due to a substantial decrease in the amount of street repairs during the fiscal year.
- General Government expenditures were \$858,092 more than expected due to several grant projects that will continue into next fiscal year.

## Capital Asset and Debt Administration

### City of Palatka Capital Assets (Net of Depreciation) For the Year Ended September 30, 2011

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land and Improvements	\$6,746,180	\$6,746,180	\$4,245,409	\$4,223,659	\$10,991,589	\$10,969,839
Buildings and Improvements	\$3,894,300	\$4,168,065	\$13,522,515	\$13,492,020	\$17,416,815	\$17,660,085
Infrastructure	\$2,796,350	\$2,837,588	\$0	\$0	\$2,796,350	\$2,837,588
Equipment	\$1,391,017	\$1,468,975	\$2,233,225	\$2,401,770	\$3,624,242	\$3,870,745
Intangibles	\$207,742	\$91,206	\$0	\$0	\$207,742	\$91,206
Water and Sewer Distributions System	\$0	\$0	\$6,102,471	\$6,282,989	\$6,102,471	\$6,282,989
Plant Assets and Equipment	\$0	\$0	\$20,345,708	\$18,587,526	\$20,345,708	\$18,587,526
Construction in Progress	\$575,027	\$0	\$1,516,935	\$2,751,971	\$2,091,962	\$2,751,971
	<u>\$15,610,616</u>	<u>\$15,312,014</u>	<u>\$47,966,263</u>	<u>\$47,739,935</u>	<u>\$63,576,879</u>	<u>\$63,051,949</u>

### 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, 2011, the governmental capital assets of the City amounted to \$15,601,477, net of depreciation. This was an increase of \$289,463 over the prior year. 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's investment in capital assets for its governmental and business-type activities as of September 30, 2011, (net of accumulated depreciation) amounts to \$63,567,740. 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 net investment in capital assets was \$515,791.

Major capital asset events during the fiscal year were in airport, water and transportation. The city received FAA and FDOT grants that paid 76.5% to 97.5% of the project costs at the airport. The water fund received grants from the Department of Energy and the St. Johns River Water Management District. The capital asset expenditures of \$3,578,340 were for the following:

- Upgrades to community center building.
- Water line renewal at riverfront.
- Docking upgrades at riverfront.
- Construction of additional parking at riverfront.
- Water taxi refurbishment.
- Upgrade to financial software package.
- Storm water and drainage upgrades.
- Rehabilitation of a runway and drainage improvements at the airport.

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

## Long-Term Debt

At September 30, 2011, the City had \$3,056,396 of revenue bonds & notes payable from specific general fund revenue sources other than ad valorem taxes. Also, outstanding were, \$7,346,458 Florida Municipal Loan Council Revenue Bonds, Series 2010A, payable from communication service tax revenue, half-cent sales tax revenue and public service tax revenues; \$431,033 Water Reuse System Construction loan, payable from the net revenues of the Water and Sewer system; \$4,063,372 Drinking Water State Revolving Fund Loan payable from the net revenues of the water and sewer system including connection fees; \$1,532,909 Taxable Golf Course Revenue Note payable from the net revenues of the Golf Course and non-ad valorem taxes; \$600,000 Airport Hangar Revenue notes and a \$1,000,001 Airport Terminal Revenue Note payable from the net revenues of the Airport and non-ad valorem taxes; \$134,154 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.

At the end of the current fiscal year, the City had total debt outstanding of \$18,304,014. Of this amount, \$774,382 comprises debt backed by the full faith and credit of the City, \$139,691 water/sewer agreements with other agencies and the remainder represents bonds and notes secured solely by specified revenue sources (i.e., revenue bonds).

### City of Palatka Long-Term Debt Obligations

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue Bonds	\$2,400,000	\$2,666,667	\$7,346,458	\$7,444,872	\$9,746,458	\$10,111,539
Notes Payable	656,396	715,253	7,761,469	8,421,514	8,417,865	9,136,767
Capital Lease Obligations	0	14,322	0	0	0	14,322
Water/Sewer Agreements	0	0	139,691	143,563	139,691	143,563
<b>Total</b>	<b>\$3,056,396</b>	<b>\$3,396,242</b>	<b>\$15,247,618</b>	<b>\$16,009,949</b>	<b>\$18,304,014</b>	<b>\$19,406,191</b>

The City's total long-term debt decreased \$1,102,177 from the prior year, while the long-term liability for compensated absences also decreased by \$26,126.

#### **Governmental Activities:**

- The City made the following principal payments during the year: revenue bonds - \$266,667; notes payable - \$58,857; and capital lease - \$14,322.
- Governmental obligations for compensated absences decreased by 4.67% or \$17,000.

#### **Business-type activities:**

- The City paid off the remaining portion of the SunTrust Water Revenue Note in the amount of \$1,020,071.
- The City received additional proceeds of \$906,224 for the Drinking Water State Revolving Fund loan.
- The following principal payments were made during the year: revenue bonds - \$110,000, notes payable - \$1,566,249.
- Compensated absences increased by 4.20% or \$9,126.

The City's current bond rating is A from Standard and Poor's Ratings Services. 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***

Continuing from previous years, expected reductions in ad valorem taxes, state sales taxes and other fees received by the City will continue to place an extra burden on the City to maintain the level of service that we provide our citizens. We continue to limit capital improvement projects and capital outlay expenditures as a result. Last year we reduced operating expenses to minimums so that all existing employees could be retained. To maintain payroll at current levels, pay raises have not been provided to employees for the past four years. As in the past, we are not expecting to fill nonessential positions vacated due to attrition or retirement. Any additional cost cutting measures will surely affect the level of service currently provided by the City.

Current plans are to maintain all millage rates, taxes and service fees/rate structures at last year's levels, however this may not be possible as pension contribution rate increase, fuel price increases, commodity increases and revenue shortfalls need to be considered. The final decision on this matter will be made during the July budget workshops.

The management team change at the golf course has had a positive impact as it relates to improving the overall condition of the golf course. However, last year's expenditures continue to outpace revenues resulting in similar losses to previous years. These losses need to be corrected very soon; otherwise the City will need to evaluate other options as it relates to operating a municipal golf course.

In addition, it will be necessary to closely monitor expenditures at the municipal airport. Hangar and fuel revenues continue to not meet expectations however this may be a short term issue as new businesses continue to evaluate the airport for future development. The new terminal building is playing a significant role in attracting potential businesses to the airport.

### ***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, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palatka Gas Authority
<b>ASSETS</b>				
Cash and Equivalents	\$ 1,915,875	\$ 803,840	2,719,715	\$ 1,499,581
Investments	-	-	-	2,023,501
Accounts Receivable	25,226	514,573	539,799	130,391
Internal Balances	867,346	(867,346)	-	-
Due From Other Governments	642,900	830,765	1,473,665	-
Inventory	-	227,462	227,462	101,043
Mortgages Receivable	7,506	-	7,506	-
Other Assets	-	-	-	26,657
Restricted Cash and Equivalents	-	158,825	158,825	-
Restricted Investments	-	481,799	481,799	-
Capital Assets:				
Non-Depreciable	7,321,207	5,762,344	13,083,551	194,147
Depreciable, Net	8,280,270	42,203,919	50,484,189	3,007,699
<b>TOTAL ASSETS</b>	<b>19,060,330</b>	<b>50,116,181</b>	<b>69,176,511</b>	<b>6,983,019</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	493,883	808,056	1,301,939	92,446
Deposits	3,625	374,824	378,449	246,132
Unearned Revenue	-	59,561	59,561	-
Noncurrent Liabilities:				
Due Within One Year	421,744	764,831	1,186,575	-
Due in More Than One Year	3,050,392	14,725,969	17,776,361	12,060
<b>TOTAL LIABILITIES</b>	<b>3,969,644</b>	<b>16,733,241</b>	<b>20,702,885</b>	<b>350,638</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	12,545,081	32,510,103	45,055,184	3,201,846
Restricted For:				
Downtown Redevelopment Housing and Community Development	558,501	-	558,501	-
Capital Projects	18,201	-	18,201	-
Bond Reserve	-	8,095	8,095	-
Debt Service	-	326,555	326,555	-
Unrestricted	-	52,137	52,137	-
Unrestricted	1,968,903	486,050	2,454,953	3,430,535
<b>TOTAL NET ASSETS</b>	<b>\$ 15,090,686</b>	<b>\$ 33,382,940</b>	<b>\$ 48,473,626</b>	<b>\$ 6,632,381</b>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Activities**  
**For the Year Ended September 30, 2011**

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		
<b>PRIMARY GOVERNMENT:</b>								
<b>GOVERNMENTAL ACTIVITIES:</b>								
General Government	\$ 1,630,295	\$ 106,446	\$ -	\$ -	\$ (1,523,849)	\$ -	\$ (1,523,849)	\$ -
Public Safety	5,611,920	296,395	801,696	-	(4,513,829)	-	(4,513,829)	-
Physical Environment	-	-	-	73,765	73,765	-	73,765	-
Transportation	681,907	51,654	531,342	966,689	867,778	-	867,778	-
Economic Environment	741,467	-	-	259,173	(482,294)	-	(482,294)	-
Human Services	177,551	151,563	42,094	-	16,106	-	16,106	-
Culture and Recreation	430,962	7,099	14,925	-	(408,938)	-	(408,938)	-
Interest on Long-Term Debt	165,174	-	-	-	(165,174)	-	(165,174)	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>9,439,276</b>	<b>613,157</b>	<b>1,390,057</b>	<b>1,299,627</b>	<b>(6,136,435)</b>	<b>-</b>	<b>(6,136,435)</b>	<b>-</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Water	4,750,830	3,878,206	-	909,647	-	37,023	37,023	-
Sanitation	1,359,544	1,497,397	-	-	-	137,853	137,853	-
Golf Course	1,017,307	613,202	-	-	-	(404,105)	(404,105)	-
Airport	1,627,231	895,300	-	1,372,114	-	640,183	640,183	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>8,754,912</b>	<b>6,884,105</b>	<b>-</b>	<b>2,281,761</b>	<b>-</b>	<b>410,954</b>	<b>410,954</b>	<b>-</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 18,194,188</b>	<b>\$ 7,497,262</b>	<b>\$ 1,390,057</b>	<b>\$ 3,581,388</b>	<b>(6,136,435)</b>	<b>410,954</b>	<b>(5,725,481)</b>	<b>-</b>
<b>COMPONENT UNIT:</b>								
Palatka Gas Authority	\$ 1,453,506	\$ 1,611,338	\$ -	\$ -	-	-	-	157,832
<b>GENERAL REVENUES:</b>								
Property Taxes					3,743,535	-	3,743,535	-
Sales Tax and Intergovernmental Unrestricted								
Shared Revenues					737,011	-	737,011	-
Franchise Taxes					886,166	-	886,166	-
Utility Taxes					861,966	-	861,966	-
Communications Service Tax					327,679	-	327,679	-
Investment Earnings					1,384	446	1,830	17,600
Miscellaneous					149,036	148,350	297,386	5,739
Transfers					175,000	(175,000)	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>6,881,777</b>	<b>(26,204)</b>	<b>6,855,573</b>	<b>23,339</b>
<b>CHANGE IN NET ASSETS</b>					<b>745,342</b>	<b>384,750</b>	<b>1,130,092</b>	<b>181,171</b>
<b>NET ASSETS – BEGINNING OF YEAR</b>					<b>14,345,344</b>	<b>32,998,190</b>	<b>47,343,534</b>	<b>6,451,210</b>
<b>NET ASSETS – END OF YEAR</b>					<b>\$ 15,090,686</b>	<b>\$ 33,382,940</b>	<b>\$ 48,473,626</b>	<b>\$ 6,632,381</b>

See accompanying notes.

**City of Palatka, Florida**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2011**

	<b>General Fund</b>	<b>Downtown Redevelopment Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Equivalents	\$ 1,323,299	\$ 559,030	\$ 33,546	\$ 1,915,875
Accounts Receivable	25,226	-	-	25,226
Due from Other Governments	461,137	-	181,763	642,900
Due from Other Funds	167,763	-	-	167,763
Advances to Other Fund	867,346	-	-	867,346
Mortgages Receivable	-	-	7,506	7,506
<b>TOTAL ASSETS</b>	<b><u>\$ 2,844,771</u></b>	<b><u>\$ 559,030</u></b>	<b><u>\$ 222,815</u></b>	<b><u>\$ 3,626,616</u></b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 479,354	\$ 529	\$ 14,000	\$ 493,883
Due to Other Funds	-	-	167,763	167,763
Deposits	3,625	-	-	3,625
Deferred Revenue	-	-	22,851	22,851
<b>TOTAL LIABILITIES</b>	<b><u>482,979</u></b>	<b><u>529</u></b>	<b><u>204,614</u></b>	<b><u>688,122</u></b>
<b>FUND BALANCES</b>				
Nonspendable	867,346	-	-	867,346
Restricted	511,570	558,501	18,201	1,088,272
Committed	17,246	-	-	17,246
Assigned	107,416	-	-	107,416
Unassigned	858,214	-	-	858,214
<b>TOTAL FUND BALANCES</b>	<b><u>2,361,792</u></b>	<b><u>558,501</u></b>	<b><u>18,201</u></b>	<b><u>2,938,494</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,844,771</u></b>	<b><u>\$ 559,030</u></b>	<b><u>\$ 222,815</u></b>	<b><u>\$ 3,626,616</u></b>

See accompanying notes.

**City of Palatka, Florida**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**September 30, 2011**

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 2,938,494
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	15,601,477
Long-term liabilities are not reported in the governmental funds.	
Bonds and Notes Payable	(3,056,396)
Compensated Absences	(347,000)
Net OPEB Obligation	(68,740)
Liabilities for earned but unavailable revenue are reported in the governmental funds but not in the statement of net assets.	
Deferred Revenue	22,851
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 15,090,686

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2011**

	<u>General Fund</u>	<u>Downtown Redevelopment Agency Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 5,799,809	\$ 542,954	\$ -	\$ 6,342,763
Permits, Fees and Special Assessments	998,436	-	-	998,436
Intergovernmental	1,848,479	-	201,698	2,050,177
Charges for Services	249,991	-	-	249,991
Fines and Forfeitures	94,444	-	-	94,444
Miscellaneous	258,209	15,000	12,365	285,574
<b>TOTAL REVENUES</b>	<u>9,249,368</u>	<u>557,954</u>	<u>214,063</u>	<u>10,021,385</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,973,380	-	-	1,973,380
Public Safety	5,572,424	-	-	5,572,424
Transportation	650,468	-	-	650,468
Economic Environment	-	705,862	35,605	741,467
Human Services	167,569	-	-	167,569
Culture and Recreation	453,438	-	-	453,438
Debt Service:				
Principal Retirement	339,846	-	-	339,846
Interest and Fiscal Charges	165,174	-	-	165,174
<b>TOTAL EXPENDITURES</b>	<u>9,322,299</u>	<u>705,862</u>	<u>35,605</u>	<u>10,063,766</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(72,931)</u>	<u>(147,908)</u>	<u>178,458</u>	<u>(42,381)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	757,243	-	-	757,243
Transfers Out	-	(414,480)	(167,763)	(582,243)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>757,243</u>	<u>(414,480)</u>	<u>(167,763)</u>	<u>175,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	684,312	(562,388)	10,695	132,619
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<u>1,677,480</u>	<u>1,120,889</u>	<u>7,506</u>	<u>2,805,875</u>
<b>FUND BALANCES – END OF YEAR</b>	<u>\$ 2,361,792</u>	<u>\$ 558,501</u>	<u>\$ 18,201</u>	<u>\$ 2,938,494</u>

See accompanying notes.

**City of Palatka, Florida**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**For the Year Ended September 30, 2011**

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 132,619

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

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

Acquisitions of Capital Assets	1,165,834
Current Year Depreciation Expense	(876,371)

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

Principal Payments	339,846
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	17,000
Net OPEB Obligation	(21,819)

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

Change in Deferred Revenue	<u>(11,767)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 745,342

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2011**

	<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><u>CURRENT ASSETS</u></b>					
Cash and Equivalents	\$ 683,026	\$ 56,709	\$ 1,250	\$ 62,855	\$ 803,840
Restricted Cash and Equivalents	56,202	-	56,786	37,742	150,730
Accounts Receivable	329,394	137,175	5,824	42,180	514,573
Due from Other Governments	282,081	-	-	548,684	830,765
Inventory	136,862	-	24,904	65,696	227,462
<b>TOTAL CURRENT ASSETS</b>	<b>1,487,565</b>	<b>193,884</b>	<b>88,764</b>	<b>757,157</b>	<b>2,527,370</b>
<b><u>NONCURRENT ASSETS</u></b>					
Restricted Cash and Equivalents	8,095	-	-	-	8,095
Restricted Investments	481,799	-	-	-	481,799
Advance to Other Funds	20,505	80,969	-	-	101,474
Capital Assets, Net	29,817,511	606,298	1,805,163	15,737,291	47,966,263
<b>TOTAL NONCURRENT ASSETS</b>	<b>30,327,910</b>	<b>687,267</b>	<b>1,805,163</b>	<b>15,737,291</b>	<b>48,557,631</b>
<b>TOTAL ASSETS</b>	<b>31,815,475</b>	<b>881,151</b>	<b>1,893,927</b>	<b>16,494,448</b>	<b>51,085,001</b>
<b><u>CURRENT LIABILITIES</u></b>					
Accounts Payable and Accrued Liabilities	187,566	47,891	9,831	562,768	808,056
Deposits	348,526	-	13,567	12,731	374,824
Unearned Revenue	-	-	-	59,561	59,561
Current Portion of Long-Term Liabilities	406,635	137,187	84,330	136,679	764,831
<b>TOTAL CURRENT LIABILITIES</b>	<b>942,727</b>	<b>185,078</b>	<b>107,728</b>	<b>771,739</b>	<b>2,007,272</b>
<b><u>NONCURRENT LIABILITIES</u></b>					
Net OPEB Obligation	23,302	9,841	-	1,622	34,765
Advances from Other Funds	-	-	968,820	-	968,820
Other Long-Term Liabilities	11,717,473	53,225	1,448,580	1,471,926	14,691,204
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>11,740,775</b>	<b>63,066</b>	<b>2,417,400</b>	<b>1,473,548</b>	<b>15,694,789</b>
<b>TOTAL LIABILITIES</b>	<b>12,683,502</b>	<b>248,144</b>	<b>2,525,128</b>	<b>2,245,287</b>	<b>17,702,061</b>
<b><u>NET ASSETS</u></b>					
Invested in Capital Assets, Net of Related Debt	17,628,416	472,143	272,253	14,137,291	32,510,103
Restricted For Capital Projects	8,095	-	-	-	8,095
Restricted for Bond Reserve	326,555	-	-	-	326,555
Restricted for Debt Service	-	-	32,529	19,608	52,137
Unrestricted	1,168,907	160,864	(935,983)	92,262	486,050
<b>TOTAL NET ASSETS</b>	<b>\$ 19,131,973</b>	<b>\$ 633,007</b>	<b>\$ (631,201)</b>	<b>\$ 14,249,161</b>	<b>\$ 33,382,940</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, 2011**

	<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><u>OPERATING REVENUES</u></b>					
User Fees	\$ 3,878,206	\$ 1,497,397	\$ 613,202	\$ 895,300	\$ 6,884,105
Other Operating Revenues	123,267	877	15	24,191	148,350
<b>TOTAL OPERATING REVENUES</b>	<b>4,001,473</b>	<b>1,498,274</b>	<b>613,217</b>	<b>919,491</b>	<b>7,032,455</b>
<b><u>OPERATING EXPENSES</u></b>					
Personal Services	1,747,989	701,962	31,648	141,664	2,623,263
Operating Expenses	1,167,790	595,445	814,338	714,158	3,291,731
Depreciation and Amortization	1,352,206	54,815	68,543	680,353	2,155,917
<b>TOTAL OPERATING EXPENSES</b>	<b>4,267,985</b>	<b>1,352,222</b>	<b>914,529</b>	<b>1,536,175</b>	<b>8,070,911</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(266,512)</b>	<b>146,052</b>	<b>(301,312)</b>	<b>(616,684)</b>	<b>(1,038,456)</b>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>					
Investment Earnings	446	-	-	-	446
Interest Expense	(482,845)	(7,322)	(102,778)	(91,056)	(684,001)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(482,399)</b>	<b>(7,322)</b>	<b>(102,778)</b>	<b>(91,056)</b>	<b>(683,555)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>(748,911)</b>	<b>138,730</b>	<b>(404,090)</b>	<b>(707,740)</b>	<b>(1,722,011)</b>
Capital Contributions	909,647	-	-	1,372,114	2,281,761
Transfers Out	(110,000)	(65,000)	-	-	(175,000)
<b>CHANGE IN NET ASSETS</b>	<b>50,736</b>	<b>73,730</b>	<b>(404,090)</b>	<b>664,374</b>	<b>384,750</b>
<b>NET ASSETS – BEGINNING OF YEAR</b>	<b>19,081,237</b>	<b>559,277</b>	<b>(227,111)</b>	<b>13,584,787</b>	<b>32,998,190</b>
<b>NET ASSETS – END OF YEAR</b>	<b><u>\$ 19,131,973</u></b>	<b><u>\$ 633,007</u></b>	<b><u>\$ (631,201)</u></b>	<b><u>\$ 14,249,161</u></b>	<b><u>\$ 33,382,940</u></b>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2011**

	<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>	
<u>OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 3,961,306	\$ 1,497,725	\$ 610,548	\$ 371,392	\$ 6,440,971
Payments to Suppliers	(1,016,818)	(553,865)	(375,260)	(153,044)	(2,098,987)
Payments to Employees	(1,741,391)	(698,057)	(31,648)	(140,734)	(2,611,830)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,203,097</u>	<u>245,803</u>	<u>203,640</u>	<u>77,614</u>	<u>1,730,154</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers Out	(110,000)	(65,000)	-	-	(175,000)
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Issued Debt	906,224	-	-	-	906,224
Capital Contributions	909,647	-	-	1,372,114	2,281,761
Acquisitions of Capital Assets	(962,791)	-	(21,750)	(1,386,117)	(2,370,658)
Principal Paid on Debt	(1,353,103)	(116,772)	(76,933)	(133,333)	(1,680,141)
Interest Paid on Debt	(482,845)	(7,322)	(102,778)	(91,056)	(684,001)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(982,868)</u>	<u>(124,094)</u>	<u>(201,461)</u>	<u>(238,392)</u>	<u>(1,546,815)</u>
<u>INVESTING ACTIVITIES</u>					
Interest Received	446	-	-	-	446
Acquisition of Investments	(8,868)	-	-	-	(8,868)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(8,422)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,422)</u>
<b>CHANGE IN CASH AND EQUIVALENTS</b>	101,807	56,709	2,179	(160,778)	(83)
<b>CASH AND EQUIVALENTS – BEGINNING OF YEAR</b>	<u>645,516</u>	<u>-</u>	<u>55,857</u>	<u>261,375</u>	<u>962,748</u>
<b>CASH AND EQUIVALENTS – END OF YEAR</b>	<u><u>\$ 747,323</u></u>	<u><u>\$ 56,709</u></u>	<u><u>\$ 58,036</u></u>	<u><u>\$ 100,597</u></u>	<u><u>\$ 962,665</u></u>

(continued)

**City of Palatka, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2011**

(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)	\$ (266,512)	\$ 146,052	\$ (301,312)	\$ (616,684)	\$ (1,038,456)
Depreciation and Amortization	1,352,206	54,815	68,543	680,353	2,155,917
Change In:					
Accounts Receivable	11,398	(549)	1,134	(34,926)	(22,943)
Due from Other Governments	(55,910)	-	-	(516,022)	(571,932)
Inventory	1,156	-	(8,191)	(42,618)	(49,653)
Accounts Payable and Accrued Liabilities	156,611	43,980	(5,318)	544,440	739,713
Unearned Revenue	-	-	-	59,561	59,561
Advance from Other Funds	-	-	452,587	-	452,587
Compensated Absences	(7,720)	(1,692)	-	285	(9,127)
Net OPEB Obligation	7,523	3,197	-	376	11,096
Customer Deposits	4,345	-	(3,803)	2,849	3,391
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 1,203,097</u></b>	<b><u>\$ 245,803</u></b>	<b><u>\$ 203,640</u></b>	<b><u>\$ 77,614</u></b>	<b><u>\$ 1,730,154</u></b>

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**September 30, 2011**

ASSETS

Investments:

Money Market and Other Cash Equivalents	\$ 3,502,989
Government Bonds and Notes	1,930,061
Corporate Bonds and Notes	6,196,577
Mutual Funds - Equities	10,416,812
Mutual Funds (REIT)	511,127
Common Stock/Equities	4,690,322

Total Investments 27,247,888

Accounts Receivable 92,399

TOTAL ASSETS 27,340,287

LIABILITIES 5,821

NET ASSETS

Held in Trust for Pension Benefits \$ 27,334,466

See accompanying notes.

**City of Palatka, Florida**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2011**

ADDITIONS

CONTRIBUTIONS:

Employer	\$ 849,801
Member	318,185
State on behalf, through General Fund	<u>150,727</u>

TOTAL CONTRIBUTIONS 1,318,713

INVESTMENT INCOME (LOSS):

Net Appreciation (Depreciation) in Fair Value of Investments	(444,283)
Interest	190,082
Dividends	<u>207,527</u>
	(46,674)
Less Investment Management Fee	<u>216,651</u>

NET INVESTMENT INCOME (LOSS) (263,325)

TOTAL ADDITIONS 1,055,388

DEDUCTIONS

Member Benefits	2,677,585
Withdrawals	144,449
Administrative Expense	<u>78,494</u>

TOTAL DEDUCTIONS 2,900,528

CHANGE IN NET ASSETS (1,845,140)

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,  
Beginning of Year 29,179,606

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,  
End of Year \$ 27,334,466

See accompanying notes.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**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, 2011**

**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 2010-2011 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, 2011**

**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 and report all financial resources not accounted for and reported 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, 2011**

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

**Application of FASB Pronouncements**

For its business-type activities and 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 \$143,000 allowance. Accounts receivable of the Gas Authority are net of a \$57,885 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 a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**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 intangible assets and infrastructure. Intangible assets, such as computer software,

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

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

use a capitalization threshold of \$10,000. 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.

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 and amortization 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
Intangibles	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 2011.

**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 General Fund and Downtown Redevelopment Agency Fund, the funds that incurred the liabilities.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

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

**Property Taxes**

The Putnam County Tax Collector bills and collects property taxes for the City. At September 30, 2011, property taxes receivable were not material.

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

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

**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.

The City has no net assets restricted by enabling legislation.

**Fund Balance**

The City follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to classify fund balances for governmental funds into specifically defined classifications. The classifications comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

The fund balance classifications specified in GASB Statement No. 54 are as follows:

*Nonspendable Fund Balance* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

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

*Restricted Fund Balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed Fund Balance* – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the City's highest level of decision-making authority, which is by ordinance approved by the City Commission. Committed amounts cannot be used for any other purpose unless the City removes those constraints by taking the same type of action.

*Assigned Fund Balance* – Assigned fund balances are amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the City Commission or (b) a body or official to which the Commission has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund.

The City's policy is to expend resources in the following order: restricted, committed, assigned, and unassigned.

**Use of Estimates**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits**

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

**Investments**

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

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

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

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

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and Equivalents	\$ 2,719,715	\$ 1,499,581
Investments	-	2,023,501
Restricted Cash and Equivalents	158,825	-
Restricted Investments	481,799	-
Statement of Fiduciary Net Assets:		
Investments	<u>27,247,888</u>	-
Total Deposits and Investments	<u>\$ 30,608,227</u>	<u>\$ 3,523,082</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	\$ 2,878,540	\$ 3,523,082
Investments - Other than Pension	481,799	-
Investments - Pension	<u>27,247,888</u>	-
Total Deposits and Investments	<u>\$ 30,608,227</u>	<u>\$ 3,523,082</u>

The City's investments at September 30, 2011 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	\$ 3,502,989	\$ 3,502,989	\$ -	\$ -
Government Bonds and Notes	1,930,061	166,280	448,934	1,314,847
Corporate Bonds and Notes	6,196,577	5,141,494	853,944	201,139
Mutual Funds (Equities)	2,064,552	2,064,552	-	-
Mutual Funds (REIT)	511,127	511,127	-	-
Mutual Funds (ETF Equities)	5,999,148	5,999,148	-	-
Mutual Funds (Taxable-Equity)	2,353,112	2,353,112	-	-
Common Stock	<u>4,690,322</u>	<u>4,690,322</u>	-	-
Total Pension Investments	27,247,888	24,429,024	1,302,878	1,515,986
Other Investments:				
Government Bonds and Notes	481,799	481,799	-	-
Total	<u>\$27,729,687</u>	<u>\$ 24,910,823</u>	<u>\$1,302,878</u>	<u>\$1,515,986</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**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:

Common Stock	Corporate Bonds and Notes	Government Bonds and Notes
A+ -	AAA 6%	AAA 27%
A -	AA1 -	AA+ 72%
A- -	AA2 8%	AA 1%
B+ -	AA3 1%	- -
B -	A1 3%	- -
B- -	A2 3%	- -
	A3 2%	- -
	BBB 1%	
Not rated 100%	Not rated 76%	Not rated -
Total 100%	100%	100%

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

The City is not exposed to foreign currency risk, but is exposed to the following investment risks:

*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. 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, 2011**

**NOTE 3 – INTERFUND BALANCES AND TRANSFERS**

At September 30, 2011, interfund balances are as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 1,035,109	\$ -
Other Governmental Funds	-	167,763
Major Enterprise Funds:		
Water	20,505	-
Sanitation	80,969	-
Golf Course	-	968,820
Total	<u>\$ 1,136,583</u>	<u>\$ 1,136,583</u>

As summarized below, the interfund balances arose in part because one fund had overdrawn its share of the City's pooled cash account. Other than the payable from Other Governmental Fund to the General Fund, all of the interfund balances are advances, which are 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	\$ 1,323,299	\$1,035,109	\$ 2,358,408
Other Governmental Funds	33,546	(167,763)	(134,217)
Major Enterprise Fund:			
Water	747,323	20,505	767,828
Sanitation	56,709	80,969	137,678
Golf Course	58,036	(968,820)	(910,784)
Total	<u>\$ 2,218,913</u>	<u>\$ -</u>	<u>\$ 2,218,913</u>

Interfund transfers for the year ended September 30, 2011 consisted of the following:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 757,243	\$ -
Downtown Redevelopment Agency Fund	-	414,480
Other Governmental Funds	-	167,763
Major Enterprise Funds:		
Water	-	110,000
Sanitation	-	65,000
Total	<u>\$ 757,243</u>	<u>\$ 757,243</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, 2011**

**NOTE 4 – CAPITAL ASSET ACTIVITY**

During the year ended September 30, 2011, the following changes in capital assets occurred:

<b>Primary Government</b>	<b>Balance October 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 6,746,180	\$ -	\$ -	\$ 6,746,180
Construction in Progress	-	575,027	-	575,027
Total Capital Assets Not Being Depreciated	<u>6,746,180</u>	<u>575,027</u>	<u>-</u>	<u>7,321,207</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	6,820,762	68,163	58,637	6,830,288
Infrastructure	8,601,101	302,934	-	8,904,035
Furniture and Equipment	3,129,110	161,811	6,404	3,284,517
Intangibles	91,206	116,536	-	207,742
Total Capital Assets Being Depreciated	<u>18,642,179</u>	<u>649,444</u>	<u>65,041</u>	<u>19,226,582</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,652,697	283,291	-	2,935,988
Infrastructure	5,763,513	344,172	-	6,107,685
Furniture and Equipment	1,660,135	239,769	6,404	1,893,500
Intangibles	-	9,139	-	9,139
Total Accumulated Depreciation	<u>10,076,345</u>	<u>876,371</u>	<u>6,404</u>	<u>10,946,312</u>
Total Capital Assets Being Depreciated, Net	<u>8,565,834</u>	<u>(226,927)</u>	<u>58,637</u>	<u>8,280,270</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,312,014</u>	<u>\$ 348,100</u>	<u>\$ 58,637</u>	<u>\$ 15,601,477</u>
<b>Primary Government</b>	<b>Balance October 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
<b><u>Business-type Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 4,223,659	\$ 21,750	\$ -	\$ 4,245,409
Construction in Progress	2,751,971	1,516,935	2,751,971	1,516,935
Total Capital Assets Not Being Depreciated	<u>6,975,630</u>	<u>1,538,685</u>	<u>2,751,971</u>	<u>5,762,344</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	20,594,350	778,829	-	21,373,179
Furniture and Equipment	4,040,742	14,339	18,200	4,036,881
Water and Sewer Distribution System	9,722,496	33,717	-	9,756,213
Plant Assets and Equipment	27,838,667	2,757,059	-	30,595,726
Total Capital Assets Being Depreciated	<u>62,196,255</u>	<u>3,583,944</u>	<u>18,200</u>	<u>65,761,999</u>
Less Accumulated Depreciation for:				
Building and Improvements	7,102,330	748,334	-	7,850,664
Furniture and Equipment	1,638,972	182,884	18,200	1,803,656
Water and Sewer Distribution System	3,439,507	214,235	-	3,653,742
Plant Assets and Equipment	9,251,141	998,877	-	10,250,018
Total Accumulated Depreciation	<u>21,431,950</u>	<u>2,144,330</u>	<u>18,200</u>	<u>23,558,080</u>
Total Capital Assets Being Depreciated, Net	<u>40,764,305</u>	<u>1,439,614</u>	<u>-</u>	<u>42,203,919</u>
Business-type Activities Capital Assets, Net	<u>\$ 47,739,935</u>	<u>\$ 2,978,299</u>	<u>\$ 2,751,971</u>	<u>\$ 47,966,263</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 4 – CAPITAL ASSET ACTIVITY**

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

Governmental Activities:	
General Government	\$ 604,883
Public Safety	187,765
Transportation	30,310
Human Services	9,418
Culture and Recreation	<u>43,995</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 876,371</u>
Business-type Activities:	
Water and Sewer	\$ 1,340,619
Sanitation	54,815
Airport	680,353
Golf Course	<u>68,543</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 2,144,330</u>

**Discretely Presented Component Unit**

Capital assets activity for the Gas Authority for the year ended September 30, 2011 follows:

	<u>Balance October 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2011</u>
Capital Assets Not Being Depreciated:				
Land	\$ 194,147	\$ -	\$ -	\$ 194,147
Capital Assets Being Depreciated:				
Buildings and Improvements	1,407,261	3,841	-	1,411,102
Furniture and Equipment	565,443	125,370	19,788	671,025
Plant Assets and Equipment	2,913,403	617,079	-	3,530,482
Total Capital Assets Being Depreciated	<u>4,886,107</u>	<u>746,290</u>	<u>19,788</u>	<u>5,612,609</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	110,143	35,194	-	145,337
Furniture and Equipment	429,981	39,042	19,788	449,235
Plant Assets and Equipment	1,963,705	46,633	-	2,010,338
Total Accumulated Depreciation	<u>2,503,829</u>	<u>120,869</u>	<u>19,788</u>	<u>2,604,910</u>
Total Capital Assets Being Depreciated, Net	<u>2,382,278</u>	<u>625,421</u>	<u>-</u>	<u>3,007,699</u>
Gas Authority Capital Assets, Net	<u>\$2,576,425</u>	<u>\$ 625,421</u>	<u>\$ -</u>	<u>\$ 3,201,846</u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 5 – LONG-TERM OBLIGATIONS**

Long-term debt is described below:

**Governmental Activities**

\$850,000 Fire truck loan, payable in quarterly installments through 10/1/2021, plus interest at 3.85%, revenue source - non-ad valorem revenues. \$ 640,228

\$3,200,000 Infrastructure Surtax Revenue Bonds, Series 2008, payable in annual installments of \$266,667 through April 2020, plus interest at 5.19%, payable semiannually, secured by the One-Cent Infrastructure Surtax and non-ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$3,021,830. During the current year, the City recognized infrastructure surtax revenues of \$676,948 and made \$405,067 principal and interest payments. 2,400,000

\$43,802 Police Vehicle Loan, payable from non-ad valorem revenues in annual installments of \$9,524 through June 2013, plus interest at 3.34%. 16,168

Total \$ 3,056,396

**Business-Type Activities**

\$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A; payable in varying installments through October 1, 2040, bearing interest from 2.0% to 4.625%, secured by a pledge of Half-Cent Sales Tax Revenues, Public Service Tax Revenues, and Communications Service Tax Revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$13,726,669. During the current year, the City recognized pledged revenues of \$1,522,522, and made \$464,461 principal and interest payments. \$ 7,555,000

\$714,914 Water Reuse System State Revolving Loan; interest rate of 1.34%. Repayment began in September 2005 in 30 semiannual payments. Secured by a pledge of the net revenues of the water and sewer system after satisfaction of senior obligations. The approximate amount of the pledge is equal to the remaining principal and interest of \$457,397. During the current year, the City recognized net revenues of \$1,093,217, and made \$53,822 principal and interest payments. 431,033

\$4,318,072 Drinking Water State Revolving Fund Loan, plus capitalized interest of \$15,953, payable in semiannual installments of \$120,261, including interest at 2.57%, through July 2027, from net revenues of the water and sewer system. The proceeds were used to repay the portion of interim loan for construction of the drinking water treatment/distribution project, that was not covered by a DEP grant. The approximate amount of the pledge is equal to the remaining principal and interest of \$5,113,754. During the current year, the City recognized net revenues of \$1,085,694 and paid principal and interest payments in the amount of \$282,660. 4,063,372

\$765,510 Sanitation Equipment Note; payable in monthly installments of \$10,341 including interest at 3.70% variable rate through October 31, 2012, revenue source - non-ad valorem revenues. 134,154

\$750,000 Airport T-Hangar Revenue Note, payable in annual installments of \$50,000, plus interest at 6.5% paid semiannually through September 2023, from net revenues of the airport and non-ad valorem revenues. The proceeds are to be used for the construction of new hangars. The approximate amount of the pledge is equal to the remaining principal and interest of \$857,238. During the current year, the City recognized net revenues of \$63,669 and made \$92,837 principal and interest payments. 600,000

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 5 – LONG-TERM OBLIGATIONS**

\$1,250,000 Airport Terminal Revenue Note, payable in annual installments of \$83,333, plus interest at 4.39%, paid semiannually through September 2023, from net revenues of the airport and non-ad valorem revenues. The proceeds are to be used for a new airport terminal. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,289,557. During the current year, the City recognized net revenues of \$63,669 and made \$131,552 principal and interest payments. \$ 1,000,001

\$1,700,000 Taxable Golf Course Revenue Note, Series 2008, payable in annual installments, plus interest at 6.5% payable semiannually through September 2023, from the net revenues of the Golf Course Facilities and non-ad valorem taxes. Proceeds were used to reimburse the City's General and certain Enterprise Funds for prior advances, and to consolidate other smaller debt. The approximate amount of the pledge is equal to the remaining principal and interest of \$2,182,682. During the current year, the City had net revenues of \$(232,769) and made \$179,711 principal and interest payments. 1,532,909

Less Unamortized Costs (208,542)

Total \$ 15,107,927

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

<b>Year Ending</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
<b><u>September 30,</u></b>				
2012	\$ 327,744	\$ 148,898	\$ 712,543	615,764
2013	327,760	132,667	619,688	591,425
2014	322,794	116,649	623,592	569,799
2015	324,986	100,616	635,573	547,383
2016	327,243	83,520	652,912	524,124
2017-2021	1,407,086	176,956	3,503,944	2,208,335
2022-2026	18,783	182	2,993,797	1,499,971
2027-2031	-	-	2,174,420	1,039,370
2032-2036	-	-	1,715,000	671,928
2037-2040	-	-	1,685,000	236,337
<b>Totals</b>	<b><u>\$ 3,056,396</u></b>	<b><u>\$ 759,488</u></b>	<b><u>\$ 15,316,469</u></b>	<b><u>\$ 8,504,436</u></b>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 5 – LONG-TERM OBLIGATIONS**

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

**Governmental Activities**

	Balance			Balance	
	October 1,			September 30,	
	2010	Additions	Deductions	2011	Due Within One Year
Revenue Bonds and Notes Payable	\$ 3,381,920	\$ -	\$ 325,524	\$ 3,056,396	\$ 327,744
Capital Leases	14,322	-	14,322	-	-
Compensated Absences	364,000	206,000	223,000	347,000	94,000
Net OPEB Obligation	46,921	21,819	-	68,740	-
<b>Total</b>	<b>\$ 3,807,163</b>	<b>\$ 227,819</b>	<b>\$ 562,846</b>	<b>\$ 3,472,136</b>	<b>\$ 421,744</b>

**Business-type Activities**

	Balance			Balance	
	October 1,			September 30,	
	2010	Additions	Deductions	2011	Due Within One Year
Florida Municipal Loan Council Revenue					
Bonds Series 2010A	7,665,000	-	110,000	7,555,000	145,000
Less: Unamortized Issuance Costs	(220,128)	-	(11,586)	(208,542)	-
Drinking Water State Revolving Fund Loan	3,328,740	906,224	171,592	4,063,372	180,066
Sanitation Equipment	250,926	-	116,772	134,154	121,606
Water Reuse Loan	478,601	-	47,568	431,033	48,207
SunTrust Water Revenue Note	1,020,071	-	1,020,071	-	-
Golf Revenue Note	1,609,842	-	76,933	1,532,909	84,330
Airport Terminal Revenue Note	1,083,334	-	83,333	1,000,001	83,334
Airport T-Hangars Revenue Note	650,000	-	50,000	600,000	50,000
<b>Total Revenue Bonds and Notes</b>	<b>15,866,386</b>	<b>906,224</b>	<b>1,664,683</b>	<b>15,107,927</b>	<b>712,543</b>
County Water/Sewer Agreement	132,270	-	3,872	128,398	-
SJRWMD Water/Sewer Agreement	11,293	-	-	11,293	-
Compensated Absences	217,543	115,974	125,100	208,417	52,288
Net OPEB Obligation	23,669	11,096	-	34,765	-
<b>Total</b>	<b>\$ 16,251,161</b>	<b>\$ 1,033,294</b>	<b>\$ 1,793,655</b>	<b>\$ 15,490,800</b>	<b>\$ 764,831</b>

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.

**Contractual Provisions**

As of September 30, 2011, rate covenants on certain debt obligations of the Water, Golf and Airport Funds were not met. The City has hired a firm to complete a water rate analysis which will result in the necessary changes to the water rate and structure to allow the City to meet the required rate covenants in the Water Fund in order to lower annual debt service expenditures, implemented a marketing plan for the Airport Fund to increase revenues, and made several changes in the Golf Course Fund to increase revenues, as part of its efforts to generate sufficient gross revenues to meet covenants in the future.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 6 – RESTRICTED NET ASSETS – BUSINESS-TYPE ACTIVITIES**

The following schedule displays restricted assets, liabilities payable from those assets, and restricted net assets of the City’s business-type activities:

	<b>Business-type Activities</b>
Restricted Assets:	
Cash and Equivalents	\$ 158,825
Investments	481,799
Total	640,624
Liabilities Payable from Restricted Assets:	
Current Portion of Debt Service:	
Principal	44,931
Interest	208,906
Total	253,837
Restricted Net Assets	\$ 386,787

Restricted net assets of the business-type activities are further classified as follows:

Capital Projects	\$ 8,095
Bond Reserve	326,555
Debt Service	52,137
Total	\$386,787

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 7– FUND BALANCE CLASSIFICATIONS**

	General Fund	Downtown Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Nonspendable:				
Advances	\$ 867,346	\$ -	\$ -	\$ 867,346
Restricted for:				
Debt Service	339,444	-	-	339,444
Capital Improvements	29,596	-	-	29,596
Special Needs Recreation	5,000	-	-	5,000
Law Enforcement, Weed & Seed	40,463	-	-	40,463
Law Enforcement, Other	58,760	-	-	58,760
Police Athletic League	28,790	-	-	28,790
Fire Safety Education	9,517	-	-	9,517
Downtown Redevelopment	-	558,501	-	558,501
Housing and Community Development	-	-	18,201	18,201
Total Restricted	511,570	558,501	18,201	1,088,272
Committed for:				
Law Enforcement	9,643	-	-	9,643
Fire Protection	5,841	-	-	5,841
Demolition and Lot Cleanup	1,762	-	-	1,762
Total Committed	17,246	-	-	17,246
Assigned to:				
Law Enforcement	873	-	-	873
Insurance Premium Overages	47,915	-	-	47,915
Cemetery Improvements	58,628	-	-	58,628
Total Assigned	107,416	-	-	107,416
Unassigned:	858,214	-	-	858,214
<b>TOTAL FUND BALANCES</b>	<b>\$2,361,792</b>	<b>\$ 558,501</b>	<b>\$ 18,201</b>	<b>\$ 2,938,494</b>

**NOTE 8– PENSION PLANS**

**Defined Benefit 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, 2011 the City recognized \$61,450 and \$89,277 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

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 8– PENSION PLANS**

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, 2009, are equal to total years of service times 2.5%, 2.5% and 3.25%, respectively, of final average compensation (highest 3 consecutive years of the last 5). No other changes in benefit provisions have been made for the plan year beginning October 1, 2009. 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, 2011 is as follows:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active Employees	91	34	20	145
Service Retirees and Beneficiaries	71	17	10	98
Disability Retirees	-	2	-	2
Terminated Vested	9	4	2	15
DROP	14	-	2	16
Total	<u>185</u>	<u>57</u>	<u>34</u>	<u>276</u>

*Funded Status and Funding Progress:* The funded status of each plan as of September 30, 2011, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (000's)	Actuarial Accrued Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
General Plan	\$ 14,741	\$ 20,267	\$ 5,526	73%	\$ 2,851	194%
Police Officers Plan	\$ 8,094	\$ 9,242	\$ 1,148	88%	\$ 1,451	79%
Firefighters Plan	\$ 5,739	\$ 7,895	\$ 2,156	73%	\$ 713	303%

The required schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 8— PENSION PLANS**

*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	14.0%	15.7%	22.3%
Plan Members	6.0%	6.0%	6.0%
Annual Pension Cost	409,832	246,011	172,199
Contributions Made	409,832	246,011	172,199
Actuarial Valuation Date	10/1/2009	10/1/2009	10/1/2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level % of Payroll- Closed	Level % of Payroll- Closed	Level % of Payroll- Closed
Remaining Amortization Period	28 Years	30 Years	27 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	9/30/2011	\$ 409,832	100%	\$ -
	9/30/2010	\$ 480,493	100%	-
	9/30/2009	\$ 641,357	100%	-
Police Officers	9/30/2011	\$ 246,011	100%	\$ -
	9/30/2010	\$ 303,235	100%	-
	9/30/2009	\$ 236,148	100%	-
Firefighters	9/30/2011	\$ 172,199	100%	\$ -
	9/30/2010	\$ 172,163	100%	-
	9/30/2009	\$ 146,114	100%	-

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 8 – PENSION PLANS**

**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>ASSETS</b>				
Investments:				
Money Market and Other Cash Equivalents	\$ 3,287,382	\$ 128,273	\$ 87,334	\$ 3,502,989
Government Bonds and Notes	-	1,148,093	781,968	1,930,061
Corporate Bonds and Notes	3,989,786	1,297,657	909,134	6,196,577
Mutual Funds (REIT)	2,681,758	4,392,070	3,342,984	10,416,812
Mutual Funds - Equities	-	300,427	210,700	511,127
Common Stock/Equities	4,690,322	-	-	4,690,322
Total Investments	14,649,248	7,266,520	5,332,120	27,247,888
Receivables	45,253	25,171	21,975	92,399
<b>TOTAL ASSETS</b>	<b>14,694,501</b>	<b>7,291,691</b>	<b>5,354,095</b>	<b>27,340,287</b>
<b>LIABILITIES</b>	<b>2,969</b>	<b>1,513</b>	<b>1,339</b>	<b>5,821</b>
<b>NET ASSETS</b>				
Held in Trust for Pension Benefits	<u>\$ 14,691,532</u>	<u>\$ 7,290,178</u>	<u>\$ 5,352,756</u>	<u>\$ 27,334,466</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>ADDITIONS</b>				
<b>CONTRIBUTIONS:</b>				
Employer	\$ 409,883	\$ 247,847	\$ 192,071	\$ 849,801
Member	175,642	94,121	48,422	318,185
State on Behalf, through General Fund	-	61,450	89,277	150,727
<b>TOTAL CONTRIBUTIONS</b>	<b>585,525</b>	<b>403,418</b>	<b>329,770</b>	<b>1,318,713</b>
<b>INVESTMENT INCOME (LOSS):</b>				
Net Appreciation (Depreciation) in Fair Value of Investments	116,939	(409,754)	(151,468)	(444,283)
Interest	-	130,491	59,591	190,082
Dividends	53,846	79,311	74,370	207,527
Less Investment Management Fee	170,785	(199,952)	(17,507)	(46,674)
Less Investment Management Fee	128,217	50,077	38,357	216,651
<b>NET INVESTMENT INCOME (LOSS):</b>	<b>42,568</b>	<b>(250,029)</b>	<b>(55,864)</b>	<b>(263,325)</b>
<b>TOTAL ADDITIONS</b>	<b>628,093</b>	<b>153,389</b>	<b>273,906</b>	<b>1,055,388</b>
<b>DEDUCTIONS</b>				
Member Benefits	1,412,461	445,452	819,672	2,677,585
Withdrawals	22,894	113,968	7,587	144,449
Administrative Expense	30,780	25,080	22,634	78,494
<b>TOTAL DEDUCTIONS</b>	<b>1,466,135</b>	<b>584,500</b>	<b>849,893</b>	<b>2,900,528</b>
<b>CHANGE IN NET ASSETS</b>	<b>(838,042)</b>	<b>(431,111)</b>	<b>(575,987)</b>	<b>(1,845,140)</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year</b>	<b>15,529,574</b>	<b>7,721,289</b>	<b>5,928,743</b>	<b>29,179,606</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year</b>	<b><u>\$ 14,691,532</u></b>	<b><u>\$ 7,290,178</u></b>	<b><u>\$ 5,352,756</u></b>	<b><u>\$ 27,334,466</u></b>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 8 – PENSION PLANS**

**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 9 – OTHER POSTEMPLOYMENT BENEFITS**

Plan Description

The City administers a single-employer defined benefit plan for postemployment benefits other than pension benefits (OPEB Plan).

The City's health care plan includes certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The premiums for the retirees are deducted from their pension account, and are entirely paid by those participants. The City pays no portion of the premiums attributable to the retirees, but does contribute any remaining amount necessary for payment of claims. In future years, contributions are assumed to increase at the same rate as premiums.

The OPEB Plan does not issue a stand-alone financial report.

At September 30, 2011, participants consisted of:

Active Employees	156
Retirees Participants	20
Covered Spouses	<u>4</u>
Total	<u><u>180</u></u>

Annual OPEB Cost and Net OPEB Obligation

The City had an actuarial valuation performed for the OPEB Plan as of October 1, 2010 to determine the annual required contribution (ARC) for the fiscal year ended September 30, 2011. The City's annual OPEB cost and changes in the net OPEB obligation are summarized below:

Annual required contribution	\$ 56,725
Interest on net OPEB obligation	3,530
Adjustments to ARC	<u>(3,067)</u>
Annual OPEB cost (expense)	57,188
Contributions made	<u>(24,273)</u>
Increase in net OPEB obligation	32,915
Net OPEB obligation - beginning of year	<u>70,590</u>
Net OPEB obligation - end of year	<u><u>\$ 103,505</u></u>

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS**

Trend Information

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2011	\$ 57,188	\$ 24,273	42.4%	\$ 103,505
September 30, 2010	\$ 55,610	\$ 19,782	35.6%	\$ 70,590
September 30, 2009	\$ 58,246	\$ 23,484	40.3%	\$ 34,762

Funded Status

The funded status of the OPEB Plan as of September 30, 2011 was as follows:

Actuarial Accrued Liability (AAL) Entry Age	Actuarial Value of Plan Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
\$ 454,493	\$ -	\$ 454,493	0.0%	\$ 5,354,492	8.5%

Funding Policy

Funding for the OPEB Plan is from the City's general resources. There is no separate trust through which benefits for retirees are funded. No resources are currently accumulated or earmarked for this purpose.

Actuarial Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following actuarial methods and assumptions were used:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % of Payroll-Closed
Amortization Period	30 Years
Remaining Amortization Period	28 Years
Asset Valuation Method	Unfunded
Actuarial Assumptions:	
Funding Interest Rate	5%
Payroll Growth/ Inflation	3%
Healthcare Inflation	9%; grading down to 5% in 2015

**NOTE 10 – 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 11 – DEFICIT BALANCE**

At September 30, 2011, the Golf Course Fund had deficit net assets of \$631,201. The deficit balance resulted from a large shortfall in anticipated revenues, as well as an increase in expenses, and will be eliminated by rehabilitating the course and incremental increases in revenues, with an aggressive marketing strategy to bring in new customers that will continue playing at the course.

**NOTE 12 – BUDGET OVEREXPENDITURE**

For the year ended September 30, 2011, expenditures of the General Fund were in excess of the approved budget by \$85,403. This condition was mitigated by the fact that transfers out were \$69,039 under budget. In future years, the City will endeavor to more closely monitor expenditures.

**City of Palatka, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 13 – COMMITMENTS**

The City leases some of its police vehicles and golf carts under operating leases. Lease payments for the year ended September 30, 2011 were \$279,383. Future lease payments are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2012	\$ 157,561	\$ 38,051
2013	58,277	38,051
2014	58,277	38,051
2015	<u>38,851</u>	<u>28,538</u>
Total	<u>\$ 312,966</u>	<u>\$ 142,691</u>

**NOTE 14 – 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 cannot be predicted with certainty, management does not expect that these matters will have a material adverse effect on the financial condition of the City.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Palatka, Florida**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – General Fund**  
**For the Year Ended September 30, 2011**

	<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	\$ 6,091,139	\$ 6,091,139	\$ 5,799,809	\$ (291,330)
Permits, Fees & Special Assessments	1,003,309	1,003,309	998,436	(4,873)
Intergovernmental	1,158,936	1,447,829	1,848,479	400,650
Charges for Services	178,473	176,433	249,991	73,558
Fines and Forfeitures	48,484	72,762	94,444	21,682
Miscellaneous	241,730	262,449	258,209	(4,240)
<b>TOTAL REVENUES</b>	<b>8,722,071</b>	<b>9,053,921</b>	<b>9,249,368</b>	<b>195,447</b>
<b><u>EXPENDITURES</u></b>				
Current:				
General Government	853,871	1,115,288	1,973,380	(858,092)
Public Safety	5,632,866	5,793,885	5,572,424	221,461
Transportation	880,133	880,133	650,468	229,665
Human Services	174,120	174,120	167,569	6,551
Culture and Recreation	450,642	450,642	453,438	(2,796)
Reserve for Contingencies	293,213	317,977	-	317,977
Debt Service:				
Principal Retirement	345,028	339,688	339,846	(158)
Interest and Fiscal Charges	165,173	165,163	165,174	(11)
<b>TOTAL EXPENDITURES</b>	<b>8,795,046</b>	<b>9,236,896</b>	<b>9,322,299</b>	<b>(85,403)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(72,975)</b>	<b>(182,975)</b>	<b>(72,931)</b>	<b>110,044</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers In	65,000	175,000	757,243	582,243
Transfers Out	(69,039)	(69,039)	-	69,039
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(4,039)</b>	<b>105,961</b>	<b>757,243</b>	<b>651,282</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(77,014)</b>	<b>(77,014)</b>	<b>684,312</b>	<b>761,326</b>
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<b>77,014</b>	<b>77,014</b>	<b>1,677,480</b>	<b>1,600,466</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,361,792</b>	<b>\$ 2,361,792</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$ 549,942	\$ 549,942	\$ 542,954	\$ (6,988)
Miscellaneous	-	-	15,000	15,000
<b>TOTAL REVENUES</b>	<b>549,942</b>	<b>549,942</b>	<b>557,954</b>	<b>8,012</b>
<u>EXPENDITURES</u>				
Economic Environment	1,748,942	1,748,942	705,862	1,043,080
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,199,000)</b>	<b>(1,199,000)</b>	<b>(147,908)</b>	<b>1,051,092</b>
<u>OTHER FINANCING USES</u>				
Transfers Out	-	-	(414,480)	(414,480)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,199,000)</b>	<b>(1,199,000)</b>	<b>(562,388)</b>	<b>636,612</b>
<b>FUND BALANCES - Beginning of Year</b>	<b>1,199,000</b>	<b>1,199,000</b>	<b>1,120,889</b>	<b>(78,111)</b>
<b>FUND BALANCES - End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 558,501</b>	<b>\$ 558,501</b>

**City of Palatka, Florida**  
**Notes to Required Supplementary Information**  
**September 30, 2011**

**Notes to Budgetary Comparison Schedules**

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.

Annual budgets are adopted for all governmental funds except the non-major CDBG Special Revenue Fund, which adopts a project-length budget.

**City of Palatka, Florida**  
**Schedules of Funding Progress—Pension Plans**  
**September 30, 2011**

**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>
9/30/2011	\$ 14,741	\$ 20,267	\$ 5,526	73%	\$ 2,851	194%
9/30/2010	15,717	19,810	4,093	79%	2,858	143%
9/30/2009	16,053	19,084	3,031	84%	3,493	87%
9/30/2008	16,024	16,624	600	96%	3,512	17%
9/30/2007	15,435	16,116	733	96%	3,594	20%
9/30/2006	14,209	14,956	747	95%	3,421	22%

**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>
9/30/2011	\$ 8,094	\$ 9,242	\$ 1,148	88%	\$ 1,451	79%
9/30/2010	8,370	9,401	1,032	89%	1,630	63%
9/30/2009	8,240	9,126	886	90%	1,750	51%
9/30/2008	8,203	8,103	(100)	101%	1,708	(6)%
9/30/2007	7,847	7,921	74	99%	1,629	5%
9/30/2006	7,317	7,368	51	99%	1,817	3%

**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>100% AAL (UAAL) (000's)</b>	<b>Funded Ratio</b>	<b>Covered Payroll (000's)</b>	<b>UAAL As A Percent Of Covered Payroll</b>
9/30/2011	\$ 5,739	\$ 7,895	\$ 2,156	73%	\$ 713	303%
9/30/2010	6,018	7,376	1,358	82%	794	171%
9/30/2009	6,130	7,412	1,282	83%	834	154%
9/30/2008	6,269	7,235	966	87%	718	135%
9/30/2007	6,150	7,241	1,091	85%	646	169%
9/30/2006	5,883	7,054	1,171	83%	600	195%

**City of Palatka, Florida**  
**Schedules of Contributions From Employer and Other Contributing Entities—Pension Plans**  
**September 30, 2011**

**General Plan**

**Employer Contributions**

<u>Year Ended</u>	<u>Annual</u>		
	<u>Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2011	\$ 409,832	\$ 409,832	100.00%
9/30/2010	480,493	480,493	100.00%
9/30/2009	641,357	641,357	100.00%
9/30/2008	559,533	559,533	100.00%
9/30/2007	602,616	602,616	100.00%
9/30/2006	482,801	482,801	100.00%

**Police Officers' Plan**

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2011	\$ 246,011	\$ 246,011	100.00%	\$ 61,450	\$ 61,450	100.00%
9/30/2010	303,235	303,235	100.00%	62,976	62,976	100.00%
9/30/2009	236,148	236,148	100.00%	66,457	66,457	100.00%
9/30/2008	297,845	297,845	100.00%	74,734	74,734	100.00%
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%

**Firefighters' Plan**

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2011	\$ 172,199	\$ 172,199	100.00%	\$ 89,277	\$ 89,277	100.00%
9/30/2010	172,163	172,163	100.00%	80,405	80,405	100.00%
9/30/2009	146,114	146,114	100.00%	71,776	71,776	100.00%
9/30/2008	124,076	124,076	100.00%	61,091	61,091	100.00%
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%

**City of Palatka, Florida**  
**Other Postemployment Benefits Plan**  
**September 30, 2011**

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
10/1/2010	\$ -	\$ 454,493	\$ 454,493	0.0%	\$ 5,354,492	8.5%
10/1/2008	-	483,795	483,795	0.0%	8,830,792	5.5%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
9/30/2011	\$ 57,188	42.4%
9/30/2010	55,610	35.6%
9/30/2009	58,246	40.3%

Notes:

- 1) See Note 9 to the financial statements for detailed information on the City's OPEB Plan.

**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, 2011**

	<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	\$ 3,287,382	\$ 128,273	\$ 87,334	\$ 3,502,989
Government Bonds and Notes	-	1,148,093	781,968	1,930,061
Corporate Bonds and Notes	3,989,786	1,297,657	909,134	6,196,577
Mutual Funds - Equities	2,681,758	4,392,070	3,342,984	10,416,812
Mutual Funds (REIT)	-	300,427	210,700	511,127
Common Stock/Equities	4,690,322	-	-	4,690,322
Receivables	45,253	25,171	21,975	92,399
<b>TOTAL ASSETS</b>	<b>14,694,501</b>	<b>7,291,691</b>	<b>5,354,095</b>	<b>27,340,287</b>
<b>LIABILITIES</b>	<b>2,969</b>	<b>1,513</b>	<b>1,339</b>	<b>5,821</b>
<b><u>NET ASSETS</u></b>				
Held in Trust for Pension Benefits	<b>\$ 14,691,532</b>	<b>\$ 7,290,178</b>	<b>\$ 5,352,756</b>	<b>\$ 27,334,466</b>

**City of Palatka, Florida**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2011**

	<u>General Retirement Fund</u>	<u>Police Officers' Retirement Fund</u>	<u>Firefighters' Retirement Fund</u>	<u>Total</u>
<b><u>ADDITIONS</u></b>				
CONTRIBUTIONS:				
Employer	\$ 409,883	\$ 247,847	\$ 192,071	\$ 849,801
Member	175,642	94,121	48,422	318,185
State on Behalf, through General Fund	-	61,450	89,277	150,727
<b>TOTAL CONTRIBUTIONS</b>	<b><u>585,525</u></b>	<b><u>403,418</u></b>	<b><u>329,770</u></b>	<b><u>1,318,713</u></b>
INVESTMENT INCOME (LOSS):				
Net Appreciation (Depreciation) in Fair Value of Investments	116,939	(409,754)	(151,468)	(444,283)
Interest	-	130,491	59,591	190,082
Dividends	53,846	79,311	74,370	207,527
	<u>170,785</u>	<u>(199,952)</u>	<u>(17,507)</u>	<u>(46,674)</u>
Less Investment Management Fee	128,217	50,077	38,357	216,651
<b>NET INVESTMENT INCOME (LOSS):</b>	<b><u>42,568</u></b>	<b><u>(250,029)</u></b>	<b><u>(55,864)</u></b>	<b><u>(263,325)</u></b>
<b>TOTAL ADDITIONS</b>	<b><u>628,093</u></b>	<b><u>153,389</u></b>	<b><u>273,906</u></b>	<b><u>1,055,388</u></b>
<b><u>DEDUCTIONS</u></b>				
Member Benefits	1,412,461	445,452	819,672	2,677,585
Withdrawals	22,894	113,968	7,587	144,449
Administrative Expense	30,780	25,080	22,634	78,494
<b>TOTAL DEDUCTIONS</b>	<b><u>1,466,135</u></b>	<b><u>584,500</u></b>	<b><u>849,893</u></b>	<b><u>2,900,528</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>(838,042)</b>	<b>(431,111)</b>	<b>(575,987)</b>	<b>(1,845,140)</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year</b>	<b><u>15,529,574</u></b>	<b><u>7,721,289</u></b>	<b><u>5,928,743</u></b>	<b><u>29,179,606</u></b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year</b>	<b><u>\$ 14,691,532</u></b>	<b><u>\$ 7,290,178</u></b>	<b><u>\$ 5,352,756</u></b>	<b><u>\$ 27,334,466</u></b>

**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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	<b>45</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>49</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>53</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>58</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>60</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 Eight Fiscal Years

	Fiscal Years Ending September 30 -----							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Governmental Activities</b>								
Invested in Capital Assets, Net of Related Debt	\$5,146,607	\$5,387,086	\$5,506,649	\$10,466,693	\$10,614,552	\$11,281,907	\$11,915,772	\$12,545,081
Restricted	\$335,292	\$416,950	\$598,837	\$1,042,741	\$1,437,259	\$1,592,936	\$1,128,395	\$576,702
Unrestricted	<u>\$1,731,832</u>	<u>\$1,460,887</u>	<u>\$1,496,520</u>	<u>\$1,328,481</u>	<u>\$1,693,797</u>	<u>\$1,303,783</u>	<u>\$1,301,177</u>	<u>\$1,968,903</u>
<b>Total Governmental Activities Net Assets</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><u>\$13,745,608</u></b>	<b><u>\$14,178,626</u></b>	<b><u>\$14,345,344</u></b>	<b><u>\$15,090,686</u></b>
<b>Business-Type Activities</b>								
Invested in Capital Assets, Net of Related Debt	\$15,138,704	\$15,725,064	\$17,072,755	\$18,066,125	\$15,276,203	\$23,384,736	\$31,509,858	\$32,510,103
Restricted	\$806,035	\$830,601	\$779,907	\$773,851	\$792,708	\$810,484	\$519,204	\$386,787
Unrestricted	<u>\$943,366</u>	<u>\$655,193</u>	<u>-\$17,020</u>	<u>\$802,248</u>	<u>\$8,827,626</u>	<u>\$7,441,249</u>	<u>\$969,128</u>	<u>\$486,050</u>
<b>Total Business-Type Activities Net Assets</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><u>\$24,896,537</u></b>	<b><u>\$31,636,469</u></b>	<b><u>\$32,998,190</u></b>	<b><u>\$33,382,940</u></b>
<b>Primary Government</b>								
Invested in Capital Assets, Net of Related Debt	\$20,285,311	\$21,112,150	\$22,579,404	\$28,532,818	\$25,890,755	\$34,666,643	\$43,425,630	\$45,055,184
Restricted	\$1,141,327	\$1,247,551	\$1,378,744	\$1,816,592	\$2,229,967	\$2,403,420	\$1,647,599	\$963,489
Unrestricted	<u>\$2,675,198</u>	<u>\$2,116,080</u>	<u>\$1,479,500</u>	<u>\$2,130,729</u>	<u>\$10,521,423</u>	<u>\$8,745,032</u>	<u>\$2,270,305</u>	<u>\$2,454,953</u>
<b>Total Primary Government Net Assets</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>	<b><u>\$38,642,145</u></b>	<b><u>\$45,815,095</u></b>	<b><u>\$47,343,534</u></b>	<b><u>\$48,473,626</u></b>

Table 2  
City of Palatka, Florida

Changes in Net Assets - Last Eight Fiscal Years

	Fiscal Years Ending September 30 ---							
	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>								
Governmental Activities:								
General Government	\$879,252	\$957,828	\$882,002	\$677,251	\$852,906	\$768,892	\$1,472,469	\$1,630,295
Public Safety	\$4,614,844	\$4,873,998	\$5,611,944	\$6,203,873	\$6,210,601	\$6,005,490	\$5,968,153	\$5,611,920
Physical Environment	-	\$16,191	\$14,028	\$481,343	\$295,824	-	-	-
Transportation	\$631,355	\$1,142,443	\$1,382,910	\$1,282,350	\$973,566	\$1,129,653	\$697,212	\$681,907
Economic Environment	\$66,979	\$63,715	\$134,348	\$102,299	\$148,148	\$579,661	\$816,722	\$741,467
Human Services	\$186,242	\$176,399	\$212,165	\$227,525	\$232,009	\$266,804	\$209,332	\$177,551
Culture and Recreation	\$540,808	\$443,796	\$505,841	\$561,238	\$822,826	\$1,048,560	\$538,150	\$430,962
Interest on Long-Term Debt	\$30,625	\$27,577	\$23,797	\$37,155	\$49,532	\$203,215	\$182,996	\$165,174
<b>Total Governmental Activities Expenses</b>	<b>\$6,950,105</b>	<b>\$7,701,947</b>	<b>\$8,767,035</b>	<b>\$9,573,034</b>	<b>\$9,585,412</b>	<b>\$10,002,275</b>	<b>\$9,885,034</b>	<b>\$9,439,276</b>
Business-type Activities:								
Airport	\$654,561	\$659,324	\$854,457	\$974,382	\$1,127,150	\$1,273,476	\$1,593,744	\$1,627,231
Water	\$3,239,058	\$3,461,247	\$3,692,108	\$3,809,776	\$4,342,447	\$4,550,364	\$4,978,295	\$4,750,830
Golf	\$773,144	\$803,434	\$933,767	\$1,004,007	\$1,014,105	\$908,883	\$982,862	\$1,017,307
Sanitation	\$1,273,168	\$1,481,355	\$1,391,125	\$1,430,766	\$1,473,689	\$1,393,713	\$1,347,455	\$1,359,544
<b>Total Business-type Activities Expenses</b>	<b>\$5,939,931</b>	<b>\$6,405,360</b>	<b>\$6,871,457</b>	<b>\$7,218,931</b>	<b>\$7,957,391</b>	<b>\$8,126,436</b>	<b>\$8,902,356</b>	<b>\$8,754,912</b>
<b>Total Primary Government Expenses</b>	<b>\$12,890,036</b>	<b>\$14,107,307</b>	<b>\$15,638,492</b>	<b>\$16,791,965</b>	<b>\$17,542,803</b>	<b>\$18,128,711</b>	<b>\$18,787,390</b>	<b>\$18,194,188</b>
<b>Program Revenues</b>								
Governmental Activities:								
Charges for Services:								
General Government	\$115,774	\$108,424	\$102,416	\$100,431	\$116,431	\$102,882	\$105,351	\$106,446
Public Safety	\$316,470	\$279,116	\$322,191	\$234,747	\$235,176	\$296,767	\$248,591	\$296,395
Other	\$152,957	\$179,865	\$167,965	\$198,985	\$182,337	\$165,217	\$229,305	\$210,316
Operating Grants and Contributions	\$777,845	\$573,201	\$832,506	\$912,670	\$705,287	\$1,163,584	\$1,341,212	\$1,390,057
Capital Grants and Contributions	\$1,816,727	\$765,763	\$874,390	\$1,463,953	\$1,090,723	\$1,288,072	\$2,016,675	\$1,299,627
<b>Total Governmental Activities Program Revenue:</b>	<b>\$3,179,773</b>	<b>\$1,906,369</b>	<b>\$2,299,468</b>	<b>\$2,910,786</b>	<b>\$2,329,954</b>	<b>\$3,016,522</b>	<b>\$3,941,134</b>	<b>\$3,302,841</b>
Business-type Activities:								
Charges for Services :								
Airport	\$305,496	\$386,036	\$567,999	\$506,385	\$709,468	\$572,594	\$704,750	\$895,300
Water	\$3,089,418	\$3,134,799	\$3,113,887	\$3,459,388	\$3,616,813	\$3,628,361	\$3,780,615	\$3,878,206
Golf	\$531,170	\$711,672	\$762,061	\$751,903	\$754,328	\$726,113	\$620,594	\$613,202
Sanitation	\$1,329,226	\$1,426,784	\$1,430,572	\$1,518,191	\$1,500,141	\$1,533,927	\$1,522,581	\$1,497,397
Operating Grants and Contributions	\$61,500	\$139,118	-	\$7,000	-	-	-	-
Capital Grants and Contributions	\$929,654	\$981,176	\$1,423,874	\$2,451,986	\$6,301,063	\$8,242,870	\$2,413,721	\$2,281,761
<b>Total Business-type Activities Program Revenue:</b>	<b>\$6,246,464</b>	<b>\$6,779,585</b>	<b>\$7,298,393</b>	<b>\$8,694,853</b>	<b>\$12,881,813</b>	<b>\$14,703,865</b>	<b>\$9,042,261</b>	<b>\$9,165,866</b>
<b>Total Primary Government Program Revenue:</b>	<b>\$9,426,237</b>	<b>\$8,685,954</b>	<b>\$9,597,861</b>	<b>\$11,605,639</b>	<b>\$15,211,767</b>	<b>\$17,720,387</b>	<b>\$12,983,395</b>	<b>\$12,468,707</b>
<b>Net (Expense)/Revenue</b>								
Governmental Activities	(\$3,770,332)	(\$5,795,578)	(\$6,467,567)	(\$6,662,248)	(\$7,255,458)	(\$6,985,753)	(\$5,943,900)	(\$6,136,435)
Business-type Activities	\$306,533	\$374,225	\$426,936	\$1,475,922	\$4,924,422	\$6,577,429	\$139,905	\$410,954
<b>Total Primary Government Net Expense</b>	<b>(\$3,463,799)</b>	<b>(\$5,421,353)</b>	<b>(\$6,040,631)</b>	<b>(\$5,186,326)</b>	<b>(\$2,331,036)</b>	<b>(\$408,324)</b>	<b>(\$5,803,995)</b>	<b>(\$5,725,481)</b>
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental Activities:								
Taxes:								
Property Taxes	\$2,440,143	\$2,765,692	\$3,334,384	\$3,805,051	\$3,942,201	\$3,836,383	\$3,774,261	\$3,743,535
Sales Tax and Other State Shared Revenue	\$794,003	\$848,661	\$888,738	\$894,912	\$863,426	\$803,775	\$785,219	\$737,011
Franchise Fees	\$611,540	\$684,678	\$911,188	\$915,447	\$898,638	\$931,985	\$879,660	\$886,166
Other Taxes	\$1,282,812	\$1,307,119	\$1,504,315	\$1,743,359	\$2,114,626	\$1,632,411	\$1,409,048	\$1,189,645
Investment Earnings	\$30,041	\$50,519	\$64,090	\$62,975	\$81,319	\$55,790	\$5,689	\$1,384
Miscellaneous	\$57,250	\$54,804	\$79,721	\$85,774	\$50,031	\$31,900	\$60,637	\$149,036
Transfers	(\$569,282)	\$135,297	\$22,214	\$142,873	\$212,910	\$126,527	-\$803,896	\$175,000
<b>Total Governmental Activities</b>	<b>\$4,646,507</b>	<b>\$5,846,770</b>	<b>\$6,804,650</b>	<b>\$7,650,391</b>	<b>\$8,163,151</b>	<b>\$7,418,771</b>	<b>\$6,110,618</b>	<b>\$6,881,777</b>
Business-type Activities:								
Investment Earnings	\$6,749	\$11,071	\$19,859	\$17,786	\$421,634	\$56,140	\$188,945	\$446
Gain on Sale of Assets	-	-	-	-	-	\$22,174	-	-
Miscellaneous	\$174,522	\$72,754	\$200,203	\$455,747	\$121,167	\$210,716	\$228,975	\$148,350
Transfers	\$569,282	(\$135,297)	(\$22,214)	(\$142,873)	(\$212,910)	(\$126,527)	\$803,896	(\$175,000)
<b>Total Business-type Activities</b>	<b>\$750,553</b>	<b>(\$51,472)</b>	<b>\$197,848</b>	<b>\$330,660</b>	<b>\$329,891</b>	<b>\$162,503</b>	<b>\$1,221,816</b>	<b>(\$26,204)</b>
<b>Total Primary Government</b>	<b>\$5,397,060</b>	<b>\$5,795,298</b>	<b>\$7,002,498</b>	<b>\$7,981,051</b>	<b>\$8,493,042</b>	<b>\$7,581,274</b>	<b>\$7,332,434</b>	<b>\$6,855,573</b>
<b>Changes in Net Assets</b>								
Governmental Activities	\$876,175	\$51,192	\$337,083	\$988,143	\$907,693	\$433,018	\$166,718	\$745,342
Business-type Activities	\$1,057,086	\$322,753	\$624,784	\$1,806,582	\$5,254,313	\$6,739,932	\$1,361,721	\$384,750
<b>Total Primary Government</b>	<b>\$1,933,261</b>	<b>\$373,945</b>	<b>\$961,867</b>	<b>\$2,794,725</b>	<b>\$6,162,006</b>	<b>\$7,172,950</b>	<b>\$1,528,439</b>	<b>\$1,130,092</b>

Table 3  
City of Palatka, Florida

Fund Balances, Governmental Funds - Last Ten Fiscal Years

Fiscal Years Ending September 30 ---

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>General Fund</b>										
Nonspendable	-	-	-	-	-	-	-	-	-	\$867,346
Restricted	-	-	-	-	-	-	-	-	-	\$511,570
Committed	-	-	-	-	-	-	-	-	-	\$17,246
Assigned	-	-	-	-	-	-	-	-	-	\$107,416
Unassigned	-	-	-	-	-	-	-	-	-	\$858,214
Reserved	\$0	\$0	\$0	\$0	\$0	\$1,269,605	\$0	\$0	\$414,758	-
Unreserved	\$1,152,879	\$1,446,537	\$1,801,421	\$1,785,860	\$1,767,288	\$414,620	\$2,006,861	\$1,682,108	\$1,262,722	-
<b>Total General Fund</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><u>\$2,006,861</u></b>	<b><u>\$1,682,108</u></b>	<b><u>\$1,677,480</u></b>	<b><u>\$2,361,792</u></b>
<b>All Other Governmental Funds</b>										
Nonspendable	-	-	-	-	-	-	-	-	-	\$0
Restricted	-	-	-	-	-	-	-	-	-	\$576,702
Committed	-	-	-	-	-	-	-	-	-	\$0
Assigned	-	-	-	-	-	-	-	-	-	\$0
Unassigned	-	-	-	-	-	-	-	-	-	\$0
Reserved	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-
Unreserved, reported in:										
Special Revenue Funds	\$285,883	\$338,928	\$408,727	\$490,642	\$681,477	\$1,042,741	\$1,437,259	\$1,592,936	\$1,128,395	-
<b>Total All Other Governmental Funds</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>	<b><u>\$1,437,259</u></b>	<b><u>\$1,592,936</u></b>	<b><u>\$1,128,395</u></b>	<b><u>\$576,702</u></b>

Note: Beginning in fiscal year 2011, fund balance categories were reclassified as a result of implementing GASB Statement No. 54.

Fund balance was not restated to the new categories for prior years.

Source: Audited financial statements

Table 4  
City of Palatka, Florida

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Taxes	\$3,909,720	\$4,694,428	\$5,350,377	\$5,844,778	\$6,939,634	\$7,681,577	\$8,090,897	\$7,445,473	\$7,232,476	\$6,342,763
License and Permits	\$273,989	\$199,014	\$303,236	\$194,268	\$219,316	\$199,194	\$191,364	\$207,494	\$179,539	\$998,436
Intergovernmental	\$1,189,233	\$1,434,787	\$2,246,481	\$1,339,897	\$1,414,018	\$2,052,538	\$1,521,038	\$2,124,532	\$2,914,885	\$2,050,177
Charges for Services	\$153,156	\$144,096	\$118,285	\$156,139	\$138,910	\$196,549	\$176,968	\$176,629	\$267,914	\$249,991
Fines and Forfeitures	\$85,065	\$86,905	\$127,217	\$146,437	\$151,038	\$75,607	\$85,850	\$112,850	\$65,042	\$94,444
Miscellaneous	\$137,425	\$65,376	\$81,166	\$115,696	\$225,377	\$227,782	\$234,367	\$291,894	\$195,792	\$285,574
<b>Total Revenues</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>\$10,300,484</b>	<b>\$10,358,872</b>	<b>\$10,855,648</b>	<b>\$10,021,385</b>
<b>Expenditures</b>										
General Government	\$618,590	\$726,687	\$726,240	\$799,618	\$869,487	\$1,022,291	\$3,900,803	\$1,442,668	\$1,608,841	\$1,973,380
Public Safety	\$3,721,507	\$4,073,172	\$4,539,971	\$4,891,385	\$5,571,450	\$7,546,297	\$6,127,251	\$5,875,853	\$5,952,155	\$5,572,424
Physical Environment	-	-	\$716,608	\$16,191	\$14,028	\$481,343	\$295,824	-	-	-
Transportation	\$508,185	\$638,457	\$614,119	\$1,165,634	\$1,387,665	\$1,393,241	\$759,315	\$780,123	\$663,316	\$650,468
Economic Environment	\$35,012	\$50,538	\$66,979	\$129,128	\$134,348	\$102,299	\$148,148	\$579,661	\$816,722	\$741,467
Human Services	\$142,652	\$147,126	\$179,312	\$226,867	\$217,471	\$257,208	\$227,715	\$284,172	\$209,228	\$167,569
Culture and Recreation	\$499,504	\$673,638	\$915,684	\$454,624	\$571,372	\$708,890	\$897,530	\$1,038,817	\$703,621	\$453,438
Debt Service										
Principal Retirement	\$245,693	\$200,382	\$159,867	\$155,134	\$148,626	\$146,794	\$633,924	\$449,966	\$384,042	\$339,846
Interest and Fiscal Charges	\$42,526	\$35,016	\$30,625	\$27,577	\$23,797	\$37,155	\$49,532	\$203,215	\$182,996	\$165,174
<b>Total Expenditures</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>\$13,040,042</b>	<b>\$10,654,475</b>	<b>\$10,520,921</b>	<b>\$10,063,766</b>
<b>Excess of Revenues Over (Under) Expenditure</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>(\$2,739,558)</b>	<b>(\$295,603)</b>	<b>\$334,727</b>	<b>(\$42,381)</b>
<b>Other Financing Sources (Uses)</b>										
Proceeds From Borrowing	\$24,150	\$38,000	-	-	-	\$1,379,225	\$3,243,802	-	-	-
Capital Leases	-	\$44,281	-	-	-	-	-	-	-	-
Transfers In	\$234,000	\$291,480	\$284,974	\$282,766	\$332,837	\$247,957	\$259,048	\$275,000	\$193,850	\$757,243
Transfers Out	(\$144,000)	(\$106,648)	(\$137,648)	(\$147,469)	(\$310,623)	(\$86,710)	(\$46,138)	(\$148,473)	(\$997,746)	(\$582,243)
<b>Total Other Financing Sources (Uses)</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>\$3,456,712</b>	<b>\$126,527</b>	<b>(\$803,896)</b>	<b>\$175,000</b>
<b>Net Change in Fund Balances</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>\$717,154</b>	<b>(\$169,076)</b>	<b>(\$469,169)</b>	<b>\$132,619</b>
<b>Acquisitions of Capital Assets</b>	<b>\$399,985</b>	<b>\$557,249</b>	<b>\$504,593</b>	<b>\$356,524</b>	<b>\$275,970</b>	<b>\$2,459,657</b>	<b>\$3,359,965</b>	<b>\$1,021,747</b>	<b>\$1,051,693</b>	<b>\$1,165,834</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	<b>5.32%</b>	<b>3.93%</b>	<b>2.56%</b>	<b>2.43%</b>	<b>1.99%</b>	<b>1.99%</b>	<b>7.06%</b>	<b>6.78%</b>	<b>5.99%</b>	<b>5.68%</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, 2011

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	
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%
2007-08	\$362,073,552	\$741,200,986	\$71,887,265	\$95,849,300	\$433,960,817	\$837,050,286	8.500	51.84%
2008-09	\$349,743,213	\$743,823,588	\$65,330,966	\$95,725,559	\$415,074,179	\$839,549,147	8.650	49.44%
2009-10	\$350,826,549	\$745,957,201	\$61,172,680	\$93,443,957	\$411,999,229	\$839,401,158	8.650	49.08%
2010-11	\$331,832,689	\$691,859,577	\$57,098,415	\$89,429,756	\$388,931,104	\$781,289,333	8.650	49.78%

(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, 2011

<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>
2002	\$1,678,289	\$1,608,225	0.9583	\$17,947	\$1,626,172	0.9689
2003	\$1,880,256	\$1,754,044	0.9329	\$5,427	\$1,759,471	0.9358
2004	\$2,144,390	\$1,990,690	0.9283	\$10,232	\$2,000,922	0.9331
2005	\$2,436,535	\$2,290,702	0.9401	\$14,777	\$2,305,479	0.9462
2006	\$2,645,191	\$2,529,526	0.9563	\$59,668	\$2,589,194	0.9788
2007	\$3,377,114	\$3,108,434	0.9204	\$4,343	\$3,112,777	0.9217
2008	\$3,688,668	\$3,132,637	0.8493	\$711	\$3,133,348	0.8495
2009	\$3,644,652	\$3,527,380	0.9678	\$17,701	\$3,545,081	0.9727
2010	\$3,575,819	\$3,472,692	0.9712	\$20,080	\$3,492,772	0.9768
2011	\$3,579,471	\$3,466,313	0.9684	\$6,903	\$3,473,216	0.9703

Source: Putnam County Tax Collector

Table 7  
City of Palatka

Property Tax Rates - Direct and Overlapping Governments  
Last Ten Fiscal Years  
September 30, 2011

Fiscal Year	City of Palatka	Putnam County	<u>District School Board</u>		St. Johns River Water Management District	Total
			Operating	Bond Debt/Cap Outlay		
2002	7.300	8.8000	6.684	2.870	0.462	26.116
2003	7.800	8.8000	6.466	2.800	0.462	26.328
2004	8.000	9.2000	5.720	2.800	0.462	26.182
2005	8.000	9.2000	6.310	2.800	0.462	26.772
2006	8.650	9.2000	5.934	2.600	0.462	26.846
2007	8.500	8.5765	5.490	2.000	0.416	24.982
2008	8.500	8.5765	4.734	2.760	0.4158	24.986
2009	8.650	8.5765	5.316	2.497	0.4158	25.455
2010	8.650	8.5765	5.363	2.498	0.4158	25.503
2011	8.650	8.5765	5.209	2.248	0.3313	25.015

Source: Putnam County Property Appraiser

Table 8  
City of Palatka, Florida

Principal Taxpayers  
Current and Nine Years Ago

<u>Taxpayer</u>	Fiscal Year 2011-----			Fiscal Year 2002 -----		
	Taxable Assessed Value	Rank	Percentage of Total City Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Assessed Value
Putnam Community Medical Center	\$15,365,910	1	3.71%	\$14,607,988	1	6.00%
Wal-Mart Inc.	\$12,199,258	2	2.95%	\$3,103,081	10	1.30%
Revenue Properties Town & Country	\$8,006,701	3	1.93%	-	-	-
BellSouth Telecommunications	\$6,595,628	4	1.59%	\$10,334,915	2	4.30%
Home Depot U.S.A., Inc.	\$6,302,055	5	1.52%	-	-	-
Florida Power & Light	\$6,293,014	6	1.52%	\$7,420,365	3	3.10%
Lowe's Home Centers, Inc.	\$5,968,738	7	1.44%	-	-	-
Southern Medical Associates, Inc	\$5,011,954	8	1.21%	\$6,325,806	4	2.60%
Stag II Palatka LLC	\$3,939,144	9	0.95%	-	-	-
Palatka Mall, LLC	\$3,840,237	10	0.93%	-	-	-
Spipal Inc.	-	-	-	\$4,963,566	5	2.00%
Florida Furniture	-	-	-	\$4,437,454	6	1.80%
Palatka Marketplace Association	-	-	-	\$3,707,231	7	1.50%
TWI Cable	-	-	-	\$3,599,542	8	1.50%
Nationsrent	-	-	-	\$3,217,148	9	1.30%
Total	\$73,522,639		17.77%	\$61,717,096		25.40%

Source: Putnam County Property Appraiser

Table 9  
City of Palatka, Florida

Ratios of Net General Bonded Debt Outstanding  
Last Ten Fiscal Years  
September 30, 2011

<b>Fiscal year</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>
2002	\$298,133	\$403,966	\$702,099	0.35%	\$68
2003	\$260,867	\$360,225	\$621,092	0.29%	\$59
2004	\$223,600	\$314,035	\$537,635	0.24%	\$50
2005	\$186,333	\$265,155	\$451,488	0.19%	\$41
2006	\$149,067	\$213,472	\$362,539	0.14%	\$31
2007	\$111,800	\$158,849	\$270,649	0.10%	\$24
2008	\$0	\$98,522	\$98,522	0.04%	\$9
2009	\$0	\$37,498	\$37,498	0.01%	\$3
2010	\$0	\$0	\$0	0.00%	\$0
2011	\$0	\$0	\$0	0.00%	\$0

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

Source: Finance Department, audited financial statements

Table 10  
City of Palatka, Florida

Computation of Legal Debt Margin  
September 30, 2011

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, 2011

<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>\$0</u>	<u>0.00%</u>	<u>\$0</u>

Source: Putnam County School Board

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			
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	\$6,101,762	\$8,778	\$9,968,167	3.87%	\$881
2008	\$4,026,577	\$98,522	\$105,151	\$13,647,844	\$5,668,653	-	\$23,546,747	9.05%	\$2,089
2009	\$3,705,273	\$37,498	\$37,513	\$16,997,451	\$5,383,638	-	\$26,161,373	8.73%	\$2,350
2010	\$3,381,920	-	\$14,322	\$8,421,514	\$7,444,872	-	\$19,262,628	6.28%	\$1,763
2011	\$3,056,396	-	-	\$7,761,469	\$7,346,458	-	\$18,164,323	5.87%	\$1,720

Notes: (1) See the demographic statistics table 14 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	Airport Revenue Notes						Water Revenue Bonds and Notes					
	<u>Airport</u>	<u>Less</u>	<u>Net</u>	<u>Debt Service</u>			<u>Utility</u>	<u>Less</u>	<u>Net</u>	<u>Debt Service</u>		
	<u>Gross</u>	<u>Operating</u>	<u>Available</u>	<u>Principal</u>	<u>Interest</u>	<u>Coverage</u>	<u>Gross</u>	<u>Operating</u>	<u>Available</u>	<u>Principal</u>	<u>Interest</u>	<u>Coverage</u>
2002	\$277,504	\$248,781	\$28,723	\$38,880	\$7,238	62.00%	\$2,932,327	\$1,973,656	\$958,671	\$140,000	\$330,590	203.72%
2003	\$275,335	\$254,434	\$20,901	\$29,751	\$5,169	60.00%	\$3,104,778	\$2,172,018	\$932,760	\$175,000	\$323,503	187.11%
2004	\$305,496	\$287,618	\$17,878	\$11,381	\$4,115	115.37%	\$3,182,217	\$2,293,009	\$889,208	\$185,000	\$319,711	176.18%
2005	\$386,028	\$386,746	(\$718)	\$17,369	\$3,503	-103.44%	\$3,216,565	\$2,474,061	\$742,504	\$220,783	\$319,403	137.45%
2006	\$567,999	\$558,239	\$9,760	\$14,375	\$2,691	57.19%	\$3,299,223	\$2,678,856	\$620,367	\$244,495	\$312,594	111.36%
2007	\$506,385	\$637,292	(\$130,907)	\$14,375	\$1,899	-904.40%	\$3,801,745	\$2,806,060	\$995,685	\$320,093	\$301,834	160.10%
2008	\$711,499	\$751,145	(\$39,646)	\$13,551	\$1,257	-367.73%	\$3,714,949	\$2,767,208	\$947,741	\$335,698	\$700,862	91.43%
2009	\$597,590	\$768,310	(\$170,720)	\$148,564	\$104,919	-167.35%	\$3,891,996	\$2,998,960	\$893,036	\$346,314	\$839,404	75.32%
2010	\$730,486	\$866,960	(\$136,474)	\$133,333	\$98,103	-158.97%	\$3,886,540	\$3,024,702	\$861,838	\$18,876,104	\$951,673	4.35%
2011	\$919,491	\$855,822	\$63,669	\$133,333	\$91,056	-71.63%	\$3,889,028	\$2,915,779	\$973,249	\$1,349,230	\$482,845	53.12%

Fiscal Year	Golf Revenue Bonds						Infrastructure Surtax Revenue Note			
	<u>Golf</u>	<u>Less</u>	<u>Net</u>	<u>Debt Service</u>			<u>Sales</u>	<u>Debt Service</u>		
	<u>Gross</u>	<u>Operating</u>	<u>Available</u>	<u>Principal</u>	<u>Interest</u>	<u>Coverage</u>	<u>Surtax</u>	<u>Principal</u>	<u>Interest</u>	<u>Coverage</u>
2002	\$633,999	\$760,653	(\$126,654)	\$41,346	\$23,770	-294.51%	\$0	\$0	\$0	n/a
2003	\$645,426	\$741,808	(\$96,382)	\$43,740	\$21,376	-248.02%	\$0	\$0	\$0	n/a
2004	\$618,037	\$707,727	(\$89,690)	\$46,190	\$18,926	-237.74%	\$0	\$0	\$0	n/a
2005	\$711,672	\$685,303	\$26,369	\$48,880	\$16,236	40.49%	\$0	\$0	\$0	n/a
2006	\$762,181	\$815,457	(\$53,276)	\$51,683	\$13,433	-181.82%	\$0	\$0	\$0	n/a
2007	\$782,670	\$934,609	(\$151,939)	\$54,622	\$10,493	-333.33%	\$0	\$0	\$0	n/a
2008	\$755,011	\$934,572	(\$179,561)	\$158,849	\$7,590	-207.88%	\$802,482	\$0	\$0	n/a
2009	\$726,513	\$722,239	\$4,274	\$28,125	\$111,586	3.06%	\$732,946	\$266,667	\$166,080	169.37%
2010	\$624,462	\$800,372	(\$175,910)	\$62,033	\$107,431	-103.80%	\$715,264	\$266,667	\$152,240	170.75%
2011	\$613,217	\$845,986	(\$232,769)	\$79,366	\$102,778	-127.79%	\$676,948	\$266,667	\$138,400	167.12%

Source: Finance department, audited financial statements

Table 14  
City of Palatka, Florida

Demographic Statistics  
Last Ten Fiscal Years  
September 30, 2011

<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>
2002	10,250	\$205	\$20,037	5629	6.6%
2003	10,510	\$224	\$21,271	5623	5.7%
2004	10,820	\$235	\$21,699	5716	5.5%
2005	11,100	\$255	\$23,002	5371	4.5%
2006	11,417	\$276	\$24,177	5508	3.8%
2007	11,470	\$286	\$24,907	5555	4.8%
2008	11,264	\$290	\$25,712	4101	7.2%
2009	11,133	\$298	\$26,923	4768	12.3%
2010	10,926	\$304	\$28,086	4860	13.8%
2011	10,558	\$309	\$29,300	5642	11.6%

Sources:

- (1) University of Florida, Bureau of Economic and Business Research, Florida Estimate of Population (2002-2010), 2010 Census (2011)
- (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 2002 - 2009 are based on per capita personal income data.  
Figures from 2010 - 2011 are projected estimates based on trend analysis calculations.
- (4) District School Board of Putnam County
- (5) United States Department of Labor-Bureau of Labor Statistics

Table 15  
City of Palatka, Florida

Principal Employers  
Current and Nine Years Ago

<u>Employer</u>	<u>Fiscal Year 2011</u>			<u>Fiscal Year 2002</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	1,680	1	31.82%	684	2	13.63%
St. Johns River Water Management	700	2	13.26%	686	1	13.67%
Putnam County Government	600	3	11.37%	656	3	13.08%
PRC	550	4	10.42%	500	6	9.97%
Putnam Community Medical Center	520	5	9.85%	533	4	10.62%
Publix Supermarket, Inc.	300	6	5.68%	185	8	3.69%
Wal-Mart Stores, Inc.	300	7	5.68%	523	5	10.42%
St. Johns River Community College	270	8	5.11%	225	7	4.48%
Putnam County Sheriff's Office	260	9	4.93%	-	-	-
City of Palatka	138	10	2.61%	173	9	3.45%
Winn Dixie Marketplace	-	-	-	170	10	3.39%
<b>Total</b>	<b>5,318</b>		<b>100.74%</b>	<b>4,335</b>		<b>86.41%</b>

Note: Percentages were derived from 50% of population of the City of Palatka

Source: Individual employers/Chamber of Commerce

Table 16  
City of Palatka, Florida

Operating Indicators by Function/Program  
Last Ten Fiscal Years

<b><u>Function/Program</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>
General Government:										
Building permits issued	767	846	821	982	884	804	621	80	596	618
Building inspections conducted	1944	1931	2280	1905	1843	1987	1543	1499	1359	1360
Code enforcements	338	382	417	532	281	547	311	701	200	165
Occupational license issued	905	973	1016	1014	904	1072	1013	1258	1092	1220
Police:										
Calls for service	28,547	26,683	27,132	30,595	36,196	32,350	31,933	31,264	34,559	29,847
Physical arrests	1,610	2,185	1,507	1,989	2,264	2,003	1,798	1,450	1,528	1,119
Citations	3,538	3,282	1,568	1,989	2,747	2,299	1,217	1,269	2,060	1,616
Fire:										
Emergency responses	1,432	1,660	2,189	1,987	1,958	2,063	2,590	2,610	2,412	2,687
Fires extinguished	646	999	1,093	1,020	923	721	457	538	98	10
Refuse collection:										
Customers	4,745	4,985	5,100	4,998	5,062	5,027	4,935	3,469	3,850	3,819
Other public works:										
Street resurfaced (miles)	2.5	2.5	2.5	6	0.0	1.2	0.0	0.0	0.0	0.0
Potholes repaired	175	175	150	125	100	100	98	100	100	110
Parks and recreation:										
Community center rentals	101	55	69	75	68	68	142	147	197	58
Human Services:										
Interments	120	131	124	113	150	145	133	103	146	122
Water:										
Water main breaks	12	12	12	12	12	30	16	10	7	16
Average daily consumption (thousands of gallons)	1,940	1,887	1,727	1,905	2,366	1,735	2,229	2,030	2,000	2,044
Peak daily consumption (thousands of gallons)	2,819	2,883	2,359	2,757	3,189	2,300	2,997	2,870	2,720	2,757
Wastewater:										
Average daily treatment (thousands of gallons)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	1,940	1,490
Airport:										
Rentals-T Hangars	49	49	49	49	49	49	49	54	54	54
Building	2	2	2	2	2	2	1	1	1	1
Land leases	2	2	2	2	2	2	1	1	1	1

Source: Departments of the city

Table 17  
City of Palatka, Florida

Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	25	25	25	25	25	26	24	22	22	24
Fire station	2	2	2	2	2	2	2	2	2	2
Firefighters	17	17	17	17	20	20	20	23	23	23
Refuse collection:										
Collection trucks	6	6	6	6	6	6	6	6	6	6
Other public works:										
Streets(miles)	71.18	71.18	71.18	71.18	71.18	71.18	71.18	71.18	71.18	71.18
Traffic signals	16	16	16	16	16	22	22	22	22	22
Parks and recreation:										
Acreage	24.26	24.26	24.26	24.26	24.26	24.26	24.26	24.26	24.26	24.26
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 (miles)	102	103	104	105	106	106	106	106	108	108
Fire hydrants	435	440	445	450	455	455	565	570	578	578
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)	72	73	74	75	76	80	80	80	80	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	1095	1095	1278	1278
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 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>General Government</b>										
General Administration	8	8	8	9	9	8	8	9	8	8
Attorney	1	1	1	1	1	1	1	1	1	1
General Service Director	0	0	0	0	1	0	0	0	0	0
Mainstreet	1	1	0	1	1	0	0	1	0	1
<b>Public Safety</b>										
Building & Zoning	6	6	6	6	7	7	6	4	5	4
Police Officers	35	35	33	32	39	39	39	37	36	34
Police Clerical	7	7	8	8	7	7	7	6	6	7
Firefighters	17	17	17	17	20	20	20	23	23	23
<b>Transportation</b>										
Streets	9	9	9	9	9	9	7	6	6	6
<b>Human Services</b>										
Cemeteries	4	4	4	5	5	5	5	4	3	2
Culture/Recreation	5	5	6	6	7	7	7	8	7	5
<b>Business Type Activities:</b>										
Airport	3	3	3	4	4	4	4	3	3	2
Water	36	36	37	36	37	37	37	33	33	31
Golf	14	7	8	8	7	10	9	8	0	0
Sanitation	20	20	19	19	19	19	19	16	14	14

Source: City of Palatka Personnel Department

**SINGLE AUDIT SECTION**

## 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, 2011, and have issued our report thereon dated May 21, 2012.

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 findings and recommendations made in the preceding audit. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. These requirements of the Rules of the Auditor General are addressed in the accompanying Schedule of Findings and Questioned Costs.

### 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(7). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554. However, as described in condition 11-2 in the accompanying Schedule of Findings and Questioned Costs, there was immaterial noncompliance with certain rate covenants for the Water, Golf and Airport Funds. In addition, the Golf Course Fund had approximately \$936,000 deficit in unrestricted net assets and \$631,200 deficit in total net assets as of September 30, 2011. Other available unassigned and unrestricted resources of the City were sufficient to offset the deficit, but continued use of those resources strains the general operating reserves of the City. The September 30, 2011 unassigned General Fund fund balance represents approximately 1.1 months of general operating expenditures,

which is below recommended reserves. The City's financial condition should be monitored in the upcoming year to ensure that covenants will be met and to prevent reoccurrence of the deficits in the future.

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, 2011, 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, 2011.

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 oversight 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.

*Car, Riggs & Ingram LLC*

May 21, 2012  
Palatka, Florida

## **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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 21, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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 opinions 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

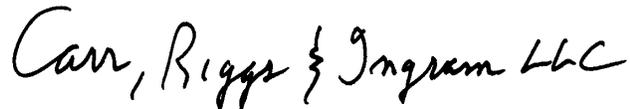
To the Honorable Mayor and City Commissioners  
City of Palatka, Florida  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted instances of immaterial noncompliance, which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-3.

The City's response to the findings 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 oversight agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

May 21, 2012  
Palatka, Florida

**City of Palatka, Florida**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Year Ended September 30, 2011**

<u>Federal Awards</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE, FOREST SERVICE</u>			
Passed Through Florida Division of Forestry:			
ARRA-Forest Health Improvement Initiative Grant	10.688	15940	15,115
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through State Department of Community Affairs:			
Community Development Block Grant	14.228	11DB-L4-04-64-02-C02	\$ 189,097
Economic Development Initiative	14.251	B-10-SP-FL-0128	57,474
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Crime Victim Assistance	16.575	V09045	31,205
Community Capacity Development - Weed & Seed	16.595	2009-WS-QX-0170	19,710
Bulletproof Vest Partnership Program	16.607	--	917
Public Safety Partnership and Community Policing Grant	16.710	2008 UMWX0032	24,281
Public Safety Partnership and Community Policing Grant	16.710	2009-RK-WX-0247	45,258
Passed Through Florida Department of Law Enforcement:			
Byrne Justice Assistance Grant Program	16.738	2011-JAGC-PUTN-3-B2-169	26,508
Byrne Justice Assistance Grant Program	16.738	2010-DJ-BX-1516	17,274
Byrne Justice Assistance Grant Program	16.738	2009-DJ-BX-0978	216
ARRA-Byrne Justice Assistance Grant Program	16.804	2009-SB-B9-0645	44,913
Cluster Total			<u>88,911</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
FAA Airport Improvement Program	20.106	AIP 3-12-0061-017-2008	9,272
FAA Airport Improvement Program	20.106	AIP 3-12-0061-016-2008	4,120
FAA Airport Improvement Program	20.106	AIP 3-12-0061-020-2010	724,815
FAA Airport Improvement Program	20.106	AIP 3-12-0061-021-2011	548,684
Program Total			<u>1,286,891</u>
Passed Through Florida Department of Transportation:			
Highway Planning and Construction	20.205	AQ605	250,000
<u>U.S. DEPARTMENT OF ENERGY</u>			
Passed Through Florida Energy and Climate Commission:			
ARRA-State Energy Program	81.041	ARS027	61,925
ARRA-State Energy Program	81.041	ARE049	58,650
Program Total			<u>120,575</u>
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>			
Office of National Drug Control and Policy			
Passed Through St. Johns County:			
High Intensity Drug Trafficking Areas Program	95.001	--	11,432
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Hazard Mitigation Grant	97.039	10HM-23-04-64-02-002	631
Hazard Mitigation Grant	97.039	10HM-23-04-64-01-004	164,382
Hazard Mitigation Grant	97.039	11HM-3E-04-64-02-015	21,579
Hazard Mitigation Grant	97.039	11HM-3H-04-64-02-007	19,125
Program Total			<u>205,717</u>
Assistance to Firefighters Grant	97.044	EMW-2008-FF-00811	82,301
Assistance to Firefighters Grant	97.044	EMW-2010-FO-02817	123,880
Program Total			<u>206,181</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,552,764</u>

**City of Palatka, Florida**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**For the Year Ended September 30, 2011**

**(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 – Master Plan	55.004	APD49	139
Aviation Development Grant – Building B-2	55.004	AQ837	6,111
Aviation Development Grant – Equipment Building	55.004	AQ825	8,478
Aviation Development Grant – Security Access Control	55.004	AQ418	15,137
Aviation Development Grant –Runway 9/27	55.004	AQ799	14,439
Aviation Development Grant – Taxiway/Drainage	55.004	AQ428	<u>19,227</u>
 TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			 <u>\$ 63,531</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.

## **Report on Compliance With Requirements That Could Have a Direct and Material Effect on the Major Federal Program and on Internal Control Over Compliance**

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 could have a direct and material effect on its major federal program for the year ended September 30, 2011. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 of compliance 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control

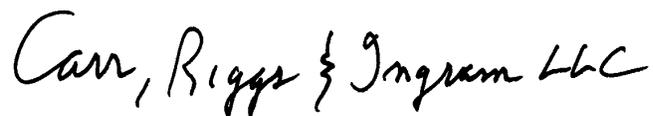
To the Honorable Mayor and City Commissioners  
City of Palatka, Florida  
Page 2

over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion 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 deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 over compliance that might be deficiencies, 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 oversight agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

May 21, 2012  
Palatka, Florida

**City of Palatka, Florida**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2011**

**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 report any significant deficiencies in internal control over compliance with requirements applicable to the major federal award program.
5. The report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. No findings were disclosed relative to the major federal program.
7. The City’s major federal program was:

	<u>Federal CFDA Number</u>
FAA Airport Improvement Program	20.106

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs for federal programs.
9. The City did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

(Continued)

**City of Palatka, Florida**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2011**

**Part II – Financial Statement Findings Section**

- 11-1 *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. Similar findings were reported in previous audit reports as items 10-1 and 09-1.

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

- 11-2 *Condition* – As of September 30, 2011, rate covenants on certain debt obligations of the Water, Golf Course and Airport Funds were not met. Similar findings were reported in previous audit reports as items 10-2 and 09-2.

*Recommendation* – The City should establish rates which will generate sufficient gross revenues to meet the covenants in the future.

- 11-3 *Condition* – During 2011, the City exceeded its approved annual budget of the General Fund, primarily due to expenditures related to grant projects.

*Recommendation* – We recommend that actual expenditures be monitored closely to ensure that the budget is amended, when necessary.

**Part III – Findings and Questioned Costs – Federal Awards**

There were no findings relating to the major federal program.

**City of Palatka, Florida**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended September 30, 2011**

The following is an update of the prior audit findings and is prepared in accordance with Office of Management and Budget Circular A-133, Section .315(b).

Summary of Prior Audit Finding 10-3 – CFDA No. 66.460: The City did not obtain from a vendor the certification pertaining to suspension and debarment.

Status – As of September 30, 2011, the City has verified on the Excluded Parties List that the contractor is not debarred or suspended. It has also implemented procedures to retain such verification.

Summary of Prior Audit Finding 10-4 – CFDA No. 16.738: The City did not obtain from a vendor, under DOJ contract 2010-ARRC-PUTN-1-W7-033, the certification pertaining to suspension and debarment. In addition, under DOJ contract 2010-JAGC-PUTN-1-4X-126, certain activity logs supporting reimbursement claims did not appear to be accurately completed.

Status – As of September 30, 2011, the City has verified on the Excluded Parties List that the contractor is not debarred or suspended. It has also implemented procedures to retain such verification. In addition, the City implemented procedures to ensure the accuracy of activity logs.

**VERNON MYERS**  
MAYOR - COMMISSIONER

**MARY LAWSON BROWN**  
VICE MAYOR - COMMISSIONER

**ALLEGRA KITCHENS**  
COMMISSIONER

**PHIL LEARY**  
COMMISSIONER

**JAMES NORWOOD, JR.**  
COMMISSIONER



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

**BETSY JORDAN DRIGGERS**  
CITY CLERK

**MATTHEW D. REYNOLDS**  
FINANCE DIRECTOR

**GARY S. GETCHELL**  
CHIEF OF POLICE

**MICHAEL LAMBERT**  
CHIEF FIRE DEPT.

**DONALD E. HOLMES**  
CITY ATTORNEY

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

May 21, 2012

The Honorable David W. Martin  
Florida Auditor General  
P.O. Box 1735  
Tallahassee, FL 32302

Dear Mr. Martin:

I write to you in response to the findings noted in the audit of the City of Palatka, prepared by Carr, Riggs & Ingram for the year ended in September 30, 2011.

## **Part II – Financial Statement Findings Section**

11-1 *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. Similar findings were reported in previous audit reports as items 10-1 and 09-1.

*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.

11-2 *Condition* – As of September 30, 2011, rate covenants on certain debt obligations of the Water, Golf Course and Airport Funds were not met. Similar findings were reported in previous audit reports as items 10-2 and 09-2.

*Recommendation* – The City should establish rates which will generate sufficient gross revenues to meet the covenants in the future.

*Resolution* – The City has hired a professional firm to complete a water rate study and recommend a water rate structure that will generate sufficient gross revenues in the Water Fund in order to meet the covenants. The City also implemented a marketing plan for the Airport Fund to increase revenues, and made several changes in the Golf Course Fund to increase revenues as part of its efforts to generate sufficient gross revenues to meet the covenants in the future.

11-3 *Condition* – During 2011, the City exceeded its approved annual budget of the General Fund, primarily due to expenditures related to grant projects.

*Recommendation* – We recommend that actual expenditures be monitored closely to ensure that the budget is amended, when necessary.

*Resolution* – The City will monitor the budget closely to ensure that the actual expenditures will not exceed the approved annual budget in the future.

### **Part III – Findings and Questioned Costs – Federal Awards**

There were no findings relating to the major federal project.

Please contact me if you have any questions or need additional explanation.

Sincerely,



Matthew D. Reynolds  
Finance Director