

# Palatka Gas Authority

## Audit Report

September 30, 2016



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September 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Palatka Gas Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the Palatka Gas Authority (the "Authority"), a component unit of the City of Palatka, as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the pension-related information identified as "required supplementary information" be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017, on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Palatka, Florida  
May 30, 2017

## Management's Discussion and Analysis

This discussion and analysis of the Palatka Gas Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the Authority's financial statements, which follow this section.

The following are financial highlights for fiscal year 2016:

- The Authority's overall net position increased by approximately \$22,000 or about 1%.
- Total ending unrestricted net position was a deficit of approximately \$33,000.
- The Authority had total expenses and transfers for the year of about \$2,386,000, compared to revenues of approximately \$2,408,000, net of cost of gas sold.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The first financial statement is the Statement of Net Position. This statement includes all of the Authority's assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are recorded, regardless of when cash is received or paid. Net position – the difference between assets, deferred outflows, liabilities and deferred inflows – can be used to measure the Authority's financial position.

The second financial statement is the Statement of Revenues, Expenses, and Changes in Net Position. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net position during the fiscal year. Over time, the increases or decreases in net position are useful indicators of whether the Authority's financial health is improving or deteriorating. However, other non-financial factors, such as the condition of the natural gas distribution system or changes in the customer base, must also be considered when assessing the overall health of the Authority.

The Statement of Cash Flows reports cash receipts and cash payments, and classifies the Authority's cash transactions in four categories: operating, noncapital financing, capital and related financing, or investing activities.

In these statements, all of the Authority's activities are considered to be business-type activities, which are generally financed in whole or in part by fees charged to external parties for goods or services. The Authority has no governmental activities.

## Management's Discussion and Analysis

The following presents condensed data about net position and changes in net position.

<b>Net position</b>		<b>2016</b>	<b>2015</b>
<b>Assets and deferred outflows</b>			
Non-capital assets	\$	1,321,929	\$ 1,130,998
Capital assets		5,698,133	5,669,637
Deferred outflows		225,841	268,109
<b>Total assets and deferred outflows</b>		<b>7,245,903</b>	<b>7,068,744</b>
<b>Liabilities and deferred inflows</b>			
Current liabilities		383,981	442,959
Long-term liabilities		1,132,730	955,595
Deferred inflows		64,006	27,447
<b>Total liabilities and deferred inflows</b>		<b>1,580,717</b>	<b>1,426,001</b>
<b>Net position</b>			
Investment in capital assets		5,698,133	5,669,637
Unrestricted		(32,947)	(26,894)
<b>Total net position</b>	<b>\$</b>	<b>5,665,186</b>	<b>\$ 5,642,743</b>
<b>Change in net position</b>			
<b>Operating revenues</b>			
Gas sales	\$	2,427,224	\$ 2,575,076
Cost of gas sales		510,177	704,984
Gross profit		1,917,047	1,870,092
Other operating revenues		480,432	382,814
<b>Nonoperating revenues</b>			
Grant revenue		7,141	-
Investment earnings		2,587	3,144
Other		1,190	3,984
<b>Total revenues, net</b>		<b>2,408,397</b>	<b>2,260,034</b>
<b>Operating expenses</b>		<b>(2,135,954)</b>	<b>(2,030,714)</b>
<b>Transfer to City of Palatka</b>		<b>(250,000)</b>	<b>(300,000)</b>
<b>Change in net position</b>		<b>22,443</b>	<b>(70,680)</b>
<b>Beginning net position</b>		<b>5,642,743</b>	<b>6,253,586</b>
<b>Restatement</b>		<b>-</b>	<b>(540,163)</b>
<b>Beginning net position, as restated</b>		<b>5,642,743</b>	<b>5,713,423</b>
<b>Ending net position</b>	<b>\$</b>	<b>5,665,186</b>	<b>\$ 5,642,743</b>

## Management's Discussion and Analysis

### OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The net position of the Authority increased by approximately \$22,000 or about 1%. Sales decreased by \$148,000 or 5.7% and the cost of gas sold decreased by \$195,000 or 27.7%. However, overall operating expenses for 2016 increased by \$150,000 or 5% over 2015.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

Major additions during the year include the continued installation of smart meters and service lines.

Please refer to a note to the accompanying financial statements entitled *Capital Assets and Depreciation* for more detailed information about the Authority's capital asset activity.

#### Debt Administration

The Authority did not issue any new debt during the year and had no long-term debt outstanding during the year. Long-term liabilities consist of compensated absences and pension liabilities. See financial statement Note 5 for more information on these long-term liabilities.

### ECONOMIC FACTORS

We are not currently aware of any conditions that are expected to have a significant effect on the Authority's financial position or results of operations.

### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Don Kitner, Manager, Post Office Box 978, Palatka, Florida 32178-0978.

Palatka Gas Authority

Statement of Net Position  
Year ended September 30, 2016

**Assets**

Current assets:

Cash and cash equivalents	\$ 463,890
Investments	621,773
Receivables, net	136,571
Prepaid expense	20,296
Inventory	79,399

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Total current assets	1,321,929
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Noncurrent assets:

Capital assets:

Non-depreciable	211,543
Depreciable, net	5,486,590

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Total noncurrent assets	5,698,133
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Total assets	7,020,062
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**Deferred outflows of resources**

Pension related	225,841
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**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities	93,410
Deposits	290,571

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Total current liabilities	383,981
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Noncurrent liabilities:

Due within one year	22,796
Due in more than one year	1,109,934

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Total liabilities	1,516,711
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**Deferred inflows of resources**

Pension related	64,006
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**Net position:**

Investment in capital assets	5,698,133
Unrestricted	(32,947)

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Total net position	\$ 5,665,186
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See accompanying notes.



Statement of Revenues, Expenses and Changes in Net Position  
Year ended September 30, 2016

<b>Operating revenues</b>	
Gas sales	\$ 2,427,224
Cost of gas sold	510,177
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Gross profit	1,917,047
Other operating revenues	480,432
<hr/>	
Total operating revenues, net	2,397,479
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<b>Operating expenses</b>	
Personal services	947,008
Other expenses	923,621
Depreciation	265,325
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Total operating expenses	2,135,954
<hr/>	
<b>Operating income</b>	261,525
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<b>Nonoperating revenues</b>	
Interest revenue	2,587
Gain on disposal of assets	1,190
Other nonoperating revenues	7,141
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<b>Income before transfers</b>	272,443
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Transfer to the City of Palatka	(250,000)
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<b>Change in net position</b>	22,443
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<b>Net position, beginning of year</b>	5,642,743
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<b>Net position, end of year</b>	\$ 5,665,186
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See accompanying notes.

Palatka Gas Authority

Statement of Cash Flows  
Year ended September 30, 2016

<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 2,929,866
Cash payments to suppliers for goods and services	(1,533,456)
Cash payments to employees for services	(691,046)
Cash received for deposits	89,621
Cash payments for deposits refunded	(61,018)
<b>Net cash provided by operating activities</b>	<b>733,967</b>
<b>Cash flows from noncapital financing activities</b>	
Transfer to City of Palatka	(250,000)
<b>Cash flows from capital and related financing activities</b>	
Acquisition of capital assets	(286,680)
Proceeds from sale of capital assets	1,190
<b>Net cash used by capital and related financing activities</b>	<b>(285,490)</b>
<b>Cash flows from investing activities</b>	
Proceeds from sale of investments	210,402
Interest received	2,587
<b>Net cash provided by investing activities</b>	<b>212,989</b>
<b>Net change in cash and equivalents</b>	<b>411,466</b>
<b>Cash and equivalents, beginning of year</b>	<b>52,424</b>
<b>Cash and equivalents, end of year</b>	<b>\$ 463,890</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 261,525
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	265,325
Change in:	
Accounts receivable	22,210
Inventory	8,219
Prepaid Insurance	(20,296)
Deferred outflows	42,268
Accounts payable and accrued liabilities	(87,581)
Deposits	28,603
Compensated absences	6,916
Net pension liability	170,219
Deferred inflows	36,559
<b>Net cash provided by operating activities</b>	<b>\$ 733,967</b>

See accompanying notes.

Notes to Financial Statements

**NOTE 1 – REPORTING ENTITY**

The Palatka Gas Authority (the “Authority”) was created by an Act of the Florida Legislature (Ch. 59-1679, Act 1959) and ratified by election on November 10, 1959. The Authority was created to manage and operate a natural gas utilities system. The five members of the Authority’s governing board are appointed by the Commissioners of the City of Palatka (the “City”) and serve for terms of three years. For financial reporting purposes, the Authority is considered a component unit of the City.

The Authority follows the guidance of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended, to evaluate the reporting entity for potential component units that may be required to be included in the Authority’s financial statements. Based on those guidelines, there are no entities which meet the criteria for inclusion in the Authority’s financial statements.

The Authority did not participate in any joint ventures during the 2015-2016 fiscal year.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Authority 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 Authority’s accounting policies are described below.

***Basis of Presentation***

The financial transactions of the Authority are reported as a proprietary fund type, Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private-sector business enterprises.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

***Measurement Focus and Basis of Accounting***

The Authority utilizes the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

***Cash and Cash Equivalents***

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

***Investments***

Investments consist of certificates of deposit and are reported at cost, which approximates fair value.

Notes to Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Accounts Receivable***

Receivables are stated at net realizable value, reduced by an allowance for uncollectible accounts, where appropriate. Accounts receivable of the Authority is net of a \$35,039 allowance.

***Inventory***

Inventory is stated at cost, based on the weighted average method.

***Capital Assets***

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at estimated acquisition value at the date of contribution.

Land and construction work-in-progress are not depreciated. For depreciable capital assets, depreciation expense 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	40
Plant assets and equipment	25 – 40
Furniture and equipment	5 – 10

***Deferred Outflows/Inflows of Resources***

A deferred outflow of resources is a consumption of resources that is applicable to a future reporting period.

A deferred inflow of resources is an acquisition of resources that is applicable to a future reporting period.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the information about the fiduciary net position of the City of Palatka’s General Pension Plan (the “Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***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.

Notes to Financial Statements

**NOTE 3 – DEPOSITS AND INVESTMENTS**

All of the Authority’s deposits, including its certificates of deposit, are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, and are entirely insured by Federal deposit insurance or collateralized pursuant to the Florida Security for Public Deposits Act. State Statutes authorize the Authority 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.

**NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended September 30, 2016 follows:

	Balance October 1, 2015	Additions	Deletions	Balance September 30, 2016
<b>Capital assets:</b>				
Land	\$ 211,543	\$ -	\$ -	\$ 211,543
Buildings and improvements	1,420,922	-	-	1,420,922
Furniture and equipment	849,641	6,051	1,915	853,777
Plant assets and equipment	6,148,066	287,772	4,324	6,431,514
<b>Total capital assets</b>	<b>8,630,172</b>	<b>293,823</b>	<b>6,239</b>	<b>8,917,756</b>
<b>Accumulated depreciation:</b>				
Buildings and improvements	286,856	35,888	-	322,744
Furniture and equipment	503,951	74,490	1,832	576,609
Plant assets and equipment	2,169,728	154,949	4,407	2,320,270
<b>Total accumulated depreciation</b>	<b>2,960,535</b>	<b>265,327</b>	<b>6,239</b>	<b>3,219,623</b>
<b>Net capital assets</b>	<b>\$ 5,669,637</b>	<b>\$ 28,496</b>	<b>\$ -</b>	<b>\$ 5,698,133</b>

Notes to Financial Statements

**NOTE 5 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net pension liability	\$ 926,179	\$ 170,219	\$ -	\$ 1,096,398	\$ -
Compensated absences	29,416	37,001	30,085	36,332	22,796
<b>Total</b>	<b>\$ 955,595</b>	<b>\$ 207,220</b>	<b>\$ 30,085</b>	<b>\$ 1,132,730</b>	<b>\$ 22,796</b>

During 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, a net pension liability is disclosed in the tabulation of changes in long-term liabilities presented above.

**NOTE 6 – TRANSFER TO CITY OF PALATKA**

In 1982, the Authority’s Board adopted a resolution concerning the payment of a portion of the profits to the City of Palatka after accumulating cash reserves for operations and capital expansion to be based on one half of the prior year net income. However the City has requested additional funding in recent years. For fiscal year 2016, the City of Palatka requested a transfer of \$250,000 which was approved by the Authority’s Board.

**NOTE 7 – PENSION PLAN**

***Plan Description***

The Authority participates in a defined benefit pension plan administered by the City of Palatka Pension Board of Trustees (the “Plan”). From the perspective of the Authority, the Authority reports pension-related activity as if it were a cost sharing employer. The Plan provides for disability, retirement and death benefits with eligibility and benefit provisions as described in the authorizing ordinance. The General Pension Board consists of five members, including the City Manager, two City Commission appointees, one member elected by a majority of the other covered General employees, and one citizen having financial experience appointed by the City Commission. The Board of Trustees may amend provisions of the Plan, however, provisions of the Plan are subject to minimum requirements established in Chapter 112, Florida Statutes. The Plan does not issue a separate financial report. Financial statements and required supplementary information of the Plan are included in the City of Palatka’s Comprehensive Annual Financial Report. That report may be obtained by writing to the City of Palatka, 201 North 2nd Street, Palatka, Florida 32177, calling (386) 329-0100 or at [www.palatka-fl.gov/228/Comprehensive-Annual-Financial-Reports-C](http://www.palatka-fl.gov/228/Comprehensive-Annual-Financial-Reports-C).

Notes to Financial Statements

**NOTE 7 – PENSION PLAN (CONTINUED)**

***Contributions***

The rates at September 30, 2016 were 23.2% for the Authority and 6.0% for employees. The Authority's contributions to the Plan for the year ended September 30, 2016 were \$125,639.

***Benefits Provided***

The Plan provides for vesting of benefits after 7 years of credible service. General Plan Members are eligible for retirement at the earlier of: 1) age 55 and 7 years of credited service, or 2) 30 years of credited service regardless of age. Annual benefits for the plan year beginning October 1, 2014, are equal to total years of service times 2.5% of final average compensation (highest 3 consecutive years of the last 5). The minimum benefit for duty disability is 45% of final average compensation. The minimum benefit for non-duty disability for all members is 25% of final average compensation. A member who terminates with less than 7 years' service may withdraw his or her member contributions.

***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions***

The Authority allocated a proportional share of 18.48% of the net pension liability of the Plan based on an allocation proportional to the contribution requirements. This basis is intended to measure the proportion of each employer's long-term funding requirements. The Authority's share of the net pension liability is \$1,096,398 as of September 30, 2016.

For the year ended September 30, 2016, the Authority's recognized pension expense is \$233,244.

At September 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 13,716
Changes of assumptions	228,458	-
Net difference between projected and actual earnings on pension plan investments	(2,617)	50,290
<b>Total</b>	<b>\$ 225,841</b>	<b>\$ 64,006</b>

Notes to Financial Statements

**NOTE 7 – PENSION PLAN (CONTINUED)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Recognition of Deferred Outflows (Inflows)
2017	67,730
2018	66,883
2019	32,318
2020	(5,096)
2021	-
Thereafter	-
<b>Total</b>	<b>\$ 161,835</b>

***Actuarial Assumptions***

The total pension liability was determined by an actuarial valuation as of October 1, 2015, updated to September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70%
Salary increases	Service based
Investment rate of return	7.90%
Discount rate	7.90%

Mortality assumptions for the plan was based on the Generational RP-2000 with Projection Scale AA.

The most recent actuarial experience study for which significant assumptions are based upon was dated September 20, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



Notes to Financial Statements

**NOTE 7 – PENSION PLAN (CONTINUED)**

Best estimates of arithmetic real rates of return for each major asset class included in the plan’s target asset allocations as of September 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	27%	8.0%
International equity	15%	3.0%
Bonds	34%	4.4%
High yield bonds	5%	6.0%
Convertibles	8%	6.4%
REITS	5%	7.00%
MLPs	5%	10.40%
Cash	1%	1.1%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability is 7.90%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at their applicable contribution rates and that the Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Plan’s investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity Analysis**

The following presents the net pension liability of the Authority’s portion of the Plan, calculated using the discount rate of 7.90%, as well as what the Plan net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.90%) or one percentage-point-higher (8.90%) than the current rate:

	1% Decrease (6.90%)	Discount Rate (7.90%)	1% Increase (8.90%)
Palatka Gas Authority's proportionate share of the net pension liability	\$ 1,547,436	\$ 1,096,398	\$ 717,146

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is included in the 2016 Comprehensive Annual Financial Report of the City of Palatka, Florida.

**Notes to Financial Statements**

**NOTE 8 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to general liability, auto liability, and property damage. To manage its risk, the Authority 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 Authority 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 Authority also carries additional insurance coverage for general liabilities. The Authority’s settled claims have not exceeded coverage in any of the past three fiscal years.

**NOTE 9– FUTURE ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued statements that will become effective in 2017. The statements address:

- Certain pension issues.

The Authority is currently evaluating the effects that these statements will have on its 2017 financial statements.

## **Required Supplementary Information**

Schedule of Proportionate Share of Net Pension Liability  
Last 10 Fiscal Years\*

City of Palatka General Pension Plan	2016	2015
Employer's proportion of the net pension liability (asset)	18.48%	18.17%
Employer's proportionate share of the net pension liability (asset)	\$ 1,096,398	\$ 926,179
Employer's covered-employee payroll	\$ 541,519	\$ 541,416
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	202.47%	171.07%
Plan fiduciary net position as a percentage of the total pension liability	74.59%	76.70%

**Notes to schedules:**

\*The amounts presented for each fiscal year were determined as of the measurement date, which was September 30th of the current fiscal year.

GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those years for which it is available will be presented.

Palatka Gas Authority

Schedule of Employer Contributions  
Last 10 Fiscal Years

City of Palatka General Pension Plan	2016	2015
Contractually required contribution	\$ 125,639	\$ 124,743
Contributions in relation to the contractually required contribution	125,639	124,745
Contribution deficiency (excess)	\$ -	\$ (2)
Employer's covered-employee payroll	\$ 541,519	\$ 541,416
Contributions as a percentage of covered-employee payroll	23.20%	23.04%

**Notes to schedules:**

GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those information for those years for which it is available will be presented.

**Additional Elements Required by the Rules  
of the Auditor General**

## MANAGEMENT LETTER

To the Board of Directors  
Palatka Gas Authority

We have audited the financial statements of the Palatka Gas Authority as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 30, 2017. That report should be considered in conjunction with this management letter.

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

### ***Prior Audit Findings***

The Rules of the Auditor General require that we comment as to whether or not corrective actions 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 Schedule of Findings that accompanies this letter.

### ***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 Authority has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

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

### ***Annual Financial Report***

As required by the Rules of the Auditor General, we determined that the Authority's annual financial report for the fiscal year ended September 30, 2016, 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, 2016.

***Other Matters***

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

The purpose of this management letter is solely to comply with the requirements of Chapter 10.550, Rules of the Auditor General. Accordingly, this communication is not suitable for any other purpose.

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.

*Carri Riggs & Ingram, L.L.C.*

Palatka, Florida  
May 30, 2017



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Palatka Gas Authority

We have audited, 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, the financial statements of the Palatka Gas Authority (the “Authority”) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated May 30, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control 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 as item 2016-001 to be a material weakness.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Authority's Response to Finding**

The Authority's response to the finding identified in our audit is described in its accompanying letter of response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Palatka, Florida  
May 30, 2017

## INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

To the Board of Directors  
Palatka Gas Authority

We have examined the Palatka Gas Authority's (the "Authority") compliance with requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2016. Management is responsible for the Authority's compliance with the specified requirements. Our responsibility is to express an opinion on the Authority's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended September 30, 2016.

This report is intended solely for the information and use of the Authority's management, and the State of Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

Palatka, Florida  
May 30, 2017

Schedule of Findings

2016-001 (The matter in the last sentence was reported in previous audit reports as items 2015-001 and 2014-001)

**Condition** – Generally accepted auditing standards require auditors to prepare a written communication if they identified misstatements during the audit process or if it was necessary to assist with the preparation of the financial statements. As part of the audit process, we proposed material adjustments to the Authority’s financial statements. It was also necessary for us to assist with the preparation of your financial statements in order to ensure that they were presented in conformity with generally accepted accounting principles.

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

City of Palatka

# Palatka Gas Authority

518 Main Street,  
Palatka, Florida 32177  
PO Box 978  
Palatka, Florida 32178  
Telephone (386) 328-1591

May 28, 2017

RE: Schedule of Findings Year Ending 9/30/2016

To: Auditor General

2016-001: Assist with Preparation of Financial Statements

Palatka Gas Authority (PGA) experienced one audit finding, related to the auditors assisting in the preparation of PGA's financial statements, which has not been corrected in the past several audits. This audit finding will continue to be listed for the foreseeable future.

PGA is a small organization, with limited staff (12 full-time and 1-part time employees) and finds it not financially feasible or responsible to add the level of staff necessary to enable financial statements to be prepared in-house or to outsource the same to another accounting firm.

With this in mind, PGA has taken steps to alleviate some inherent risks by implementing controls that prohibit an employee from having access to both the physical assets and the related accounting records. Additionally, an employee who receives monies is prohibited from disbursing monies or persons receiving product inventory and prohibited from relieving product inventory. PGA also requires two approvals on any monies disbursed, whether in cash check or wire transfer. PGA believes it has implemented sufficient controls to prohibit any one employee from having access to all phases of a transaction.

Sincerely,

*Donald E. Kitner*

Donald E. Kitner  
General Manager  
[dkitner@palatkagas.org](mailto:dkitner@palatkagas.org)