

Palatka Gas Authority

Audit Report

September 30, 2017



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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, 2017, 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, 2017, 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 , 2018, 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 solely 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 effectiveness of the Authority's 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.

Cam, Riggs & Ingram, L.L.C.

Palatka, Florida
October 1, 2018

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, 2017. Please read it in conjunction with the Authority's financial statements, which follow this section.

The following are financial highlights for fiscal year 2017:

- The Authority's overall net position increased by approximately \$46,000 or about 1%.
- Total ending unrestricted net position was approximately \$165,000.
- The Authority had total expenses and transfers for the year of about \$2,279,000, compared to revenues of approximately \$2,325,000, 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.

	Net position	
	2017	2016
Assets and deferred outflows		
Non-capital assets	\$ 2,697,842	\$ 1,321,929
Capital assets	5,671,637	5,698,133
Deferred outflows	290,079	225,841
Total assets and deferred outflows	8,659,558	7,245,903
Liabilities and deferred inflows		
Current liabilities	1,544,408	383,981
Long-term liabilities	1,210,499	1,132,730
Deferred inflows	68,132	64,006
Total liabilities and deferred inflows	2,823,039	1,580,717
Net position		
Investment in capital assets	5,671,637	5,698,133
Unrestricted	164,882	(32,947)
Total net position	\$ 5,836,519	\$ 5,665,186
Change in net position		
Operating revenues		
Gas sales	\$ 2,362,122	\$ 2,427,224
Cost of gas sales	643,065	510,177
Gross profit	1,719,057	1,917,047
Other operating revenues	599,607	480,432
Nonoperating revenues		
Grant revenue	-	7,141
Investment earnings	5,285	2,587
Other	1,016	1,190
Total revenues, net	2,324,965	2,408,397
Operating expenses	(2,120,061)	(2,135,954)
Income before transfers	204,904	272,443
Transfer to City of Palatka	(159,210)	(250,000)
Change in net position	45,694	22,443
Beginning net position as restated	5,790,825	5,642,743
Ending net position	\$ 5,836,519	\$ 5,665,186

Management's Discussion and Analysis

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The net position of the Authority increased by approximately \$46,000 or about 1%. Sales decreased by \$65,000 or 2.7% and the cost of gas sold increased by \$133,000 or 26.0%. However, overall operating expenses for 2017 decreased by approximately \$16,000 or 0.7% over 2016.

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, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 919,227
Investments	1,396,071
Receivables, net	293,150
Inventory	89,394

Total current assets	2,697,842
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Noncurrent assets:

Capital assets:

Non-depreciable	211,543
Depreciable, net	5,460,094

Total noncurrent assets	5,671,637
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Total assets	8,369,479
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Deferred outflows of resources

Pension related	290,079
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities	98,113
Due to City of Palatka	505,074
Deposits	305,326
Deposits - City	635,895

Total current liabilities	1,544,408
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Noncurrent liabilities:

Due within one year	24,341
Due in more than one year	1,186,158

Total liabilities	2,754,907
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Deferred inflows of resources

Pension related	68,132
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Net position:

Investment in capital assets	5,671,637
Unrestricted	164,882

Total net position	\$ 5,836,519
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See accompanying notes.

**Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2017**

Operating revenues	
Gas sales	\$ 2,362,122
Cost of gas sold	643,065
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Gross profit	1,719,057
Other operating revenues	599,607
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Total operating revenues, net	2,318,664
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Operating expenses	
Personal services	892,317
Other expenses	965,163
Depreciation	262,581
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Total operating expenses	2,120,061
<hr/>	
Operating income	198,603
<hr/>	
Nonoperating revenues	
Interest revenue	5,285
Gain on disposal of assets	1,016
<hr/>	
Total nonoperating revenues	6,301
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Income before transfers	204,904
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Transfer to the City of Palatka	(159,210)
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Change in net position	45,694
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Net position, beginning of year, as restated	5,790,825
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Net position, end of year	\$ 5,836,519
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See accompanying notes.

Palatka Gas Authority

Statement of Cash Flows
Year ended September 30, 2017

Cash flows from operating activities	
Cash received from customers	\$ 2,805,150
Cash payments to suppliers for goods and services	(1,088,150)
Cash payments to employees for services	(749,021)
Cash received for deposits	671,990
Cash payments for deposits refunded	(21,340)
Net cash provided by operating activities	1,618,629
Cash flows from noncapital financing activities	
Transfer to City of Palatka	(159,210)
Cash flows from capital and related financing activities	
Acquisition of capital assets	(236,085)
Proceeds from sale of capital assets	1,016
Net cash used by capital and related financing activities	(235,069)
Cash flows from investing activities	
Acquisition of investments	(774,298)
Interest received	5,285
Net cash used by investing activities	(769,013)
Net change in cash and equivalents	455,337
Cash and equivalents, beginning of year	463,890
Cash and equivalents, end of year	\$ 919,227
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 198,603
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	262,581
Change in:	
Accounts receivable	(156,579)
Inventory	(9,995)
Prepaid Insurance	20,296
Deferred outflows	61,401
Accounts payable and accrued liabilities	509,777
Deposits	650,650
Compensated absences	546
Net pension liability	77,223
Deferred inflows	4,126
Net cash provided by operating activities	\$ 1,618,629

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 2016-2017 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 \$17,298 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. The Authority uses a capitalization threshold of \$1,000 for all classes of capital assets

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.

Due to City of Palatka/Deposits-City

In May 2017, the Authority began processing the billings and collections for the City’s utilities services as authorized under Code 166(b) and 168. The Authority remits the collections monthly to the City. In conjunction with this processing service, the Authority also administers the associated customer deposits.

Notes to Financial Statements

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 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, 2017 follows:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
Capital assets:				
Land	\$ 211,543	\$ -	\$ -	\$ 211,543
Buildings and improvements	1,420,922	-	-	1,420,922
Furniture and equipment	853,777	14,748	-	868,525
Plant assets and equipment	6,431,514	221,337	20,307	6,632,544
Total capital assets	8,917,756	236,085	20,307	9,133,534
Accumulated depreciation:				
Buildings and improvements	322,744	35,840	-	358,584
Furniture and equipment	576,609	67,690	-	644,299
Plant assets and equipment	2,320,270	159,051	20,307	2,459,014
Total accumulated depreciation	3,219,623	262,581	20,307	3,461,897
Net capital assets	\$ 5,698,133	\$ (26,496)	\$ -	\$ 5,671,637

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	\$ 1,096,398	\$ 77,223		\$ 1,173,621	\$ -
Compensated absences	36,332	37,934	37,388	36,878	24,341
Total	\$ 1,132,730	\$ 115,157	\$ 37,388	\$ 1,210,499	\$ 24,341

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

Ordinance 16-03 establishes that within 30 days following the end of the each calendar month, the Authority will transfer a base line of 5.9% of gross revenues associated with sale of natural gas. For fiscal year 2017, the Authority transferred \$159,210 to the City.

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.

Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions

The rates at September 30, 2017 were 25.22% for the Authority and 6.0% for employees. The Authority’s contributions to the Plan for the year ended September 30, 2017 were \$133,036.

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% 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 \$1,173,621 as of September 30, 2017.

For the year ended September 30, 2017, the Authority’s recognized pension expense is \$275,786.

At September 30, 2017, 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	\$ 49,019	\$ 4,453
Changes of assumptions	172,219	-
Net difference between projected and actual earnings on pension plan investments	68,841	63,679
Total	\$ 290,079	\$ 68,132

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)
2018	154,152
2019	90,028
2020	(15,587)
2021	(6,646)
2022	-
Thereafter	-
Total	\$ 221,947

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2017, applicable to September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70%
Salary increases	Service based
Investment rate of return	7.80%
Discount rate	7.80%

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Rate of Return
Domestic equity	27%	7.8%
International equity	15%	3.7%
Bonds	34%	4.0%
High yield bonds	5%	5.9%
Convertibles	8%	6.0%
REITS	5%	6.8%
MLPs	5%	9.7%
Cash	1%	0.8%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability is 7.80%. 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 7.80%, 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 (6.80%) or one percentage-point-higher (8.80%) than the current rate:

	1% Decrease (6.80%)	Discount Rate (7.80%)	1% Increase (8.80%)
Palatka Gas Authority's proportionate share of the net pension liability	\$ 1,604,935	\$ 1,173,621	\$ 758,494

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is included in the 2017 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 2018. The statements address:

- OPEB—accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

The Authority is currently evaluating the effects that these statements will have on its 2018 financial statements.

NOTE 10– RESTATEMENT

Opening balances were restated to correct pension deferral and expenses from prior year. The effects of this restatement are summarized below:

	General Fund
Net position, September 30, 2016 as previously reported	\$ 5,665,186
Deferred outflows	125,639
Net position, October 1, 2016, as restated	\$ 5,790,825

Required Supplementary Information

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

City of Palatka General Pension Plan	2017	2016	2015
Employer's proportion of the net pension liability (asset)	18.00%	18.48%	18.17%
Employer's proportionate share of the net pension liability (asset)	\$ 1,173,621	\$ 1,096,398	\$ 926,179
Employer's covered-employee payroll	\$ 527,454	\$ 541,519	\$ 541,416
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	222.51%	202.47%	171.07%
Plan fiduciary net position as a percentage of the total pension liability	74.03%	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.

Schedule of Employer Contributions
Last 10 Fiscal Years

City of Palatka General Pension Plan	2017	2016	2015
Contractually required contribution	\$ 133,036	\$ 125,639	\$ 124,743
Contributions in relation to the contractually required contribution	133,036	125,639	124,745
Contribution deficiency (excess)	\$ -	\$ -	\$ (2)
Employer's covered-employee payroll	\$ 527,454	\$ 541,519	\$ 541,416
Contributions as a percentage of covered-employee payroll	25.22%	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 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, 2017, and have issued our report thereon dated October 1, 2018. 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, 2017, 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, 2017.

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.

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

Palatka, Florida
October 1, 2018



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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, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 1, 2018.

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 2017-001 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.

Carri Riggs & Ingram, L.L.C.

Palatka, Florida
October 1, 2018

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, 2017. 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, 2017.

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
October 1, 2018

Schedule of Findings

2017-001 (The matter in the last sentence was reported in previous audit reports as items 2016-001 and 2015-001)

Criteria – Financial statements must be presented in accordance with generally accepted accounting principles.

Condition – As a part of the audit process, it was necessary for us to propose material adjustments to the financial statements. It was also necessary for us to assist with the preparation of the Authority’s financial statements.

Cause - Prior year proposed adjustments were not recorded during the year causing current year net position and net pension liability to be materially misstated. Also, personnel are unable to prepare financial statements, including related notes, in accordance with generally accepted accounting principles.

Effect – Our proposed adjustments were accepted by management, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles.

Recommendation – We recommend that you consider and evaluate the 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

October 1, 2018

RE: Schedule of Findings Year Ending 9/30/2017

To: Auditor General

2017-001: 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. Prior year proposed adjustments were not recorded in the year causing current year net position and net pension liability to be materially misstated.

PGA is a small organization, with limited staff (14 full-time employees), 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.

Sincerely,

Donald E. Kitner

Donald E. Kitner
General Manager