Palatka Gas Authority
(A Component Unit of the City of Palatka)

Audit Report

September 30, 2018

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CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
4010 N.W. 25th Place
Gainesville, Florida 32606
P.O. Box 13494
Gainesville, Florida 32604

(352) 372-6300
(352) 375-1583 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' 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, 2018, 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.

Auditors' 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 auditors' 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, 2018, 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.

Emphasis of Matter – Adoption of New Accounting Pronouncement

As described in Note 10 in the notes to the financial statements, the Authority adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which resulted in a restatement to the September 30, 2017 net position. Our opinion is not modified with respect to this matter.

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 and OPEB-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 June 25, 2019, 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.

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

Gainesville, Florida
June 25, 2019

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, 2018. Please read it in conjunction with the Authority's financial statements, which follow this section.

The following are financial highlights for fiscal year 2018:

- The Authority's overall net position decreased by approximately $150,000 or about 3%.
- Total ending unrestricted net position was a deficit of approximately $162,000.
- The Authority had total expenses and transfers for the year of about $2,780,000, compared to revenues of approximately $2,630,000, 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.

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

Net position

		2018		2017
Assets and deferred outflows				
Current assets	$	1,953,342	$	2,697,842
Restricted assets		1,018,928		-
Capital assets		5,797,446		5,671,637
Deferred outflows		199,161		290,079
Total assets and deferred outflows		8,968,877		8,659,558
Liabilities and deferred inflows				
Current liabilities		628,976		1,544,408
Payable from restricted assets		1,018,928		-
Noncurrent liabilities		1,681,778		1,210,499
Deferred inflows		3,882		68,132
Total liabilities and deferred inflows		3,333,564		2,823,039
Net position				
Investment in capital assets		5,797,446		5,671,637
Unrestricted		(162,133)		164,882
Total net position	$	5,635,313	$	5,836,519

Change in net position

		2018		2017
Operating revenues				
Gas sales	$	2,519,616	$	2,362,122
Cost of gas sales		676,584		643,065
Gross profit		1,843,032		1,719,057
Other operating revenues		772,875		599,607
Nonoperating revenues				
Investment earnings		14,781		5,285
Other		108		1,016
Total revenues, net		2,630,796		2,324,965
Operating expenses		(2,593,830)		(2,120,061)
Income before transfers		36,966		204,904
Transfer to City of Palatka		(185,275)		(159,210)
Change in net position		(148,309)		45,694
Beginning net position, as restated		5,783,622		5,790,825
Ending net position	$	5,635,313	$	5,836,519

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

The net position of the Authority decreased by approximately $150,000 or about 3%. Sales increased by $157,000 or 6.7% and the cost of gas sold increased by $33,000 or 5.2%. However, overall operating expenses for 2018 increased by approximately $474,000 or 22% over 2017. This increase was primarily related to an increase in pension expense associated with an increase in the Authority's proportionate share of the net pension liability.

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 Brett Dennis, Manager, Post Office Box 978, Palatka, Florida 32178-0978.

Statement of Net Position
Year ended September 30, 2018

Assets	
Current assets:	
Cash and cash equivalents	$ 452,052
Investments	1,092,025
Receivables, net	320,788
Inventory	88,477
Total current assets	1,953,342
Restricted assets:	
Investments restricted for customer deposits	1,018,928
Noncurrent assets:	
Capital assets:	
Non-depreciable	211,543
Depreciable, net	5,585,903
Total noncurrent assets	5,797,446
Total assets	8,769,716
Deferred outflows of resources	
Pension related	199,161
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	84,846
Due to City of Palatka	544,130
Total current liabilities	628,976
Payable from restricted assets:	
Deposits	383,033
Deposits - City	635,895
Total payable from restricted assets	1,018,928
Noncurrent liabilities:	
Due within one year	24,180
Due in more than one year	1,657,598
Total noncurrent liabilities	1,681,778
Total liabilities	3,329,682
Deferred inflows of resources	
OPEB related	3,882
Net position	
Investment in capital assets	5,797,446
Unrestricted	(162,133)
Total net position	$ 5,635,313

See accompanying notes.

Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2018

Operating revenues	
Gas sales	$ 2,519,616
Cost of gas sold	676,584
Gross profit	1,843,032
Other operating revenues	772,875
Total operating revenues, net	2,615,907
Operating expenses	
Personal services	1,322,257
Other expenses	1,011,266
Depreciation	260,307
Total operating expenses	2,593,830
Operating income	22,077
Nonoperating revenues	
Interest revenue	14,781
Gain on disposal of assets	108
Total nonoperating revenues	14,889
Income before transfers	36,966
Transfer to the City of Palatka	(185,275)
Change in net position	(148,309)
Net position, beginning of year as previously reported	5,836,519
Restatement	(52,897)
Net position, beginning of year as restated	5,783,622
Net position, end of year	$ 5,635,313

See accompanying notes.

Statement of Cash Flows
Year ended September 30, 2018

Cash flows from operating activities	
Cash received from customers	$ 3,264,853
Cash payments to suppliers for goods and services	(1,700,200)
Cash payments to employees for services	(877,207)
Cash received for deposits	299,728
Cash payments for deposits refunded	(222,021)
Net cash provided by operating activities	765,153
Cash flows from noncapital financing activites	
Transfer to City of Palatka	(146,219)
Cash flows from capital and related financing activites	
Acquisition of capital assets	(386,116)
Proceeds from sale of capital assets	108
Net cash used by capital and related financing activities	(386,008)
Cash flows from investing activities	
Acquisition of investments	(714,882)
Interest received	14,781
Net cash used by investing activities	(700,101)
Net change in cash and equivalents	(467,175)
Cash and equivalents, beginning of year	919,227
Cash and equivalents, end of year	$ 452,052

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 22,077
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	260,307
Change in:	
Accounts receivable	(27,638)
Inventory	917
Deferred outflows	90,918
Accounts payable and accrued liabilities	(13,267)
Deposits	77,707
Compensated absences	2,097
Net pension liability	420,911
Total OPEB liability	(4,626)
Deferred inflows	(64,250)
Net cash provided by operating activities	$ 765,153

See accompanying notes.

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 2017-2018 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.

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 $18,933 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:

	Years
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.

Post-Employment Benefits Other than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the information about OPEB-related amounts have been determined on the same basis as they are reported by the City of Palatka. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 service, the Authority also administers the associated customer deposits.

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 direct obligations of the U.S. Treasury, savings accounts and certificates of deposit in qualified public depositories, the Local Government Surplus Funds Trust Fund, and 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, 2018 follows:

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Capital assets:				
Land	$ 211,543	$ -	$ -	$ 211,543
Buildings and improvements	1,420,922	6,862	-	1,427,784
Furniture and equipment	868,525	162,066	468	1,030,123
Plant assets and equipment	6,632,544	217,188	48,141	6,801,591
Total capital assets	9,133,534	386,116	48,609	9,471,041
Accumulated depreciation:				
Buildings and improvements	358,584	35,874	-	394,458
Furniture and equipment	644,299	61,475	468	705,306
Plant assets and equipment	2,459,014	162,958	48,141	2,573,831
Total accumulated depreciation	3,461,897	260,307	48,609	3,673,595
Net capital assets	$ 5,671,637	$ 125,809	$ -	$ 5,797,446

NOTE 5 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due Within One Year
Net pension liability	$ 1,173,621	$ 420,911	$ -	$ 1,594,532	$ -
Total OPEB Liability	52,897	-	4,626	48,271	-
Compensated absences	36,878	37,288	35,191	38,975	24,180
Total	$ 1,263,396	$ 458,199	$ 39,817	$ 1,681,778	$ 24,180

During 2018, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, a total OPEB 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 2018, the Authority transferred $185,275 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.

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions

The rates at September 30, 2018 were 25.22% for the Authority and 6.0% for employees. The Authority's contributions to the Plan for the year ended September 30, 2018 were $200,027.

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 23.09% 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 $1,594,532 as of September 30, 2018.

For the year ended September 30, 2018, the Authority's recognized pension expense is $612,910.

At September 30, 2018, 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	$ 35,020	$ -
Changes of assumptions	56,603	-
Net difference between projected and actual earnings on pension plan investments	107,538	-
Total	$ 199,161	$ -

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)
2019	$	153,626
2020		18,145
2021		9,432
2022		17,958
2023		-
Thereafter		-
Total	$	199,161

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2017, applicable to September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70%
Salary increases	Service based
Investment rate of return	7.70%
Discount rate	7.70%

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.

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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	27%	8.1%
International equity	15%	3.4%
Bonds	34%	3.6%
High yield bonds	5%	5.6%
Convertibles	8%	6.7%
REITS	5%	6.8%
Infrastructure	5%	9.1%
Cash	1%	0.7%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability is 7.70%. 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 7.70%, as well as what the Plan net position liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point-higher than the current rate:

	1% Decrease (6.70%)	Discount Rate (7.70%)	1% Increase (8.70%)
Palatka Gas Authority's proportionate share of the net pension liability	$ 2,203,894	$ 1,594,532	$ 1,081,817

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is included in the 2018 Comprehensive Annual Financial Report of the City of Palatka, Florida.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other Post-Employment Benefits Plan – Plan Description

Authority employees are provided with OPEB through the City of Palatka OPEB Plan (“the OPEB Plan”), a single employer defined benefit postemployment health care plan administered by the City of Palatka Commissioners (“the City”). From the perspective of the Authority, the Authority reports OPEB-related activity as if it were a cost sharing employer. The City can amend the benefit provisions provided by the OPEB Plan. The City has not established a qualifying trust for the OPEB Plan. A separate stand-alone financial statement for the OPEB Plan is not prepared.

Benefits Provided

The OPEB Plan provides an implicit health insurance subsidy for retirees of the City and the Authority. The Plan allows employees who retire and meet retirement eligibility requirements under one of the City’s retirement plans to continue medical insurance coverage as a participant in the City’s health insurance plan. The retiree pays 100% of the blended group rate premium therefore receiving an implicit subsidy.

Contributions

The contribution requirements of plan members and the participating employers are established and may be amended by the City. The Authority’s required contribution, actuarially determined, is based on a combination of projected pay-as-you-go financing, with an additional amount to prefund benefits when earned. Contributions are not based on a measure of pay. The Authority’s contractually required contribution for the year ended September 30, 2018, was $1,999. Actual contributions to the OPEB Plan from the Authority were $1,999 for the year ended September 30, 2018. Authority retiree plan members receiving benefits contributed to pay-as-you-go financing through their required contributions for health insurance premiums.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the Authority reported a liability of $48,271 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of September 30, 2018, and was determined by an actuarial valuation as of October 1, 2017. Standard actuarial update procedures were used to roll forward to the measurement date from the actuarial valuation date. The Authority’s proportion of the total OPEB liability was based on the Authority’s projected long-term contribution effort to the OPEB Plan as compared to the total projected long-term contribution effort of all employers. At September 30, 2018, the Authority’s proportion of total OPEB liability was 8.40%. For the year ended September 30, 2018, the Authority recognized OPEB expense of $5,913.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	3,882
Total	$ -	$ 3,882

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

Year ended September 30,	Recognition of Deferred Outflows (Inflows)
2019	$ (776)
2020	(776)
2021	(776)
2022	(776)
2023	(776)
Thereafter	-
Total	$ (3,882)

Actuarial Methods and Assumptions

The total OPEB liability in the October 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.50%
Salary increases	Service based
Healthcare cost trend rate	8.5% decreasing to 4.0%
Mortality	RP-2000 mortality tables

An actuarial experience study has not yet been performed for the plan.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.18%. The discount rate is based on the high-quality municipal bond rate, defined as the Bond Buyer 20-Bond Index as published by the Federal Reserve.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the total OPEB liability, as well as what the Authority's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent point higher than the current discount rate:

	1% Decrease (3.18%)	Discount Rate (4.18%)	1% Increase (5.18%)
Palatka Gas Authority's proportionate share of the total OPEB liability	$ 57,487	$ 48,271	$ 41,229

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Authority's proportionate share of the total OPEB liability, as well as what the Authority's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or one percent point higher than the current healthcare cost trend rates:

	1% Decrease (7.50% decreasing to 3.00%)	Current Healthcare Cost Trend Rate (8.50% decreasing to 4.00%)	1% Increase (9.50% decreasing to 5.00%)
Palatka Gas Authority's proportionate share of the total OPEB liability	$ 40,157	$ 48,271	$ 58,993

NOTE 9 – 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 10 – RESTATEMENT – CHANGE IN ACCOUNTING PRINCIPLE

The Authority restated beginning net position as follows to implement provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions:*

Net position - beginning of year, as previously reported	$ 5,836,519
Total OPEB liability	(52,897)
Net position - beginning of year, as restated	$ 5,783,622

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

- FY 2019 – Asset retirement obligations (GASB Statement No. 83) and debt disclosures (GASB Statement No. 88)
- FY 2020 – Fiduciary activities (GASB Statement No. 84) and majority equity interests (GASB Statement No. 90)
- FY 2021 – Leases (GASB Statement No. 87) and accounting for interest during construction periods (GASB Statement No. 89)
- FY 2022 – Conduit debt obligations (GASB Statement No. 91)

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

Required Supplementary Information

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

City of Palatka General Pension Plan	2018	2017	2016	2015
Employer's proportion of the net pension liability	23.09%	18.00%	18.48%	18.17%
Employer's proportionate share of the net pension liability	$ 1,594,532	$ 1,173,621	$ 1,096,398	$ 926,176
Employer's covered-employee payroll	$ 726,984	$ 575,526	$ 541,519	$ 541,416
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	219.34%	203.92%	202.47%	171.07%
Plan fiduciary net position as a percentage of the total pension liability	72.63%	74.03%	74.59%	76.70%

Schedule of Employer Contributions
Last 10 Fiscal Years

City of Palatka General Pension Plan	2018	2017	2016	2015
Contractually required contribution	$ 200,027	$ 133,036	$ 125,639	$ 124,743
Contributions in relation to the contractually required contribution	200,027	133,036	125,639	124,745
Contribution deficiency (excess)	$ -	$ -	$ -	$ (2)
Employer's covered-employee payroll	$ 726,984	$ 575,526	$ 541,519	$ 541,416
Contributions as a percentage of covered-employee payroll	27.51%	23.12%	23.20%	23.04%

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 Proportionate Share of Total OPEB Liability
Last 10 Fiscal Years*

City of Palatka OPEB Plan		2018
Employer's proportion of the total OPEB liability		8.40%
Employer's proportionate share of the total OPEB liability	$	48,271

Schedule of Employer Contributions
Last 10 Fiscal Years

City of Palatka OPEB Plan		2018
Contractually required contribution	$	1,999
Contributions in relation to the contractually required contribution		1,999
Contribution deficiency (excess)	$	-

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.

Contributions to the OPEB plan are not based on a measure of pay, therefore no measure of payroll is presented.

GASB Statement No. 75 was implemented in 2018. 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

CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
4010 N.W. 25th Place
Gainesville, Florida 32606
P.O. Box 13494
Gainesville, Florida 32604

(352) 372-6300
(352) 375-1583 (fax)
www.cricpa.com

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, 2018, and have issued our report thereon dated June 25, 2019. That report should be considered in conjunction with this management letter.

Auditors' Responsibility
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.

Other Reporting Requirements
We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315 regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 25, 2019, should be considered in conjunction with this management 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. In that Schedule, item 2018-001 was substantially the same as the findings reported in the two preceding audit reports as 2017-001 and 2016-001.

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.

Other Matters

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

Purpose of This Letter

The purpose of this management letter is solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Authority and its management, and the Auditor General of the State of Florida, 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.

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

Gainesville, Florida
June 25, 2019

CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
4010 N.W. 25th Place
Gainesville, Florida 32606
P.O. Box 13494
Gainesville, Florida 32604

(352) 372-6300
(352) 375-1583 (fax)
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INDEPENDENT AUDITORS' 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 25, 2019.

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.

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. A *significant* deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 auditing procedures disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings 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.

Gainesville, Florida
June 25, 2019

Carr, Riggs & Ingram, LLC
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Gainesville, Florida 32606
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www.cricpa.com

INDEPENDENT ACCOUNTANTS' 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 the specified requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies,* during the year ended September 30, 2018. Management of the Authority 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, 2018.

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.

Gainesville, Florida
June 25, 2019

2018-001 (The condition was reported in previous audit reports as items 2017-001 and 2016-001)

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 multiple asset and liability accounts to be materially misstated. In addition, a credit for gas purchased and overbilled that was received subsequent to fiscal year end was not recorded.

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 and fiscal year closeout process.

2018-002 ***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 related to subsidiary ledger balances that did not agree with the general ledger. Accounts receivable and inventory balances were not in agreement with the subsidiary ledger, requiring adjustments to the general ledger.

Cause – Subsidiary ledgers were not reconciled to the general ledger.

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, including regular reconciliations between amounts in the subsidiary ledgers and the general ledger.

City of Palatka

Palatka Gas Authority

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

June 25, 2019

RE: Schedule of Findings Year Ending 9/30/2018

To: Auditor General

2018-001: 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 adjustment 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.

2018-002: Subsidiary ledgers not reconciled to the general ledger.

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,

D. Brett Dennis

Brett Dennis
General Manager