LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
SEPTEMBER 30, 2016

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA

TABLE OF CONTENTS

MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Lake Apopka Natural Gas District
Winter Garden, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Apopka Natural Gas District (the District) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 District'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 District'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 opinions.

Opinion

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

To the Board of Commissioners of the
Lake Apopka Natural Gas District

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, 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 March 10, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
March 10, 2017

Management's Discussion and Analysis

Our discussion and analysis of the Lake Apopka Natural Gas District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the financial statements and disclosures that follow.

Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $24,792,082 (total net position) for fiscal year 2016. This is consistent with the previous fiscal year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $22,261,128.

The District's total revenues were $15,391,688, including interest income, in spite of the challenging regulatory, legislative and economic environment that exist. Although The 2015/2016 winter was one of the hottest on record, the District was able to generate a significant increase in revenue because of $821,380 worth of Aid-in-Construction contracts that expired during the year and the additional consumption generated from 1,199 new customers. Under certain circumstances developers provide performance deposits to the District to induce the District to incur the expense to install a natural gas distribution system in their developments. If the developer does not fulfill their obligations within a specified period, the money is forfeited. The deposits associated with the Aid-in-Construction contracts were taken into income. The revenue from the Aid-in-construction and the increase in new customers contributed to the District's excellent financial performance in fiscal year 2016.

In 2016, the District executed and recorded 12 new residential subdivision developer agreements in Orange and Lake Counties. The developers plan to build 1,082 new homes that will generate a minimum of 292,768 therms annually. The District has executed residential agreements for the following subdivisions: Waterside at Johns Lake Phase 2, Estancia of Windermere, Overlook at Hamlin Phases 2 and 5, Roper Reserve, Hilltop Reserve Phase 2, Stanton Estates, Forest Lake Estates, Hamlin Reserve, Highlands at Summerlake Grove Phase 3A, Sanctuary at Hamlin and Orchid Estates in Orange County and The Moorings of Clermont in Lake County. The largest subdivisions were Hamlin Reserve and Forest Lake Estates with 220 and 152 homes, respectively. Taylor Morrison Homes, CalAtlantic Homes, Jones Homes, Ryan Homes and other home builders have executed several agreements with the District to install natural gas systems in their new and future subdivisions.

The continuing strong growth in new residential developer agreements and commercial accounts that were placed in service during the 2016 fiscal year were an important component in the overall financial performance of the District. The Marketing Department converted 56 competitive fuel commercial accounts to natural gas during 2016 with an annual consumption of

1,240,544 therms. The District also opened commercial accounts with Chemical Systems of Orlando, Inc., Florida Hospital, TruStar Energy (CNG Station) and several restaurants and retail commercial accounts. The estimated consumption for the new commercial accounts is expected to exceed 1,240,000 therms annually.

The District continues to serve the Hiawassee system through a wholesale master meter agreement with TECO. This continues to be beneficial because the District does not have to acquire additional firm pipeline capacity or build a costly main extension to serve these customers.

The District used $5,110,309 in cash flow to acquire additional capital assets compared to $3,834,092 for the previous year. The largest capital expenditure was on the construction of the new Measurement and Regulating Station located in Apopka on Kelly Park Road. We realized the need for a new station when we acquired the Zellwood/Plymouth gas system from TECO in mid-2013. The budget money was allocated in fiscal year 2016 for this construction project. The new gate station allows the District to meet all current and future pressure issues in our North Apopka, Zellwood and Plymouth areas. Other noteworthy capital investment included the completion of the Hamlin Trail pipeline major main extension project. This is a 6 inch high pressure (HP) steel main extension to reach New Independence Parkway from the intersection of Porter Road and Hamlin near the Overlook project. This main extension is a backbone high pressure line to back feed Summerport, The Cove and Hamlin Reserve, while providing services to Wal-Mart and a rapidly growing number of commercial customers along the New Independence Parkway. As always, there were road projects that caused the District to expend resources to relocate pipelines. Some of these impacts were minor in 2016, but there was a significant relocation of the remaining section of SR50 in West Orange County from the point it enters the State Road 50 (SR50) corridor at Bluford Avenue all the way West to the SR429 overpass. This project involved relocation and reconstruction of the District's 8 inch HP steel main that is the primary feed from the Winter Garden Gate Station. In addition to the above improvements and relocations, the District continued in 2016 with the systematic replacement of legacy black plastic distribution systems for liability control. Several replacement projects were scheduled and completed in the Apopka's old sections of town.

There were several subdivision projects because of the continued resurgence of homebuilding in our market. We are continuing to install extensive distribution lines in one of the District's largest subdivisions, Highland Ranch, due to its new phase expansions. Other new signed subdivisions included Estancia of Windermere, Ocoee Pines, Roper Reserve, Stanton Estates as well as new phases in Overlook at Hamlin, Oakland Park, Ardmore Reserve, Hilltop Reserve, and Trilogy. In the commercial and industrial arenas, the District built main extensions that will serve the new Wal-Mart and shopping plaza on New Independence Parkway, Florida Hospital on Ocoee Apopka Road, Chemical Systems in Zellwood and TruStar Energy CNG station on North Pine Hills Road. These facilities are expected to run at full capacity and will be among our largest gas users on the system. One other major project budgeted for 2016 was the expansion of the CNG fill station at the District's main office. We contracted Phoenix Energy Corporation to install a new CNG station that will double our storage capacity and giving us the capability to fuel our vehicles at a much faster rate than before. This project however was completed in early

February 2017. The CNG station upgrade will support the District's growing fleet of CNG vehicles and promote CNG use as a motor fuel in our community

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's financial statements. The District was established as an independent special district to provide natural gas service. The District accounts for its activities as a single proprietary fund, which is used to report business-type activities. The accompanying notes to the financial statements provide additional information essential to a full understanding of the financial statements.

Financial Analysis of the District

The District's net position at year-end was $24,792,082. This is an increase of $2,530,954 over last year's net position of $22,261,128. Net position measures the difference between the assets the District owns and deferred outflows of resources over the liabilities it owes and deferred inflows of resources. The following table provides a summary of the District's net position:

Summary of Net Position

	2015	2016
Current Assets	$ 2,691,568	$ 1,425,439
Noncurrent Assets	30,239,283	33,312,627
Total Assets	32,930,851	34,738,066
Deferred outflows	703,941	1,339,384
Current Liabilities	8,270,216	4,826,221
Long-Term Liabilities	2,685,881	6,393,662
Total Liabilities	10,956,097	11.219,883
Deferred inflows	417,567	65,485
Net Position:		
Invested in capital assets, net of related debt	23,456,502	27,987,099
Unrestricted	(1,195,374)	(3,195,017)
Total Net Position	$ 22,261,128	$ 24,792,082

Comparative data is presented to assist in the analysis of the District's operating performance. The following table provides a summary of the District's changes in net position:

Summary of Changes in Net Position

	2015	2016
Revenues:		
Charges for services	$ 15,003,327	$ 14,325,298
Other operating revenues	276,610	1,055,881
Other non-operating revenues	11,285	10,509
Total Revenues	15,291,222	15,391,688
Expenses:		
Natural gas costs	4,132,292	3,145,259
Personal services	4,441,600	4,837,214
Advertising and marketing	617,241	852,436
Repairs and maintenance	667,189	640,918
Other operating expenses	1,635,613	1,838,780
Depreciation	1,319,931	1,402,340
Other non-operating expenses	205,531	143,787
Total expenses	13,019,398	12,860,734
Change in Net Position	2,271,824	2,530,954
Net Position - beginning	19,989,304	22,261,128
Net Position – end of year	$ 22,261,128	$ 24,792,082

The revenues increased by $100,466 and expenses decreased by $158.664 for Lake Apopka Natural Gas District. The slight increase in revenue was primarily due to a combination of two factors. The expiration of $821,380 worth of Aid-in-Construction contracts that generate miscellaneous revenue for the same amount and the decrease in service revenue of $678,029 due to lower than usual consumption. The cost of natural gas is a pass through that is reflected as part of revenue. Annual decreases in natural gas cost erode revenues, while increases improve revenues. The District's cost of natural gas decreased by $987,033, or 24%, due to the significant reduction in the price of natural gas consumed by its customers. The reduction in the natural gas price was passed on to the consumers. During the year, our customer base increased from 17,812 to 19,011, or 7%, due to increases in the demand for natural gas. Our operating expenses for personal services, advertising and marketing, other operating expenses and depreciation increased because of the significant increases in our customer base and the expansion of our distribution system during the year. Revenues were controlled by using the gas stabilization fund to mitigate the financial impact from over and under recovery collections of gas supply cost on the monthly financial statements. When collections from customers exceed the cost of gas, the fund is increased, and when collections are less than the cost of gas, the fund is reduced. Recovery collections are evaluated monthly to maintain process consistency.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, on September 30, 2016, was $30,487,099. This represents an increase of $3,707,597 over the previous year, primarily due to the increased investment in the gas distribution system and furniture, machinery and equipment totaling $4,942,684.

Capital Assets
Net of Accumulated Depreciation

	2015	2016
Non-depreciable Assets:		
Land	$ 282,229	$ 282,229
Depreciable Assets:		
Buildings	1,413,494	1,509,205
Gas distribution system	23,557,342	27,325,012
Furniture, machinery and equipment	1,526,437	1,370,653
Total	$ 26,779,502	$ 30,487,099

Long-Term Debt

At the end of the fiscal year, the District had total notes payable outstanding of $2,500,000. The District has pledged the net revenues of the natural gas system as security for the note. The District paid off its $5,000,000 ten-year 2006 Series Note with Regions Bank with an interest rate of 5.15% on June 27, 2016. The District paid $3,150,885 to retire the Note and $8,900 for the associated Swap fee. Although the bond had a ten-year term, it had a twenty-year amortization term. The District's Board of Commissioners decided to secure a revolving line of credit note from Regions Bank for $2,500,000 at an interest rate of 2.50% over the monthly LIBOR interest rate, to fund the District's activities until a new note is secured at a lower interest rate. The revolving line of credit note was closed on June 27, 2016. On December 14, 2016, the District secured a $5,000,000 note payable at an interest rate of 2.14% for a ten-year period, and a revolving line of credit for a maximum of $2,500,000 at a monthly interest rate of LIBOR plus 1.25% from TD Bank for a minimum of three-years. The revolving line of credit note of $2,500,000 with Regions Bank was retired the same day.

Outstanding Notes Payable

2015	2016
$ 3,323,000	$ 2,500,000

The District's other long-term obligations include accrued employee benefits for vacation, sick leave, and State of Florida pension and health insurance supplemental plans. More detailed information about the District's long-term liabilities is presented in Note 6 of the financial statements.

Economic Factors

The District's economical natural gas prices, along with our rebate program, the continued improvement in the residential homebuilding market and the increased popularity of natural gas have been excellent bargaining tools for the District to use to negotiate builder agreements and gas main construction with commercial customers. Economists have predicted that residential housing in 2017 will far exceed the number of homes built in 2016. In 2016, we continued our efforts to promote energy efficiency and encourage customers to consider natural gas as a reliable, affordable, economical and environmentally friendly fuel for their homes, businesses and vehicles. The District is in contract negotiations with a large multi-family housing developer, who may be installing a CHP (Central Heat and Power) unit in the 316-unit luxury apartment complex to be built in Windermere. It will be our first commercial business with such a unit. It is the District's plan to continue our fleet upgrade/replacement program with dedicated and bi-fuel natural gas vehicles where needed, based on a review of the age of the vehicle, high mileage, maintenance cost and whether the cost to repair exceeds the net value of the vehicle. The District has completed the modification and upgrade to its CNG station for more capacity and installed an additional fast fuel dispenser.

The District continued improving its Information Systems in areas such as reliable customer service, automation of service activities, technology enhancements, and professional development. Our reliable customer service was enhanced by implementing credit card swipes in our offices to make our Customer's experience easier, faster, and more secure. After listening to our Customers' feedback, the public website was updated making forms more easily accessible. We automated service activities by implementing a solution enabling electronic capture for customer payments made through their bank's bill pay system, thereby replacing printed checks. Technology enhancements were realized and had the effect of positively improving our security posture and lowering costs. Our telemetry reporting system to many of our commercial customers was rearchitected to eliminate communication interruptions. District personal computers were upgraded to Windows 10 and received the latest security updates. Our enhancements of technology also brought about some cost reductions as we replaced our aging GPS vehicle tracking system with an upgraded, more feature rich, but lower cost system resulting in an annual savings of approximately $6,000. In addition, we started utilizing the RTK service from the Florida Department of Transportation, resulting in a cost savings of approximately $3,000, per year. Increasing professional development through training occurred for District team members. IS trained team members how to tether their cell phones to their laptops to create a Personal Hotspot for internet access. This allowed us to cancel many WiFi devices resulting in approximately $4,000 in savings, annually. IS led training on Windows 10, our new Network Fleet GPS vehicle tracking software, and "lunch and learns" with topics covering cyber security, our security policy, and Microsoft Outlook. Knowing it is important to give back, the IS team worked with the Intern program from POPS (Professional Opportunities

Program for Students) by teaching the interns how to upgrade a computer to Windows 10 and then incorporating them as participating workers during the upgrade, allowing them to gain real world experience.

The District will continue to rely on Infinite Energy for natural gas purchasing and scheduling. The District also works with Energy Vision, which provides market oversight, hedging and risk management to the District.

Safety Program and Awards

Lake Apopka Natural Gas District has an active safety committee which meets quarterly and hosts safety training for District employees on a minimum quarterly basis on a variety of topics, such as safe driving, workplace violence, stress management, ladder safety, ergonomics, first aid/CPR/AED use and proper fire extinguisher use. The District also rolled out a Safety Recognition Program in March 2016, which recognizes employees who show a commitment to safety in the performance of their job duties.

The District was honored last year with the American Public Gas Association's Silver SOAR Award. The SOAR Award, which stands for System Operational Achievement Recognition, recognizes those public gas systems that have achieved excellence in the operation of their natural gas utility, and safety is an integral part of the criteria reviewed for the award. The District maintains our commitment to placing a strong emphasis on the safety of both our employees and the public.

The District allocated budget dollars in fiscal year 2016 to relocate its retention pond at its main office facility further back on the property to allow large delivery vehicles space to turn around. Because of the limited space around the warehouse facility many of the large delivery vehicles had to back out of the drive way to return to the main entrance road. This practice created a safety hazard to drivers of other vehicles and pedestrians. The District worked with the City of Winter Garden, St. Johns River Water Management District and Hudson Site Construction to relocate the retention pond. The construction commenced in early 2016 and was completed in late 2016.

Contacting the District's Financial Management

This financial report is designed to provide an overview of the District's finances and to demonstrate the District's commitment to public accountability for all interested parties. If you have questions about this report or need additional financial information, contact the District's Director of Finance at 1320 Winter Garden-Vineland Road, Winter Garden, Florida 34787.

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

ASSETS

Current Assets:		
Cash	$	145,806
Accounts receivable (net of allowance for uncollectibles)		641,815
Inventory		587,264
Prepaid expenses		50,554
Total Current Assets		1,425,439
Noncurrent Assets:		
Restricted cash and cash equivalents		2,825,528
Capital Assets:		
Land		282,229
Buildings		2,221,987
Gas distribution system		40,943,315
Machinery and equipment		3,829,148
Less: Accumulated Depreciation		(16,789,580)
Total Noncurrent Assets		33,312,627
TOTAL ASSETS		34,738,066

DEFERRED OUTFLOWS

Deferred outflows related to pensions		1,339,384
Total Deferred Outflows		1,339,384

The independent auditor's report and notes to the financial statements are an integral part of this statement.

LIABILITIES

Current Liabilities (Payable From Current Assets):	
Accounts payable	$ 1,101,149
Accrued wages and benefits payable	308,419
Accrued taxes payable	150,332
Gas rate stabilization	440,793
Total Current Liabilities (Payable From Current Assets)	2,000,693
Current Liabilities (Payable From Restricted Assets):	
Customer deposits	2,313,707
Developer deposits	511,821
Total Current Liabilities (Payable From Restricted Assets)	2,825,528
Noncurrent Liabilities:	
FRS net pension liability	2,186,079
State of Florida HISP net liability	1,248,843
Revolving line of credit note	2,500,000
Accrued benefits payable	458,740
Total Noncurrent Liabilities	6,393,662
TOTAL LIABILITIES	11,219,883

DEFERRED INFLOWS

Deferred inflows related to pensions	65,485
Total Deferred Inflows	65,485

NET POSITION

Invested in capital assets, net of related debt	27,987,099
Unrestricted	(3,195,017)
TOTAL NET POSITION	$ 24,792,082

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Operating Revenues:	
Charges for services	$ 14,325,298
Other operating revenues	1,055,881
Total Operating Revenues	15,381,179
Operating Expenses:	
Natural gas purchases	3,145,259
Personal services	4,837,214
Insurance	109,090
Repairs and maintenance	640,918
Professional services	310,359
Advertising and marketing	852,436
Bad debt expense	62,500
Travel and per diem	74,462
Gas, oil and fuel	68,822
Freight and postage	146,789
Materials	402,464
Communication services	89,855
Utilities	96,771
Supplies	41,632
Bank charges	176,516
Dues and subscriptions	34,873
Other operating expenses	224,647
Depreciation	1,402,340
Total Operating Expenses	12,716,947
Operating Income	2,664,232
Nonoperating Revenues (Expenses):	
Interest income	10,509
Interest expense	(143,415)
Loss on disposal of assets	(372)
Total Nonoperating Revenues (Expenses)	(133,278)
Change in net position	2,530,954
Total Net Position - Beginning	22,261,128
Total Net Position - Ending	$ 24,792,082

The independent auditor's report and notes to the financial statements are an integral part of this statement.

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows From Operating Activities:		
Cash received from customers	$	14,586,664
Cash payments to suppliers for goods and services		(5,771,365)
Cash payments to employees for services		(4,594,147)
Net Cash Provided By Operating Activities		4,221,152
Cash Flows From Capital and Related Financing Activities:		
Proceeds from revolving line of credit note		2,500,000
Acquisition and construction of capital assets		(5,110,309)
Principal paid on revenue note		(3,323,000)
Interest paid on revenue note		(158,183)
Net Cash Used By Capital and Related Financing Activities		(6,091,492)
Cash Flows From Investing Activities:		
Interest		10,509
Net Decrease in Cash and Cash Equivalents		(1,859,831)
Cash and Cash Equivalents at October 1		4,831,165
Cash and Cash Equivalents at September 30 (1)	$	2,971,334

(1) Cash - Unrestricted Assets	$	145,806
Cash and Cash Equivalents - Restricted Assets - Noncurrent		2,825,528
	$	2,971,334

The independent auditor's report and notes to the financial statements are an integral part of this statement.

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$	2,664,232
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		1,402,340
Changes in Assets and Liabilities:		
(Increase) decrease in receivables		(75,776)
(Increase) decrease in inventory		11,006
(Increase) decrease in prepaid expenses		105,321
Increase (decrease) in accounts payable		589,701
Increase (decrease) in accrued wages and benefits		35,047
Increase (decrease) in taxes payable		9,862
Increase (decrease) in prepaid services		(115,248)
Increase (decrease) in net customer/developer deposits		(619,486)
Increase (decrease) in gas rate stabilization		6,133
Increase (decrease) in net pension liability/deferrals		208,020
Net Cash Provided By Operating Activities	$	4,221,152

Note 1 – Summary of Significant Accounting Policies:

A. Reporting Entity – Lake Apopka Natural Gas District (the District) was established pursuant to the provisions of Chapter 59-556, Laws of Florida, Acts of 1959, which became law on June 20, 1959, to provide natural gas service within its defined area of service. The District operates under a commission form of government with the commissioners being appointed by the District's member municipalities of Apopka, Winter Garden and Clermont. The District does not have any reporting requirements for a component unit.

B. Fund Financial Statements – The District is accounted for as a proprietary fund. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Activities are generally financed in whole or in part with fees charged to customers.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The accounting and reporting policies of the District conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB).

   The financial statements report uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when billed to the customer and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

   Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or service. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

   1. Cash and Cash Equivalents – Cash includes amounts in demand deposits, as well as short-term investments with an original maturity date of three months or less. For purposes of reporting cash flows all highly-liquid investments (including restricted assets) with an original maturity date of three months or less are considered to be cash equivalents.

   2. Accounts Receivable – Customer accounts receivable are presented at estimated net realizable value. The allowance method is used for determining estimated uncollectible accounts. The allowance for uncollectible accounts is based on a percentage of gross sales to cover anticipated losses. The allowance account is adjusted periodically to cover management's estimate of anticipated losses of its current accounts receivable. Receivables are written off against the allowance for uncollectible accounts when management feels any additional collection efforts would be unproductive.

3. Inventories – The inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

4. Prepaid Expenses – Payments made to vendors for services that will benefit future reporting periods.

5. Restricted Assets – The restricted assets shown on the balance sheet represent those assets which are earmarked for specific purposes. The corresponding liability designated as payable from restricted assets represents the current maturities for which the restricted assets are accumulated. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Capital Assets – All capital assets are stated at historical cost. Capital assets are defined by the District as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Land is the only capital asset not depreciated. Estimated useful lives are as follows:

Buildings	20 – 50 years
Gas distribution system	15 – 50 years
Machinery and equipment	5 – 15 years

7. Employee Benefits – Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when incurred.

8. Deferred Outflow/Inflow of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until that time.

   The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future reporting years. Details on the composition of the deferred outflows related to pensions are further discussed in Note 10.

   In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting as deferred inflows of resources.

The deferred inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future reporting years. Details on the composition of the deferred outflows related to pensions are further discussed in Note 10.

9. Pensions/Net Pension Liability – In the statement of net position, net pension liability represents the District's proportionate share of the net pension liability of the cost-sharing pension plans in which it participates. This proportionate amount represents a share of the present value of projected benefit payments to be provided through the cost-sharing pension plans to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the cost-sharing pension plan's fiduciary net position.

   For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

10. Use of Restricted Resources – The District's policy is to spend unrestricted funds only after all of the applicable restricted resources have been depleted.

E. Revenues and Expenses

1. Unbilled revenue, which results from cyclical billing practices, is recorded in the following fiscal year for residential and commercial customers.

2. Employee Benefits – Employees earn annual vacation leave at the rate of 10 days per year for the first 5 years of service, after which they earn additional time based upon the District's vacation schedule whereby an employee has 15 days per year after 10 years of service; 20 days per year after 20 years of service; and 25 days per year after 25 years of service. Employees can accumulate up to 5 vacation days over the amount earned for one year. Employees are paid for all outstanding vacation time accumulated when they leave the District's employment.

   Employees earn sick leave at the rate of 4 hours per month for the first year of service and 8 hours per month after the first year of service. Sick leave can be accumulated up to a maximum of 1040 hours. Employees are paid for accrued sick leave up to a maximum of 480 hours when they leave the District's employment.

F. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for the risks of losses to which it is exposed. Settled claims have not exceeded this commercial coverage for the current year or the three prior years.

G. Net Position

Net position represent the difference between assets and liabilities in the statement of net position. Net invested in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Deposits:

The Florida Security for Depositors Act identifies those financial institutions that have deposited the required collateral in the name of the Treasurer of the State of Florida as qualified public depositories. The District only places deposits with qualified public depositories. Therefore, all deposits are entirely insured by FDIC or Florida's Multiple Financial Institution Collateral Pool.

Note 3 – Receivables:

Accounts receivable have been reported, net of allowance for uncollectible accounts. The allowance for uncollectible accounts at September 30, 2016 was $52,164. The allowance is based upon management's specific identification of receivables that may become uncollectible.

Note 4 – Capital Assets:

A summary of changes in the District's capital assets is as follows:

	Balance 9/30/15	Additions	Deletions	Balance 9/30/16
Land	$ 282,229	$ -	$ -	$ 282,229
Buildings	2,055,202	166,785	-	2,221,987
Gas distribution system	36,240,674	4,702,641	-	40,943,315
Office furniture and equipment	204,464	4,473	(840)	208,097
Computer equipment and software	1,073,129	54,312	-	1,127,442
Transportation equipment	1,062,706	-	-	1,062,706
Tools and work equipment	1,094,755	179,746	-	1,274,500
Communication equipment	151,256	2,352	-	153,608
Other equipment	2,795	-	-	2,795
Totals	42,167,210	5,110,309	(840)	47,276,679
Less: Accumulated depreciation	(15,387,708)	(1,402,340)	468	(16,789,580)
Net	$ 26,779,502	$ 3,707,969	$ (372)	$ 30,487,099

Note 5 – Post-Employment:

Post-Employment Health Care Benefits – Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District provides health care benefits to eligible former employees and eligible dependents. Premiums are paid by the insured. This program is offered for a period of 18 months after the termination date. The associated cost to the District under this program is undeterminable due to the composite rate structure, which charges the same for all employees.

Note 6 – Long-Term Debt:

On June 27, 2016, the District entered into a revolving line of credit agreement with Regions Bank. The agreement allowed the District to issue the $2,500,000 2016 Revolving Line of Credit Note. The purpose of the Revolving Line of Credit Note is to provide for working capital. Interest is due monthly at a stated rate of 2.50% in excess of the LIBOR rate. The principal balance is due on June 30, 2018; there is no penalty for prepayment. The Revolving Line of Credit Note is secured by the net operating revenues of the District.

The District has pledged the net revenues generated by the overall system for payment of the note issued. The note is payable solely from the District's customers' net revenues payable through 2018. Annual principal and interest payments on the note are currently expected to require approximately 32% of net revenues. The total principal and interest remaining on the note, as noted below under Debt Service Requirements, is $2,610,625. Principal and interest paid for the current year and total customer net revenues were $3,481,183 and $4,077,081, respectively.

The following is a summary of changes in long-term debt for the year ended September 30, 2016:

	Balance 10/1/15	Additions	Reductions	Balance 9/30/16	Amount Due in One Year
Notes,					
2006 Note	$ 3,323,000	$ -	$ 3,323,000	$ -	$ -
2016 Revolving Line of Credit Note	-	2,500,000	-	2,500,000	-
Net Pension Liability	2,239,377	1,195,545	-	3,434,922	-
Employee Benefits	599,741	128,897	125,692	602,946	144,206
Total	$ 6,162,118	$ 3,824,442	$ 3,448,692	$ 6,537,868	$ 144,206

The annual debt service requirements for the note payable outstanding as of September 30, 2016 are as follows:

Year Ending September 30,	Principal	Interest
2017	$ -	$ 73,750
2018	2,500,000	36,875
Total Payments	$ 2,500,000	$ 110,625

Note 7 – Gas Rate Stabilization:

Gas rate stabilization represents the District's liability to customers for excess costs collected over costs incurred for natural gas.

Note 8 – Contingencies:

The District is not aware of any pending or threatened litigation, which would not be covered by insurance.

Note 9 – Other Matters:

The District's current pipeline capacity contracts require the District to purchase a minimum volume of pipeline capacity on a monthly basis. Currently, the District's sales volume is less than the required purchase volume during the November through April contract period. The District's asset manager, Infinite Energy, markets the excess capacity.

Note 10 - Florida Retirement System Pension Plan:

Plan Description: The District contributes to the Florida Retirement System (FRS), a cost-sharing, multiple-employer public employee retirement system (PERS) administered by the Florida Division of Retirement. The FRS offers a choice between a defined benefit plan (Pension Plan) and a defined contribution plan (Investment Plan). Employees also participated in the Retiree Health Insurance Subsidy (HIS Plan), which is a defined benefit plan. Florida Statutes, Chapter 121, assigns the District to administer the Plan to the Division of Retirement. The Florida Legislature establishes and amends benefit provisions and contribution levels.

The Pension Plan provides for vesting of benefits after 6 to 8 years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 to 65 with 6 or 8 or more years of service. Early retirement is available after 6 to 8 years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based upon age, average compensation and years-of-service credit, where average compensation is computed based on an individual's 5 to 8 highest years of earnings. Benefits also include a disability and survivor's benefits, as established by Florida Statutes.

Pension Plan members may participate in a Deferred Retirement Option Plan (DROP), after reaching eligibility for normal retirement or through the available deferral period for eligible members. This plan allows employees to defer receipt of retirement benefits while continuing employment with a FRS employer for up to 60 months. Accumulated system benefits earn 1.3% interest compounded monthly. The employer continues to contribute to the FRS on behalf of the employee.

The Investment plan provides for vesting after one year of creditable service. Under this plan, the employer makes contributions to a participant's account and the participant directs where the contributions are invested among the plan's investment funds. Upon termination, vested participants may receive amounts accumulated in their investment accounts.

The HIS Plan is established in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees in paying their health insurance costs. Current benefits are based on $5 per year of service, ranging from $30 - $150 per month. To be eligible, retirees must provide proof of health insurance coverage, which may include Medicare.

Funding Policy: The District is required to contribute at an actuarially determined rate. The current rate for regular members, senior management, and DROP participants is 7.52%, 21.77%, and 12.99%, respectively, of annual covered payroll, which includes the HIS Plan rate of 1.66%. The contribution requirements of the District are established and may be amended by the Florida Legislature. The District's contributions to the FRS for the years ended September 30, 2016, 2015 and 2014 were $282,329, $224,080, and $249,724, respectively. Employees were required to begin contributing 3% to the retirement system effective July 1, 2011.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – At September 30, 2016, the District reported a liability of $2,186,079 and $1,248,843 for its proportionate share of the Pension Plan and HIS Plan's net pension liability, respectively. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share for the Pension Plan was .008657704%, which was a decrease of .000355801% from its proportionate share measured as of June 30, 2015. At June 30, 2016, the proportionate share for the HIS Plan was .010715464%, which was an increase of .00017306% from its proportionate share measured as of June 30, 2015.

For the year ended September 30, 2016, the District recognized pension expense of $368,522 for the Pension Plan, and $111,043 for the HIS Plan.

The deferred outflows of resources and deferred inflows of resources related to the Pension Plan are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 167,383	$ 20,354
Change of assumptions	132,251	-
Net difference between projected and actual earnings on Pension Plan investments	565,073	-
Changes in proportion and differences between District Pension Plan contributions and proportionate share of contributions	163,253	42,287
District Pension Plan contributions subsequent to the measurement date	62,227	-
Total	$ 1,090,187	$ 62,641

The deferred outflows of resources and deferred inflows of resources related to the HIS Plan are as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 2,844
Change of assumptions	195,975	-
Net difference between projected and actual on HIS Plan investments	631	-
Changes in proportion and differences between District HIS Plan contributions and proportionate share of contributions	37,653	-
District HIS Plan contributions subsequent to the measurement date	14,938	-
Total	$ 249,197	$ 2,844

The deferred outflows of resources related to the Pension Plan and HIS Plan, totaling $62,227 and $14,938, respectively, resulting from District contributions to the Plans subsequent to the measurement date, will be recognized as a reduction of the new pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Pension Plan Amount	HIS Plan Amount
2017	$ 191,844	$ 34,230
2018	191,844	34,230
2019	191,844	34,230
2020	191,844	34,230
2021	191,844	34,230
Thereafter	57,964	62,232

Pension Plan Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, net of pension plan investment expense
Mortality	Generational RP-2000 with Projection Scale BB

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption.

The target allocation (as outlined in the Pension Plan's Investment Policy) and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Annual Arithmetic Return
Cash	1.0 %	3.0 %
Fixed income	18.0	4.7
Global equity	53.0	8.1
Real estate	10.0	6.4
Private equity	6.0	11.5
Strategic investments	12.0	6.1
Total	100.0 %	

Pension Plan Discount Rate – The discount rate used to measure the total pension liability was 7.60%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

HIS Plan Actuarial Assumptions – The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Municipal Bond rate	2.85%
Mortality	Generational RP-2000 with Projection Scale BB

HIS Plan Discount Rate – The discount rate used to measure the total pension liability was 2.85%. The prior year discount rate was 3.80%. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the District's Proportionate Share of the Net Position Liability to Changes in the Discount Rate – The following represents the District's proportionate share of the net pension liability calculated using the current discount rate and what it would be if it were calculated using a discount rate that is one-percentage-point lower and one percentage point higher:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Pension Plan proportionate share of the net pension liability	$ 4,024,716	$ 2,186,079	$ 655,653

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
HIS Plan proportionate share of the net pension liability	$ 1,432,707	$ 1,248,843	$ 1,096,246

The FRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Detailed information regarding the FRS and HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report for the year ended June 30, 2016.

That report can be obtained by contacting the Division of Retirement at:

Department of Management Services
Division of Retirement
Bureau of Research and Member Communications
P.O. Box 9000, Tallahassee, FL 32315-9000

Note 11- Subsequent Event

In December 2016, the District issued the $5,000,000 Series 2016 Note. The purpose of this note is to pay off the Series 2016 Revolving Line of Credit Note and also to fund capital improvements. The interest rate on the Note is 2.14% and matures on November 1, 2026. Monthly principal and interest payments commence on January 1, 2017. The Series 2016 Note is secured by the net revenues of the District.

Lake Apopka Natural Gas District
Schedule of Contributions

Florida Retirement System (FRS) Defined Benefit Pension Plan

District's Fiscal Year Ended Sept 30,	FRS Contractually Required Contribution	FRS Contributions in Relation to the Contractually Required Contribution	FRS Contribution Deficiency (Excess)	District's Covered Employee Payroll	FRS Contributions as a Percentage of Covered Payroll
2016	$ 211,132	$ 211,132	$ -	$ 2,875,589	7.34%
2015	219,757	219,757	-	2,949,763	7.45%
2014	197,434	197,434	-	2,016,036	9.79%

Notes:
The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2015, including restatement as of September 30, 2014. Information for prior years is not available.

Retiree Health Insurance Subsidy (HIS) Program Defined Benefit Pension Plan

District's Fiscal Year Ended Sept 30,	HIS Contractually Required Contribution	HIS Contributions in Relation to the Contractually Required Contribution	HIS Contribution Deficiency (Excess)	District's Covered Employee Payroll	HIS Contributions as a Percentage of Covered Payroll
2016	$ 54,924	$ 54,924	$ -	$ 3,308,429	1.66%
2015	40,320	40,320	-	3,198,614	1.26%
2014	34,717	34,717	-	3,007,478	1.15%

Notes:
The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2015, including restatement as of September 30, 2014. Information for prior years is not available.

Lake Apopka Natural Gas District
Schedule of the District's Proportionate Share of the Net Pension Liability

Florida Retirement System (FRS) Defined Benefit Pension Plan

District's Fiscal Year Ended Sept 30,	Plan Sponsor Measurement Date June 30,	District's Proportion of the FRS Net Pension Liability	District's Proportionate Share of the FRS Net Pension Liability	District's Covered Employee Payroll	District's Proportionate Share of the FRS Net Pension Liability as a Percentage of Covered Payoll	FRS Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2016	2016	0.0086%	$ 2,186,079	$ 2,875,589	76.02%	84.88%
2015	2015	0.0090%	1,164,215	2,949,763	39.47%	92.00%
2014	2014	0.0074%	1,266,714	2,016,036	62.83%	96.09%

Notes:
The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2015, including restatement as of September 30, 2014. Information for prior years is not available.

Retiree Health Insurance Subsidy (HIS) Program Defined Benefit Pension Plan

District's Fiscal Year Ended Sept 30,	Plan Sponsor Measurement Date June 30,	District's Proportion of the HIS Net Pension Liability	District's Proportionate Share of the HIS Net Pension Liability	District's Covered Employee Payroll	District's Proportionate Share of the HIS Net Pension Liability as a Percentage of Covered Payoll	HIS Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2016	2016	0.0105%	$ 1,248,843	$ 3,308,429	37.75%	0.97%
2015	2015	0.0107%	1,075,160	3,198,614	33.61%	0.50%
2014	2014	0.0101%	966,589	3,007,478	32.14%	0.99%

Notes:
The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2015, including restatement as of September 30, 2014. Information for prior years is not available.

MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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 Commissioners of the
Lake Apopka Natural Gas District
Winter Garden, Florida

We have audited, in accordance with the 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 basic financial statements, as listed in the table of contents, of the Lake Apopka Natural Gas District (the District) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated March 10, 2017.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Commissioners of the
Lake Apopka Natural Gas District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

We noted certain matters that we reported to the District's management, in a separate letter dated March 10, 2017.

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.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
March 10, 2017

MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

To the Board of Commissioners of the
Lake Apopka Natural Gas District
Winter Garden, Florida

Report on the Financial Statements

We have audited the basic financial statements of the Lake Apopka Natural Gas District (the District) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated March 10, 2017.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America and Chapter 10.550, *Rules of the Auditor General*.

Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit on Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Accountant's Report on an examination conducted with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in these reports, which are dated March 10, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In connection with the preceding audit, there were no findings or recommendations.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

To the Board of Commissioners of the
Lake Apopka Natural Gas District

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based, in part, on representations made by management and the review of financial information provided by same.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. There were no special district component units that were required to provide financial information to the District for the fiscal year ended September 30, 2016.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. We have included our current-year recommendations in the attached "Management Letter Schedule of Observations and Recommendations."

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the District Board, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
March 10, 2017

LAKE APOPKA NATURAL GAS DISTRICT

MANAGEMENT LETTER SCHEDULE OF OBSERVATIONS AND RECOMMENDATIONS

For the Year Ended September 30, 2016

MLO 2016-001 – ACCOUNT RECONCILIATIONS

Observation:
During our audit of the District, we noted several balance sheet accounts with unreconciled differences.

Recommendation:
We recommend that account reconciliations be reviewed for accuracy and completeness on a timely basis. The composition of unreconciled differences should be determined and followed up on.

Management Response:
We agree with the recommendation. All unreconciled differences will be researched and reconciled, when possible. However, after a reasonable amount of time has been consumed to research immaterial differences and the likelihood of finding the difference would take extensive research time, we will use our judgement concerning the action to take.

MLO 2016-002 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) VALUATION

Observation:
During our audit of the District, we noted that an OPEB valuation has never been completed. Per Florida Statutes 112.0801, all special districts are required to offer retirees the option to continue to participate in the group insurance plan with the same coverage at a premium cost of no more than the premium cost applicable to an active employee. This requirement creates an "implicit rate" liability, an actuarial OPEB valuation is the measurement of that future liability. Current standards only require the current portion and additional disclosures in the financial statements for OPEB; however, in fiscal year 2018, the total unfunded liability will be required to be recorded in the financial statements.

Recommendation:
We recommend that the District's attorney review Florida Statutes 112.0801 to determine if the Statute is applicable to the District. If it is determined that it is applicable, we recommend that an actuarial valuation for OPEB be completed.

Management Response:
We agree with the recommendation. We plan to implement the recommendation in its entirety.

MLO 2016-003 – PURCHASING CARD (P-CARD) POLICY

Observation:
During our audit of the District, we noted that the District does not have a formalized P-Card policy.

Recommendation:
We recommend that the District submit a formalized P-Card policy to the Board of Directors or General Manager for approval. The policy should establish the review and approval process of cardholder transactions, prohibited purchases, spending limits, transaction limits, and any other best practices that may be needed.

Management Response:

Currently the District has an informal P-Card policy that requires supervisory personnel to review and approve all P-Card expenditures. In addition, all spending limits are based on an employee's position within the organization, purchasing responsibilities and estimated monthly spending. The CFO establishes and adjusts all P-Card account spending limits. We will formalize our P-Card policies and present it to the General Manager and CEO for his approval, in accordance with your recommendation.

MSL MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Commissioners of the
Lake Apopka Natural Gas District
Winter Garden, Florida

We have examined the compliance of the Lake Apopka Natural Gas District (the District) with the requirements of Section 218.415, Florida Statutes, during the fiscal year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2016.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
March 10, 2017