

LAKE AOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
SEPTEMBER 30, 2019

LAKE AOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA

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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 fiscal year ended September 30, 2019, 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, 2019, and the respective changes in financial position and cash flows for the fiscal 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

Emphasis-of-Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ended September 30, 2019, the District modified how they record unbilled accounts receivable at year-end. As a result of this change, the District reported a restatement for the change in accounting principle as of October 1, 2018. Our opinions are not modified with respect to this matter.

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, 2020, 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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida

March 10, 2020

Management's Discussion and Analysis

Our discussion and analysis of the Lake Apopka Natural Gas District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2019. 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 \$32,931,403 (total net position) for fiscal year 2019. This is consistent with the previous fiscal year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28,655,451.

The District's total revenues were \$19,050,480, including interest income, compared to \$18,659,792 last year, or a year-over-year increase of \$390,688. Although the 2018/2019 winter was the second warmest on record, the increases in number of customers, natural gas consumption and tariffs contributed significantly to the record revenue and profit growth during fiscal year 2019. The District's customer base grew from 22,280 to 24,035 customers, or by 8%. Last year was the best financial performance of the District in its history.

In 2019, the District executed and recorded 13 new residential subdivision developer agreements in Orange and Lake counties. The developers/builders plan to build 1,459 new homes that should generate an estimated 454,207 therms annually. The District has executed residential agreements for the following subdivisions: Ocoee Landing, Hamilton Gardens Phase 1, Oakland Hills, San Sebastian Reserve, Enclave at Hamlin North, Lakeside Phase 1, Hull Island at Oakland, Sanctuary at Twin Waters, Highlands at Summerlake Groves Phase 3C in Orange County and Canyons at Highland Ranch Phase 4, Esplanade at Highland Ranch Phase 3 and Crestview in Lake County. The larger subdivisions, with over one hundred homes, are San Sebastian Reserve with 112 homes, Canyons at Highland Ranch Phase 4 with 114 homes, Esplanade at Highland Ranch Phase 3 with 163 homes, Lakeside Phase 1 with 177 homes, Crestview with 261 homes, Hull Island at Oakland with 115 homes and Sanctuary at Twin Waters with 108 homes. These communities are being built by Taylor Morrison Homes, K. Hovnanian Homes and M/I Homes, as well as other home builders which have executed agreements with the District to install natural gas systems in their new subdivisions.

New residential home development and commercial business within the District continues to be strong and at a steady, healthy pace of growth. The new residential developer agreements and commercial accounts that were placed in service during the 2019 fiscal year increased the District's overall financial performance and our customer base grew to 24,035 customers. The Marketing Department converted 57 competitive fuel commercial accounts to natural gas during 2019, with an annual consumption of 3,101,699 therms. The District's largest commercial load came from the Orlando Health Surgical Center on Medical Park Drive in Clermont, with an estimated annual load of 1,016,510 therms.

The District used \$4,877,218 in cash flow to acquire additional capital assets, compared to \$3,587,783 for the previous year. We have added a total of 29.69 miles of mains and 1,547 services into our existing distribution system, with several major capital expenditures on system improvements, such as the Hartwood Marsh Road Project, which consists of 21,700 feet of 6-inch high-pressure steel main to back feed Clermont service areas from Winter Garden, the Lockhart System Project, which consists of 22,200 feet of 6-inch high-pressure steel main on Overland Road to support the Lockhart service areas, the 6-inch poly main extension on Citrus Grove Road to serve as a system back feed and the 6-inch high-pressure steel main extension on New Independence Parkway to serve Hamilton Gardens. Other major capital investments were for system expansion within the District to reach industrial areas and commercial customers include the 6-inch poly main extension on Fosgate Road in Minneola, 6-inch poly main extension on Grassy Lake Road in Minneola, 2-inch main extension to serve the Health Central Ocoee Skilled Nursing Facility, and a 4-inch main extension on New Independence Parkway, Winter Garden to serve many commercial customers.

As always, there were road projects that caused the District to expend resources to relocate pipelines for local government agencies. The major gas main relocation projects in 2019 were the relocation of 250 feet of 4-inch poly main on Avalon Road in Clermont, 736 feet of 2-inch poly main on McGee Avenue in Apopka and 550 feet of 2-inch poly main on South Washington Street in Minneola. In addition to the above system improvements and relocations, the District continued with the systematic replacement of the legacy black plastic pipes within the distribution system for liability control. Several sections of old black plastic mains and services were replaced with new yellow poly pipes in the areas of Broad Street in Montverde, Bloxam Avenue in Clermont Hillway Drive in Apopka, and Laughing Lane in Clermont.

There were several new subdivisions and phase expansion projects due to the continued resurgence of our homebuilding market. We are continuing to install distribution mains and service lines in new and existing subdivisions such as Esplanade at Highland Ranch Phase 3 (Clermont), Canyons at Highland Ranch (Clermont), Forest Lake Estates 2 (Ocoee), Lake Shore at Wekiva (Apopka), Hamilton Gardens Phase 1 (Horizon West), Ocoee Landings (Ocoee), Sanctuary at Twin Waters (Winter Garden), Highlands at Summer Lake Groves Phase 3C (Horizon West), Park Place at Winter Garden (Winter Garden), Lakeside Phase 1 (Apopka), Hull Island 1 (Oakland), Vista at Waters Edge 2 (Apopka), San Sebastian Reserve (Apopka), Ardmore Reserve 4 (Minneola), Oakland Hills (Winter Garden) and Kensington Park (Windermere).

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 by the Florida legislature on June 20, 1959 to provide natural gas services to potential customers in Orange and Lake Counties. On June 20, 2019, the District celebrated its 60th Year of existence. 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 \$32,931,403. This is an increase of \$3,253,028 over last year's restated net position of \$29,678,375. 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

	<u>2018(*)</u>	<u>2019</u>
Current Assets	\$ 5,229,654	\$ 7,046,776
Noncurrent Assets	35,692,160	38,843,624
Total Assets	<u>40,921,814</u>	<u>45,890,400</u>
Deferred Outflows	<u>1,451,267</u>	<u>1,322,793</u>
Current Liabilities	5,120,264	5,694,048
Long-Term Liabilities	8,217,347	8,281,117
Total Liabilities	<u>13,337,611</u>	<u>13,975,165</u>
Deferred Inflows	<u>380,019</u>	<u>306,625</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	31,502,514	35,128,565
Unrestricted	<u>(2,847,063)</u>	<u>(2,197,162)</u>
Total Net Position	<u>\$ 28,655,451</u>	<u>\$ 32,931,403</u>

(*) Balances for 2018 have not been restated for adjustments to beginning net position in 2019 due to the change in accounting principle.

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

	<u>2018(*)</u>	<u>2019</u>
Revenues:		
Charges for services	\$ 17,935,753	\$ 18,688,961
Other operating revenues	711,614	330,582
Other non-operating revenues	12,425	30,937
Total Revenues	<u>18,659,792</u>	<u>19,050,480</u>
Expenses:		
Natural gas costs	4,329,307	3,957,779
Personal services	5,158,781	5,745,308
Advertising and marketing	1,904,168	1,710,207
Repairs and maintenance	639,628	586,227
Other operating expenses	1,771,708	1,779,845
Depreciation	1,648,162	1,725,754
Other non-operating expenses	306,153	292,332
Total Expenses	<u>15,757,907</u>	<u>15,797,452</u>
Change in Net Position	<u>2,901,885</u>	<u>3,253,028</u>
Net Position - Beginning (Restated)	25,900,294	28,655,451
Change in Accounting Principal	(146,728)	1,022,294
Net Position - Beginning (Restated)	<u>25,753,566</u>	<u>29,678,375</u>
Net Position - End of Year	<u>\$ 28,655,451</u>	<u>\$ 32,931,403</u>

(*) Balances for 2018 have not been restated for adjustments to beginning net position in 2019 due to the change in accounting principle.

The District's revenues increased by \$390,688 and expenses increased by \$39,545. The \$753,208 increase in Charge for Services revenue was primarily due to the 9.5% overall increase in the tariffs for an entire year, that went into effect on March 1, 2018 and the 662,779 therm increase in natural gas consumption. However, the increase in Charges for Services revenue was partially offset by a \$369,192 decline in deposit forfeitures included in other operating revenues from developers not fulfilling their contract commitments before the agreement expiration date. The moderate overall increase in expenses were primarily from several factors that accounted for most of the net change. The Personal Services expense increased by \$586,527 due to the increases in benefits and wages during the fiscal year. The increases in Personal Services expenses were significantly offset by the \$193,961 decline in advertising and marketing expense from the District discontinued, including free home piping in natural gas developer agreements and the savings from the decline in natural gas prices, which generated a net savings in 2019 of \$371,528. Although the natural gas consumption increased in fiscal year 2019 by 662,779 therms, or 9%, the overall cost over last year declined by \$371,528. The cost of natural gas is a pass-through that is reflected as part of revenue. Annual increases in natural gas costs increases

revenue, while decreases erode revenue. The decreases in the price of natural gas were passed on to the consumers. During the year, the District's customer base increased from 22,280 to 24,035, or 8%, primarily due to new developer agreements, which stimulated additional consumption. 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, 2019 was \$38,843,624. This represents an increase of \$3,151,464 over the previous year, primarily due to the \$3,284,178 increased investment in the gas distribution system.

Capital Assets Net of Accumulated Depreciation

	<u>2018</u>	<u>2019</u>
Non-depreciable Assets:		
Land	\$ 282,229	\$ 282,229
Depreciable Assets:		
Buildings	1,467,627	1,385,302
Gas distribution system	32,481,751	35,765,929
Furniture, machinery and equipment	1,460,553	1,410,164
Total	<u>\$ 35,692,160</u>	<u>\$ 38,843,624</u>

Long-Term Debt

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 \$2,500,000 at a monthly interest rate of LIBOR plus 1.25% from TD Bank for three-years. At the end of the fiscal year, the note payable balance outstanding was \$3,715,059 and there was no outstanding balance on the revolving line of credit. The District pledged the net revenues of the natural gas system as security for the notes.

Long-Term Debt

	<u>2018</u>		<u>2019</u>
\$	4,189,646	\$	3,715,059

The District's other long-term obligations include accrued employee benefits for vacation, sick leave, Other Post-Employment Benefits, 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 2020 housing market forecast by local, state and national economists, indicates the housing market will remain positive, with a very minor slowdown in growth compared to 2019. The economy has a strong job market, with unemployment rates at 50-year low and mortgage interest rates well below historical norms. This will help sustain the housing market in 2020. The price of homes will remain at a high price. The real estate industry is being brought down by the lack of housing stock, especially at the starting price range, or what was once called starter homes and now is termed work-force housing. There is more demand for housing than there is available housing inventory in our service area. There is no foreseeable housing downturn, just a minor slowing, which has been reported as due to the lack of a skilled trade workforce. The District's rate of growth will continue to increase, as data indicates Florida is seeing 1,000 new residents per day moving to the Sunshine State, with Florida rated as the second fastest growing State in the country. The District maintains a reasonably priced natural gas rate. We offer a residential rebate program, and stable residential and commercial markets. Natural gas is a preferred energy source to the thousands of consumers who are relocating to Florida. They are familiar with, and desire natural gas service, for its affordability, resiliency, reliability and economic benefits. The District's Marketing and Business Development Department is researching and developing a new builder incentive program to stay competitive, that is financially feasible, and will entice builders to choose natural gas for their new home communities. The District is in negotiations with several developers and builders, and we have projected a growth of over 1,500 new customers in 2020. We actively market and educate the public on the direct use of natural gas as a part of a balanced energy choice. Natural gas is a clean, domestic, affordable, abundant, reliable, resilient and environmentally friendly energy for homes, businesses, industries and vehicles.

The District continued improving its Information Systems in areas, such as reliable customer service, automation of service activities, technology enhancements, and professional development. One of many efforts to enhance our reliable customer service was building and testing a disaster recovery plan. When a civilian truck struck a power pole on Highway 50 resulting in complete loss of internet and phone services to our main office, we had to implement that plan. We were able to provide reliable customer service, despite the disaster, to these core systems. We also continued our digital transformation by creating an opportunity tracker for our marketing department. We turned a paper-based, single-user data collection process into a digital record that shows where a customer is requesting service on our District Map. This also allows Marketing to share contact and note information in real time. Service activities benefitted

from the digital transformation process as well when we incorporated Regulator Station maintenance forms and reporting into the digital realm. Regulator Station maintenance had long been a manual, single-person, paper process. Now it is a recurring task with extended information, multi-user with reports allowing greater visibility of our maintenance program. One of our major technology enhancements this year was implementing Positive Pay with our bank to help stop check fraud. Information Systems contributed to the District's professional development by continuing to train team members on desktop software and continued formal training for email attacks, which many security analysts believe is the number one corporate threat.

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

The District continues to be proactive in safety and damage prevention. The District has an active safety committee which meets quarterly, at a minimum, and hosts safety training on a variety of topics for District employees, such as safe driving, vehicle safety, emergency preparedness, workplace violence, stress management, ladder safety, first aid/CPR/AED, strains and sprains, excavation and trenching, respirator training and dog bite prevention techniques. The District also hosts Lunch 'n Learns on topics such as Wellness for Busy People, Importance of Sleep, Organize your Life, and Caring for Aging Loved Ones. Employees are also sent to a variety of safety activities and training off-site. In addition, the District has a Safety Recognition Program, which recognizes employees who show a commitment to safety in the performance of their job duties and a safety suggestion box for employees to submit safety concerns and comments.

The District received the American Public Gas Association's Silver SOAR Award in 2016, 2018 and 2019. 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. Safety is an integral part of the criteria reviewed for the award. We plan to apply for the Gold SOAR Award, which is the highest level offered. The District maintains our commitment to placing a strong emphasis on the safety of both our employees and the public.

Training and Community Involvement

Management encourages employees to participate in industry associations and its training programs to increase their technical skills and competency in the natural gas industry. Employees participate and hold leadership positions on the Sunshine 811 Board of Directors, American Public Gas Executive Board of Directors, Board of Directors of the Florida Natural Gas Association and the Florida Municipal Natural Gas Association. District employees receive training in all elements of the natural gas industry to keep abreast of new developments, regulations and disaster preparedness. A few years ago, the District, the cities of Winter Garden, Apopka, Clermont and Orange County, implemented their disaster preparedness plans to successfully confront Hurricane Irma.

The District has also been active in our community by partnering with West Orange County Schools to share safety awareness information regarding Mercaptan odorant and natural gas safety practices. The District is involved in the Central Florida Rotary Club, and we also join hands with our community fire departments in children's educational training regarding natural gas characteristics, quarterly meetings with the Orange County Emergency Operation Center, and Lake County Fire and Rescue efforts. We also train and participate with our local Emergency Operations Centers.

The District recently received a clean audit, without any violations, from the Florida Public Service Commission, which found no systemic issues with our utility regarding the safety and operational maintenance reviews. This has truly been a good year for Community Safety, Public Awareness Involvement, Operations Qualifications, Emergency Plan Effectiveness, Community Service Efforts, and governmental operational audits. As mentioned above, we have won the 2019 Silver SOAR Award for APGA natural gas safety, while we missed the Gold Award by only one-tenth of a point. We are striving to secure the Gold Award in 2020.

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 Chief Financial Officer at 1320 Winter Garden-Vineland Road, Winter Garden, Florida 34787.

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,018,557
Restricted cash and cash equivalents	3,257,273
Accounts receivable (net of allowance for uncollectibles)	1,910,409
Inventory	636,984
Prepaid expenses	<u>223,553</u>
 Total Current Assets	 <u>7,046,776</u>

Noncurrent Assets:

Capital Assets:

Land	282,229
Buildings	2,345,386
Gas distribution system	53,115,036
Machinery and equipment	4,593,297
Less: Accumulated Depreciation	<u>(21,492,324)</u>
 Total Noncurrent Assets	 <u>38,843,624</u>

TOTAL ASSETS 45,890,400

DEFERRED OUTFLOWS

Deferred outflows related to pensions	<u>1,322,793</u>
 Total Deferred Outflows	 <u>1,322,793</u>

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	\$ 581,189
Due to other governments	407,995
Accrued wages and benefits payable	356,633
Accrued taxes payable	165,573
Current portion of note payable	484,843
Gas rate stabilization	<u>440,542</u>

Total Current Liabilities (Payable From Current Assets) 2,436,775

Current Liabilities (Payable From Restricted Assets):

Customer deposits	3,144,654
Developer deposits	<u>112,619</u>

Total Current Liabilities (Payable From Restricted Assets) 3,257,273

Noncurrent Liabilities:

FRS net pension liability	3,070,310
State of Florida HIS net liability	1,229,646
Total OPEB liability	141,533
Note payable	3,230,216
Accrued benefits payable	<u>609,412</u>

Total Noncurrent Liabilities 8,281,117

TOTAL LIABILITIES 13,975,165

DEFERRED INFLOWS

Deferred inflows related to pensions	<u>306,625</u>
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Total Deferred Inflows 306,625

NET POSITION

Invested in capital assets, net of related debt	35,128,565
Unrestricted	<u>(2,197,162)</u>

TOTAL NET POSITION \$ 32,931,403

LAKE APOPKA NATURAL GAS DISTRICT
WINTER GARDEN, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Operating Revenues:	
Charges for services	\$ 18,688,961
Other operating revenues	330,582
Total Operating Revenues	19,019,543
 Operating Expenses:	
Natural gas purchases	3,957,779
Personal services	5,745,308
Insurance	130,582
Repairs and maintenance	586,227
Professional services	299,920
Advertising and marketing	1,710,207
Bad debt expense	36,000
Travel and per diem	80,032
Gas, oil and fuel	96,514
Freight and postage	148,980
Materials	197,522
Communication services	43,692
Utilities	88,522
Supplies	40,645
Bank charges	290,583
Dues and subscriptions	46,320
Other operating expenses	280,533
Depreciation	1,725,754
Total Operating Expenses	15,505,120
Operating Income	3,514,423
 Nonoperating Revenues (Expenses):	
Interest income	30,937
Interest expense	(85,021)
Intergovernmental transfers	(207,311)
Total Nonoperating Revenues (Expenses)	(261,395)
Change in Net Position	3,253,028
Total Net Position - Beginning (Original)	28,655,451
Change in Accounting Principle	1,022,924
Total Net Position - Beginning (Restated)	29,678,375
Total Net Position - Ending	\$ 32,931,403

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, 2019

Cash Flows From Operating Activities:	
Cash received from customers	\$ 19,510,010
Cash payments to suppliers for goods and services	(8,231,058)
Cash payments to employees for services	<u>(5,111,442)</u>
Net Cash Provided By Operating Activities	<u>6,167,510</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(4,877,218)
Principal paid on note payable and revolving line of credit note	(474,587)
Interest paid on note payable and revolving line of credit note	<u>(85,021)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(5,436,826)</u>
Cash Flows From Investing Activities:	
Interest	<u>30,937</u>
Net Increase in Cash and Cash Equivalents	761,621
Cash and Cash Equivalents at October 1	<u>3,514,209</u>
Cash and Cash Equivalents at September 30 ⁽¹⁾	<u><u>\$ 4,275,830</u></u>
(1) Cash - Unrestricted Assets	\$ 1,018,557
Cash and Cash Equivalents - Restricted Assets	<u>3,257,273</u>
	<u><u>\$ 4,275,830</u></u>

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	\$ 3,514,423
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation	1,725,754
Changes in Assets and Liabilities:	
(Increase) decrease in receivables	4,817
(Increase) decrease in inventory	(12,818)
(Increase) decrease in prepaid expenses	(24,576)
Increase (decrease) in accounts payable	(159,606)
Increase (decrease) in accrued wages and benefits	76,213
Increase (decrease) in taxes payable	(10,012)
Increase (decrease) in net customer/developer deposits	394,052
Increase (decrease) in gas rate stabilization	101,610
Increase (decrease) in net pension liability/deferrals	556,322
Increase (decrease) in total OPEB liability	<u>1,331</u>
Net Cash Provided By Operating Activities	<u>\$ 6,167,510</u>

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. Unbilled revenues for services delivered during the last month of the fiscal year are accrued based on meter readings for September consumption. 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.

Lake Apopka Natural Gas District
Notes to the Financial Statements

4. Prepaid Expenses – Payments made to vendors for services that will benefit future reporting periods.
5. Restricted Assets – The restricted assets shown on the statement of financial position 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.

Lake Apopka Natural Gas District
Notes to the Financial Statements

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. Employee Benefits and Other-Post Employment Benefits (OPEB) – Employees earn annual vacation leave based upon the following schedule:

<u>Length of Service</u>	<u>Hours per Year</u>
1-2 Years	84 hours
3-5 Years	96 hours
6-8 Years	108 hours
9-10 Years	120 hours
11-13 Years	132 hours
14-16 Years	144 hours
17-19 Years	156 hours
20-24 Years	168 hours
25 Years	200 hours

Employees can accumulate up to 10 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, provided they submit adequate written notice and are not being terminated for misconduct.

Employees earn sick leave at the rate of 4 hours per month during 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.

OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits and life insurance. Like pensions, OPEB arises from an exchange of salaries and benefits for employees rendered and constitute part of compensation for those services. The amounts are accrued when incurred in the statement of net position.

11. 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. Revenues and Expenses – The District distinguishes operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering in connection with the District’s ongoing operations. The principal operating revenues of the District are charges for services to customers for natural gas services. The significant expenses of the District consist of costs associated with the purchase and distribution of services, advertising and marketing, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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 represents 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.

I. Prior Period Adjustment Due to Change in Accounting Principle

In prior years, the District’s management has deemed the unbilled portion of customer accounts receivable immaterial to the Statement of Revenues, Expenses and Changes in Net Position and therefore, did not accrue the unbilled portion of Accounts Receivable. Due to the continued growth of the District and impact on the Statement of Net Position, management elected to record unbilled customer accounts receivable as of September 30, 2019. This change in Account Principle required a prior period adjustment of \$1,022,924 to increase Accounts Receivable and Total Net position as of October 1, 2018.

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.

Lake Apopka Natural Gas District
Notes to the Financial Statements

Note 3 – Receivables:

Accounts receivable have been reported, net of allowance for uncollectible accounts. The allowance for uncollectible accounts at September 30, 2019 was \$59,316. 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 9/30/18	Additions	Deletions	Balance 9/30/19
Land	\$ 282,229	\$ -	\$ -	\$ 282,229
Buildings	2,345,386	-	-	2,345,386
Gas distribution system	48,493,214	4,621,822	-	53,115,036
Office furniture and equipment	211,738	2,547	-	214,285
Computer equipment and software	1,217,295	76,056	-	1,293,351
Transportation equipment	1,183,555	148,036	(22,433)	1,309,158
Tools and work equipment	1,564,319	10,322	-	1,574,641
Communication equipment	180,632	18,435	-	199,067
Other equipment	2,795	-	-	2,795
Totals	55,481,163	4,877,218	(22,433)	60,335,948
Less: Accumulated depreciation	<u>(19,789,003)</u>	<u>(1,725,754)</u>	<u>22,433</u>	<u>(21,492,324)</u>
Net	<u>\$ 35,692,160</u>	<u>\$ 3,151,464</u>	<u>\$ -</u>	<u>\$ 38,843,624</u>

Note 5 – Other Post-Employment Benefits:

Plan Description:

The District’s Retiree Health Care Plan (Plan) is a single-employer defined benefit postemployment health care plan that covers eligible retired employees of the District. The Plan, which is administered by the District, allows employees who retire and meet retirement eligibility requirements under one of the District’s retirement plans to continue medical insurance coverage as a participant in the District’s plan.

Plan Membership as of October 1, 2018:

Inactive Plan Member or Beneficiaries Currently Receiving Benefits	0
Inactive Plan Member Entitled to But Not Yet Receiving Benefits	0
Active Plan Members	<u>58</u>
	<u>58</u>

Benefits Provided:

The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All employees of the District are eligible to receive postemployment health care benefits. All retiree and dependent coverage is at the expense of the retiree.

Lake Apopka Natural Gas District
Notes to the Financial Statements

Total OPEB Liability:

The measurement date is September 30, 2019.

The measurement period for the OPEB expense was October 1, 2018 to September 30, 2019.

The reporting period is October 1, 2018 through September 30, 2019.

The District's Total OPEB Liability was measured as of September 30, 2019.

Actuarial Assumptions:

The Total OPEB Liability was determined by an actuarial valuation as of October 1, 2018 using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	2.50%
Discount Rate	3.58%
Initial Trend Rate	8.00%
Ultimate Trend Rate	4.00%
Years to Ultimate	56

For all lives, mortality rates were RP-2000 Combined Healthy Mortality Tables projected to the valuation date using Projection Scale AA.

Discount Rate:

Given the District's decision not to fund the program, all future benefit payments were discounted using a high-quality municipal bond rate of 3.58%. The high-quality municipal bond rate was based on the measurement date of the S&P Municipal Bond 20 Year High Grade Rate Index as published by the S&P Dow Jones Indices. The S&P Municipal 20 Year High Grade Rate Index consists of bonds in the S&P Municipal Bond Index with a maturity of 20 years. Eligible bonds must be rated at least AA by Standard and Poor's Rating Services, Aa2 by Moody's or AA by Fitch. If there are multiple ratings, the lowest rating is used.

OPEB Expense:

For the year ended September 30, 2019, the District will recognize OPEB Expense of \$15,444.

Lake Apopka Natural Gas District
Notes to the Financial Statements

Changes in Total OPEB Liability:

	Increases and (Decreases) in Total OPEB Liability
Reporting Period Ending September 30, 2018	\$140,202
Changes for a Year:	
Service Cost	9,007
Interest	6,006
Differences Between Expected and Actuarial Experience	(12,287)
Changes of Assumptions	9,718
Benefit Payments	(11,113)
Net Changes	1,331
Reporting Period Ending September 30, 2019	\$141,533

Changes of assumptions reflect a change in the discount rate from 4.18% for the fiscal year ended September 30, 2018 to 3.58% for the fiscal year ended September 30, 2019. Other changes of assumptions include updated health care costs and trend rates.

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

The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB 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 discount rate:

	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Total OPEB Liability (Asset)	\$ 159,712	\$ 141,533	\$ 126,307

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

The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point-lower or one-percentage-point-higher than the current healthcare cost trend rates:

	1% Decrease 3.00% - 7.00%	Healthcare Cost Trend Rates 4.00% - 8.00%	1% Increase 5.00% - 9.00%
Total OPEB Liability (Asset)	\$ 123,601	\$ 141,533	\$ 163,251

Lake Apopka Natural Gas District
Notes to the Financial Statements

Note 6 – Long-Term Debt:

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 \$2,500,000 at a monthly interest rate of LIBOR plus 1.25% for a minimum of three years. Proceeds from the note payable were used to retire the 2016 revolving line of credit note. At the end of the fiscal year, the note payable balance outstanding was \$3,715,059 and the revolving line of credit balance was \$0.

The District has pledged the net revenues generated by the overall system for payment of the note and revolving line of credit issued. The note and revolving line of credit are payable solely from the District's customers' net revenues payable through fiscal year 2027. Annual principal and interest payments on the note are currently expected to require approximately 12% of net revenues. The total principal and interest remaining on the note, as noted below under Debt Service Requirements, is \$4,010,526. Principal and interest paid for the current year and total customer net revenues were \$559,608 and \$5,271,114, respectively.

The following is a summary of changes in long-term debt for the year ended September 30, 2019:

	Balance 9/30/18	Additions	Reductions	Balance 9/30/19	Due Within One Year
2017 Note	\$4,189,646	\$ -	\$ 474,587	\$ 3,715,059	\$484,843
Net Pension Liability	3,798,714	501,242	-	4,299,956	-
Total OPEB Liability	140,202	1,331	-	141,533	-
Employee Benefits	707,493	73,075	18,803	761,765	152,353
	<u>\$8,836,055</u>	<u>\$575,648</u>	<u>\$ 493,390</u>	<u>\$ 8,918,313</u>	<u>\$637,196</u>

The annual debt service requirements for the note payable and revolving line of credit outstanding as of September 30, 2019 are as follows:

Year Ending September 30,	Principal	Interest
2020	\$ 484,843	\$ 74,765
2021	495,321	64,287
2022	506,026	53,583
2023	516,961	42,647
2024	528,134	31,475
Thereafter	<u>1,183,774</u>	<u>28,710</u>
Total Payments	<u>\$ 3,715,059</u>	<u>\$ 295,467</u>

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 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.

Lake Apopka Natural Gas District
Notes to the Financial Statements

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 8.26%, 24.06%, and 14.03%, 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, 2019, 2018, and 2017 were \$359,340, \$331,308, and \$301,087, 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, 2019, the District reported a liability of \$3,070,310 and \$1,229,646 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The District's proportionate share of the net pension liability was based on the District's 2018-19 fiscal year contributions relative to the 2018-19 fiscal year contributions of all participating members. At June 30, 2019, the District's proportionate share for the Pension Plan was .008915313%, which was an increase of .000133786% from its proportionate share measured as of June 30, 2018. At June 30, 2019, the proportionate share for the HIS Plan was .010989780%, which was an increase of .000089735% from its proportionate share measured as of June 30, 2018.

For the year ended September 30, 2019, the District recognized pension expense of \$793,905 for the Pension Plan, and \$105,363 for the HIS Plan.

Lake Apopka Natural Gas District
Notes to the Financial Statements

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 182,109	\$ 1,905
Change of assumptions	788,588	-
Net difference between projected and actual earnings on Pension Plan investments	-	169,866
Changes in proportion and differences between District Pension Plan contributions and proportionate share of contributions	71,115	24,743
District Pension Plan contributions subsequent to the measurement date	<u>67,770</u>	<u>-</u>
Total	<u>\$ 1,109,582</u>	<u>\$ 196,514</u>

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 14,935	\$ 1,506
Change of assumptions	142,381	100,501
Net difference between projected and actual on HIS Plan investments	793	-
Changes in proportion and differences between District HIS Plan contributions and proportionate share of contributions	40,795	8,104
District HIS Plan contributions subsequent to the measurement date	<u>14,307</u>	<u>-</u>
Total	<u>\$ 213,211</u>	<u>\$ 110,111</u>

Lake Apopka Natural Gas District
Notes to the Financial Statements

The deferred outflows of resources related to the Pension Plan and HIS Plan, totaling \$67,770 and \$14,307, 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, 2019. 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:

<u>Fiscal Year Ending September 30,</u>	<u>Pension Plan Amount</u>	<u>HIS Plan Amount</u>
2020	\$ 316,733	\$ 34,960
2021	\$ 92,993	\$ 28,222
2022	\$ 215,083	\$ 17,019
2023	\$ 163,834	\$ (3,381)
2024	\$ 44,755	\$ 1,925
Thereafter	\$ 11,900	\$ 10,048

Pension Plan Actuarial Assumptions – The total pension liability in the June 30, 2019 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	6.90%, net of Pension Plan investment expense
Mortality	PUB2010 base table varies by member category and sex

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2018.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Arithmetic Return</u>
Cash	1.0 %	3.3 %
Fixed income	18.0	4.1
Global equity	54.0	8.0
Real estate	11.0	6.7
Private equity	10.0	11.2
Strategic investments	<u>6.0</u>	5.9
Total	<u>100.0 %</u>	

Lake Apopka Natural Gas District
Notes to the Financial Statements

Pension Plan Discount Rate – The discount rate used to measure the total pension liability was 6.90%. The prior year discount rate was 7.00%. 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, 2019, 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	3.50%
Mortality	Generational RP-2000 with Projection Scale BB

HIS Plan Discount Rate – The discount rate used to measure the total pension liability was 3.50%. The prior year discount rate was 3.87%. 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 <u>(5.90%)</u>	Current Discount Rate <u>(6.90%)</u>	1% Increase <u>(7.90%)</u>
Pension Plan proportionate share of the net pension liability	\$ 5,307,543	\$ 3,070,310	\$ 1,201,841
		Current Discount Rate	
	1% Decrease <u>(2.50%)</u>	(3.50%)	1% Increase <u>(4.50%)</u>
HIS Plan proportionate share of the net pension liability	\$ 1,403,704	\$ 1,229,646	\$ 1,804,676

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, 2019.

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

Lake Apopka Natural Gas District
Schedule of Changes in the District's Total OPEB Liability and Related Ratios

Reporting Period Ending Measurement Date	9/30/2019 <u>9/30/2019</u>	9/30/2018 <u>9/30/2018</u>
Total OPEB Liability		
Service Cost	\$ 9,007	\$ 8,787
Interest	6,006	5,450
Difference between Expected and Actual Experience	(12,287)	-
Change of Assumptions	9,718	(9,056)
Benefit Payments	<u>(11,113)</u>	<u>(11,707)</u>
Net Change in Total OPEB Liability	1,331	(6,526)
Total OPEB Liability - Beginning	<u>140,202</u>	<u>146,728</u>
Total OPEB Liability - Ending	<u><u>\$ 141,533</u></u>	<u><u>\$ 140,202</u></u>
Covered Employee Payroll	\$ 3,478,180	\$ 3,202,204
Total OPEB Liability as a percentage of Covered Employee Payroll	4.07%	4.38%

Notes to schedule:

Change of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Fiscal Year Ended September 30, 2019:	3.58%
Fiscal Year Ended September 30, 2018:	4.18%
Fiscal Year Ended September 30, 2017:	3.64%

**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 Payroll	FRS Contributions as a Percentage of Covered Payroll
2019	\$ 297,921	\$ 297,921	\$ -	\$ 3,699,919	8.05%
2018	\$ 250,266	\$ 250,266	\$ -	\$ 3,586,313	6.98%
2017	\$ 229,868	\$ 229,868	\$ -	\$ 3,431,192	6.70%
2016	\$ 211,132	\$ 211,132	\$ -	\$ 3,326,467	6.35%
2015	\$ 219,757	\$ 219,757	\$ -	\$ 2,949,736	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 Payroll	HIS Contributions as a Percentage of Covered Payroll
2019	\$ 61,419	\$ 61,419	\$ -	\$ 3,699,919	1.66%
2018	\$ 59,111	\$ 59,111	\$ -	\$ 3,586,313	1.65%
2017	\$ 58,272	\$ 58,272	\$ -	\$ 3,431,192	1.70%
2016	\$ 54,924	\$ 54,924	\$ -	\$ 3,326,467	1.65%
2015	\$ 40,320	\$ 40,320	\$ -	\$ 2,949,736	1.37%
2014	\$ 34,717	\$ 34,717	\$ -	\$ 2,016,036	1.72%

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 Payroll	District's Proportionate Share of the FRS Net Pension Liability as a Percentage of Covered Payroll	FRS Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	2019	0.0089%	\$ 3,070,310	\$ 3,699,919	82.98%	82.61%
2018	2018	0.0088%	\$ 2,645,041	\$ 3,586,313	73.75%	84.26%
2017	2017	0.0088%	\$ 2,611,870	\$ 3,431,192	76.12%	83.89%
2016	2016	0.0086%	\$ 2,186,079	\$ 3,326,467	65.72%	84.88%
2015	2015	0.0090%	\$ 1,164,215	\$ 2,949,736	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 Payroll	District's Proportionate Share of the HIS Net Pension Liability as a Percentage of Covered Payroll	HIS Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2019	2019	0.0109%	\$ 1,229,646	\$ 3,699,919	33.23%	2.63%
2018	2018	0.0109%	\$ 1,153,673	\$ 3,586,313	32.17%	2.15%
2017	2017	0.0110%	\$ 1,177,327	\$ 3,431,192	34.31%	1.64%
2016	2016	0.0105%	\$ 1,248,843	\$ 3,326,467	37.54%	0.97%
2015	2015	0.0107%	\$ 1,075,160	\$ 2,949,736	36.45%	0.50%
2014	2014	0.0101%	\$ 966,589	\$ 2,016,036	47.95%	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.

Florida Retirement System

NOTE 1 - CHANGES IN BENEFIT TERMS

FRS Pension Plan:

2019, 2018, 2017, 2016 and 2015:

No significant changes.

HIS Program:

2019, 2018, 2017, 2016 and 2015:

No significant changes.

NOTE 2 - CHANGES IN ASSUMPTIONS

FRS Pension Plan:

2019:

The long-term expected rate of return was decreased from 7.00% to 6.90%, and the active member mortality assumption was updated.

2018:

The long-term expected rate of return was decreased from 7.10% to 7.00%, and the active member mortality assumption was updated.

2017:

The long-term expected rate of return was decreased from 7.60% to 7.10%, and the active member mortality assumption was updated.

2016:

The long-term expected rate of return was decreased from 7.65% to 7.60%, and the active member mortality assumption was updated.

2015:

No significant changes. The inflation assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return remained at 7.65%.

HIS Program:

The municipal rate used to determine total pension liability changed each year:

2019: 3.50%
2018: 3.87%
2017: 3.58%
2016: 2.85%
2015: 3.80%
2014: 4.29%



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, 2019, and have issued our report thereon dated March 10, 2020.

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, 2020.

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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
March 10, 2020



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, 2019, and have issued our report thereon dated March 10, 2020.

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 Reporting Requirements

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*, 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 March 10, 2020 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 and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and 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.b. 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.

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, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.

Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide 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, 2019.

Additional Matters

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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
March 10, 2020



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, 2019. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied with those requirements. An examination involves performing procedures to obtain evidence about the District's compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of 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 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, 2019.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
March 10, 2020