

Okaloosa Gas District

Financial Statements

September 30, 2019



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**Okaloosa Gas District
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September 30, 2019**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Chief Executive Officer
Okaloosa Gas District
Valparaiso, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Okaloosa Gas District (hereinafter referred to as "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of September 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in the Net OPEB Liability and Related Ratios, Schedules of Proportionate Share of Net Pension Liability, and Schedules of Contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating revenue and expenses – budget and actual, schedule of operating expenses, and schedule of gas consumption and customer count – budget and actual are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2020, on our consideration of the District's internal control over financial reporting and 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 the

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.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." The signature is written in a cursive style with a small dot above the ampersand.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida

April 30, 2020



Management's Discussion and Analysis

Okaloosa Gas District Management's Discussion and Analysis

Provided below is a description of our business, key events in 2019, an executive summary of the detailed information provided herein and a discussion and analysis of our operating results for 2019 compared to budget and 2018.

Please read Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the Financial Statements and the Notes to the Financial Statements included in this Annual Report.

Our Business

Okaloosa Gas District ("the District") is an independent special district of the state of Florida chartered to provide natural gas service to customers in Escambia, Santa Rosa, Okaloosa and Walton counties. Our goal is to meet and exceed our customers' expectations for exceptional delivery of clean, safe and affordable natural gas, and to sustain and enhance the customer experience with exceptional customer service. Our mission statement: "The energy, people and service you can rely on" exemplifies these goals.

The District serves over 46,000 customers throughout its 450 square mile service territory.

The District is governed by a five member Board of Directors representing the District's four original member cities of Niceville, Valparaiso, Fort Walton Beach, Crestview, and the Board of County Commissioners for Okaloosa County. Each Board Member serves a four-year term and is responsible for setting gas and service rates, making policies, approving budgets and awarding major contracts.

The 2019 Board of Directors was comprised of:

- | | |
|---|---------------------------|
| - Mr. John Mead – President | City of Fort Walton Beach |
| - Mayor Randall Wise – Vice President | City of Niceville |
| - Mr. Shannon Hayes – Secretary/Treasurer | City of Crestview |
| - Mr. Doug Sims – Director | Okaloosa County |
| - Mr. Carl Scott – Director | City of Valparaiso |

In matters of safety, the District is regulated by federal, state and local government agencies. The primary regulatory agency is the Florida Public Service Commission (FPSC). FPSC regulates and inspects the District's distribution system in the area of safety. The Pipeline Hazardous Material Safety Administration (PHMSA) regulates the District on pipeline safety, drug testing, operator qualifications, public awareness and pipeline integrity management programs.

The District receives natural gas from two interstate pipeline companies, Florida Gas Transmission and Gulf South Pipeline. The natural gas as a commodity is purchased by the District through an asset manager, Infinite Energy. District personnel monitor gas prices to determine whether market prices meet the District's objectives. Gas is purchased using NYMEX pricing, monthly indices, and the daily cash market.

Okaloosa Gas District Management's Discussion and Analysis

Key Events in 2019

2019 was the eighth year of the District's Comprehensive Compliance Program. 2019 included the following compliance projects:

- Replaced a twelve-inch valve at Quintette Road in Escambia County.
- Replaced a six-inch valve on Highway 90 in Holt, Florida.
- Replaced Cast Iron piping in Niceville and Valparaiso, Florida. This is an ongoing project which is expected to be completed in the next two years.
- Continued cutting and capping inactive lines within the 2-year time frame imposed by the Public Service Commission and Florida Administrative Code 25-12.045. This is an annual process whereby lines are evaluated for abandonment.
- Completed annual regulator station maintenance and inspections as required by PHMSA.
- Completed the annual Pipeline Public Awareness campaign which included the entirety of our service territory adjacent to our pipelines, easements and rights of way.

The District continued to expand its customer base during 2019 by partnering with developers and offering incentives to convert to natural gas. Expansion in Santa Rosa County began in late FY2019 with main installations in Pace, Florida and the Holley by the Sea community. These areas primarily include existing homes. The added customers are a combination of new to gas customers and conversions from propane.

- The District added 1,636 service lines during FY2019. Net customer increase was 1,248 residential and commercial customers.
- The District offers incentives to current and potential customers to encourage conversions from electricity to natural gas appliances.
- Construction crews installed 190 main extensions totaling 42 miles and 1,636 service lines totaling 28 miles.
- Construction crews completed 1,675 meter sets to initiate gas service in 2019.

The District's system improvement work during 2019 included:

- Continuing to upgrade cast-iron pipe throughout the gas system. Work in FY2019 focused on the system in Valparaiso and Niceville. This is an ongoing project and is completed in conjunction with the compliance surcharge work in the same areas.
- Upgrades to the system in conjunction with the replacement of the twelve inch valve at Quintette road.

The District's fleet and equipment condition is reviewed annually to identify needed replacements and additions. Equipment additions are made when they are anticipated to increase our efficiency or effectiveness.

- Seven vehicles were replaced due to reaching age or mileage thresholds.
- Electrofusion machines were purchased to support our system growth.
- Additional leak detecting equipment was purchased to enhance our safety programs and reduce gas loss from our system.
- Hot Tap and Stop equipment was purchased to enable us to cut into our gas lines for repairs or expansion while minimizing gas loss and the number of customers impacted.

Okaloosa Gas District Management's Discussion and Analysis

- A Vacuum excavator was purchased to increase our excavation efficiency and minimize impacts to the area surrounding our projects.

The District expended significant resources to continue its commitment to serve the military. The District is working with the military to accomplish its energy conservation, energy privatization and housing privatization mandates.

- Okaloosa Gas is still engaged in the contract with Corvias Military Living, the military's privatized housing contractor for gas service. Construction crews continued installation of infrastructure for military housing at both Eglin AFB and Hurlburt Field during FY2019. The project is expected to continue through FY2020.
- Okaloosa Gas' staff serve on Eglin's Energy Initiatives Committee. As members of this committee, District staff work with the Eglin based Energy Team to prospect and present proposals to provide energy efficient natural gas opportunities to meet energy cost savings and resiliency mandates.
- The District has an agreement with Eglin AFB for commodity & delivery pricing of natural gas (280,000 MMBTUs) for the Energy Savings Performance Contract (ESPC). The agreement between the District and Eglin AFB will support natural gas fuel for two peak shaving electrical generation units along with one Combined Heat and Power (CHP) unit that will be operating for more than 20 years on Eglin AFB.
- Soil remediation efforts continued during FY2019 at the Hurlburt Field housing areas utilizing a gas fired Thermal Desorption unit. A second unit began operations at Eglin AFB during FY2019. The project is expected to continue at both locations in FY2020. As areas are completed Okaloosa Gas installs the gas infrastructure for the new base housing which results in increased gas load.

Overview of Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, as amended by Statement 37. This discussion and analysis (MD&A) of the Okaloosa Gas District's (the "District") financial condition provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements and notes.

The District operates only one type of proprietary fund — the enterprise fund. Enterprise funds present financial information in a form similar to that used by private business enterprises. Accordingly, the Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses reported in this statement for some items will result in cash flows in future periods. The Statement of Net Position presents information on all of the District's assets and liabilities and deferred inflows of resources and deferred outflows of resources with the difference between the two reported as Net Position. The Net Position of the District (the difference between assets and

Okaloosa Gas District Management's Discussion and Analysis

liabilities and deferred inflows of resources and deferred outflows of resources) indicates the District's strong financial position. The following table reflects the condensed Statement of Net Position and is compared to the prior year.

CONDENSED STATEMENTS OF NET POSITION

<i>September 30,</i>	2019	2018	2019 vs 2018 Change
Assets			
Current assets	\$ 18,541,734	13,511,785	\$ 5,029,949
Noncurrent assets	6,012,506	6,143,872	(131,366)
Capital assets, net	57,187,825	55,654,524	1,533,301
Total assets	81,742,065	75,310,181	6,431,884
Deferred outflows of resources	1,525,365	1,742,820	(217,455)
Total assets and deferred outflows of resources	\$ 83,267,430	\$ 77,053,001	\$ 6,214,429
Net position			
Net investment in capital assets	\$ 38,241,635	33,954,058	\$ 4,287,577
Restricted	6,979,391	7,277,632	(298,241)
Unrestricted	3,969,757	1,666,957	2,302,800
Total net position	49,190,783	42,898,647	6,292,136
Liabilities			
Current liabilities	7,479,230	4,935,706	2,543,524
Long-term liabilities	26,103,276	28,639,653	(2,536,377)
Total liabilities	33,582,506	33,575,359	7,147
Deferred inflows of resources	494,141	578,995	(84,854)
Total net position, liabilities and deferred inflows of resources	\$ 83,267,430	\$ 77,053,001	\$ 6,214,429

For more detailed information, see the accompanying Statements of Net Position.

Okaloosa Gas District Management's Discussion and Analysis

Current Assets/Liabilities

During FY2019 gas sales revenues increased 8%. This was due to a combination of increased rates and increased consumption. Consumption in FY2019 was 4.0% more than in FY2018. Although the customer charge, distribution, and compliance surcharge rates did not increase in FY2019, the cost of gas component was increased in December 2018 by five cents per therm. As gas cost is a pass through recovery charge, the increase in the revenue was offset by an increase in the cost of the related gas supply. Other revenues consisting primarily of appliance service and installation increased 30.4%. This can be attributed to our focus on promoting the use of natural gas and providing a one stop shop for customers interested in having natural gas appliances. The increased revenues were partially offset by operating expenses, including gas commodity costs, which increased 7.5%. The District's current ratio increased from 1.63 to 2.48 due to moving available cash to investments with a maturity of twelve months or less.

The Board approves total budget appropriations only. The Chief Executive Officer is authorized to transfer budget amounts between departments and object codes. The level of budgetary responsibility is by total budget amount.

Capital Assets

The Board approved the 2019 Capital Budget totaling \$7,226,770. Capital acquisitions including the net decrease in Construction Work-in-Progress, totaled \$5,736,535. The district received \$634,472 in capital contributions. Actual acquisitions are under budget due to the delay of projects relating to Department of Transportation (DOT) relocations. The major components of capital purchases include:

- System expansion totaling \$3.1 million includes 190 main extensions totaling 42.8 miles and 1,636 service lines totaling 28.0 miles.
- Capital required for system compliance totaling \$0.8 million includes cast iron replacements and inserts, valve replacements, and DOT relocations.
- Replacement of seven trucks for \$299 thousand.
- Purchase of tools and equipment totaling \$751 thousand.
- Acquisition of computer equipment and software totaling \$42 thousand.
- Purchase of Copiers and new office furniture for \$77 thousand.
- Improvements to our Freeport facility and installation of RFID door locks for \$45 thousand.

At September 30, 2019, the District had approximately \$57.2 million invested in capital assets (net of depreciation). This amount represents a net increase of \$1.5 million or 2.8%. The increase in capital assets is due to a combination of system expansion resulting from continued development in this area and completing equipment acquisitions to increase efficiency.

More information about the District's capital assets is presented in Note 2 to the financial statements.

Okaloosa Gas District Management's Discussion and Analysis

Debt

As of the end of 2019, the District had \$19,360,805 in bonds and loans outstanding versus \$22,223,170 in the prior year, a decrease of \$2,862,365. This decrease is the result of principal payments made during the year and paying off the loan obtained to renew our fleet.

The District debt service coverage was 4.16 at year-end, an increase from 3.23 in 2018, due to paying off both the Hancock and Synovus Loans during the year.

For additional information on Debt, see Note 4 in the accompanying financial statements.

Financial Analysis — 2019 Compared to 2018 and 2019 Compared to Budget

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal years. The following table reflects the condensed Statement of Activities.

CONDENSED STATEMENTS OF ACTIVITIES

<i>September 30,</i>	2019	2018	2019 vs 2018 Change
Operating revenues	\$ 43,914,193	40,317,291	\$ 3,596,902
Operating expenses	(37,871,184)	(35,091,413)	(2,779,771)
Net operating revenues	6,043,009	5,225,878	817,131
Nonoperating revenues	513,046	106,365	406,681
Nonoperating expenses	(722,510)	(1,396,294)	673,784
Net nonoperating revenues (expenses)	(209,464)	(1,289,929)	1,080,465
Net income before capital contributions	5,833,545	3,935,949	1,897,596
Capital contributions	458,591	374,715	83,876
Increase in net position	6,292,136	4,310,664	1,981,472
Net position, beginning of year, as restated	42,898,647	38,587,983	4,310,664
Net position, end of year	\$ 49,190,783	\$ 42,898,647	\$ 6,292,136

For more detailed information, see the accompanying Statements of Activities.

Okaloosa Gas District Management's Discussion and Analysis

Operating revenues increased approximately 8.9% over the prior year. This was primarily due to increases in gas sales revenues in all customer classes. In addition to adding residential and commercial customers and their related load, an increased rate structure was implemented across all customer classes at the end of FY2018. An additional Compressed Natural Gas (CNG) customer was added to the industrial class in August of 2019. Revenues were augmented by a soil remediation project utilizing two gas fired thermal desorption units that operate intermittently throughout the year.

Gas cost remained flat in FY2019 despite increased consumption. After initially increasing over 8% through December of 2018, our delivered gas commodity cost trended down an average of 5% during FY2019. We increased the cost of gas charged our customers from \$3.75 per MMBTU to \$4.25 per MMBTU in December to recover the additional cost incurred during the first quarter of FY2019. The cost of gas will be decreased to \$3.50 per MMBTU beginning October 1, 2019. Consumption across all customer classes increased 4.1% in FY2019 primarily due to the thermal desorption units. Residential and Commercial consumption per customer remained stable despite the number of heating degree days (HDD) coming in 5.8% below last year.

FY2019 Operating and Maintenance expenses were 8.0% above FY2018. The primary drivers of the increase were employee wages and benefits, outside contractor services, and materials and supplies. The increase in these expenses are due to our growth. Our employee count increased 5.7% compared with FY2018. Expense increases were mitigated by reductions in advertising and subsidy expense and damage repairs.

CONDENSED SCHEDULE OF OPERATING REVENUE AND EXPENSES - BUDGET AND ACTUAL

<i>September 30,</i>	2019	Budget	2019 vs Budget
Operating revenue	\$ 43,914,193	\$ 45,838,898	\$ (1,924,705)
Operating expenses	(37,871,184)	(37,514,716)	(356,468)
Net operating revenue	6,043,009	8,324,182	(2,281,173)
Nonoperating revenue	513,046	304,501	208,545
Nonoperating expenses	(722,510)	(820,448)	97,938
Net nonoperating revenue (expenses)	(209,464)	(515,947)	306,483
Net income before capital contributions	5,833,545	7,808,235	(1,974,690)
Capital contributions	458,591	634,472	(175,881)
Increase in net position	6,292,136	8,442,707	(2,150,571)
Net position, beginning of year	42,898,647	42,898,647	-
Net position, end of year	\$ 49,190,783	\$ 51,341,354	\$ (2,150,571)

For more detailed information, see the accompanying Schedule of Operating Revenue and Expenses - Budget and Actual.

Okaloosa Gas District Management's Discussion and Analysis

Operating revenue, net of the cost of gas (which is a direct pass through to customers) was 10.1% under budget, but 13% above FY2018. The budget was based on five-year average weather. The negative variance to budget was due to cold weather in November and December that drove commodity prices over \$4.00 per MMBTU versus the \$3.55 per MMBTU that was budgeted. FY2019 heating degree days of 1,468 were 4.2% below the five-year average. Customer counts increased 1,251 over 2018. Increases were primarily in the residential rate class. The largest increase was in South Walton County due to continued development. Other reasons for customer gains include the price advantage of natural gas over electricity, advertising and promotions to attract new customers and encourage existing customers to add gas appliances, and continued economic development in Northwest Florida.

Operating revenues were below budget due to the deferral of budgeted DOT relocation projects which would have provided additional compliance surcharge revenue. The project timeline is driven by the DOT schedule. Delayed projects are expected to be completed in FY2020. Operating expenses were within 1.0% of budgetary expectations.



Financial Statements

**Okaloosa Gas District
Statement of Net Position**

September 30,

2019

Assets

Plant-in-service	\$ 119,367,079
Less accumulated depreciation	(62,311,663)
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Net plant-in-service	57,055,416
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Construction work-in-progress	132,409
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Total utility plant	57,187,825
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Current assets	
Unrestricted cash and short-term investments	10,424,402
Restricted cash and short-term investments	2,452,960
Accounts receivable, net	3,584,044
Merchandise contracts receivable	367,493
Other receivables	89,818
Inventories	1,150,815
Prepaid expenses	311,957
Other current assets	160,245
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Total current assets	18,541,734
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Noncurrent assets	
Restricted cash and short-term investments	4,526,431
Customer deposits	1,486,075
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Total noncurrent assets	6,012,506
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Total assets	81,742,065
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Deferred outflows of resources	
Deferred charge on refunding	414,615
Other post-employment benefits	643,232
Pension	467,518
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Total deferred outflows of resources	1,525,365
<hr/>	
Total assets and deferred outflows of resources	\$ 83,267,430
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(continued)

The accompanying notes are an integral part of these financial statements.

Okaloosa Gas District
Statement of Net Position (Continued)

September 30,

2019

Net position, liabilities and deferred inflows of resources

Net position	
Net investment in capital assets	38,241,635
Restricted	6,979,391
Unrestricted	3,969,757
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Total net position	49,190,783
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Liabilities	
Current liabilities	
Accounts payable	1,152,380
Funds collected for others	63,684
Bonds payable current portion	904,000
Loans payable current portion	74,302
Franchise fees payable	54,698
Purchased gas and compliance surcharge adjustment	4,505,677
Other current liabilities	724,489
<hr/>	
Total current liabilities	7,479,230
Bonds payable, net	9,851,000
Loans payable, net	8,531,503
Customer deposits	1,498,783
Net pension liability	1,610,978
Obligation for post employment benefits	3,982,877
Other liabilities	628,135
<hr/>	
Total liabilities	33,582,506
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Deferred inflows of resources	
Other post-employment benefits	214,545
Pension	279,596
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Total deferred inflows of resources	494,141
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Total net position, liabilities and deferred inflows of resources	\$ 83,267,430
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The accompanying notes are an integral part of these financial statements.

Okaloosa Gas District Statement of Activities

<i>For the year ended September 30,</i>	2019
Operating revenue	
Gas sales, including sales to other utilities	\$ 40,818,379
Installation revenue	1,933,138
Service charges	766,986
Late charges	332,291
Other operating revenue	63,399
Total operating revenue	43,914,193
Operating expenses	
Cost of gas	13,410,360
Operating and maintenance expenses	20,628,389
Total operating expenses before depreciation and other post-employment benefits	34,038,749
Depreciation and amortization	3,832,435
Total operating expenses	37,871,184
Operating income	6,043,009
Nonoperating revenue (expenses)	
Interest income on invested funds/contracts	172,984
Interest expense	(722,510)
Gain (loss) on disposal of assets	200,753
Nonoperating income (expenses)	139,309
Net nonoperating revenue (expenses)	(209,464)
Net income before contributions	5,833,545
Capital contributions	458,591
Increase in net position	6,292,136
Net position, beginning of year	42,898,647
Net position, end of year	\$ 49,190,783

The accompanying notes are an integral part of these financial statements.

Okaloosa Gas District Statement of Cash Flows

For the year ended September 30,

2019

Operating activities

Cash receipts from customers	\$ 46,283,331
Other operating revenue received	63,399
Cash paid to employees for services	(6,216,336)
Cash paid for operating expenses	(27,986,363)

Net cash provided (used) by operating activities	12,144,031
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Capital and related financing activities

Principal payments on capital debt	(2,862,364)
Interest paid on capital debt	(614,422)
Purchases of utility plant	(5,501,494)
Capital contributions collected	458,591
Proceeds from the sale of utility plant	371,552
Customer deposits received (refunded)	41,763
Other receipts (payments)	139,309

Net cash provided (used) by capital and related financing activities	(7,967,065)
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Investing activities

Interest received	172,984
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Net cash provided (used) by investing activities	172,984
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Net increase (decrease) in cash and short-term investments	4,349,950
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Cash and short-term investments, beginning of year	14,539,918
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Cash and short-term investments, end of year	\$ 18,889,868
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Cash reconciliation

Unrestricted cash and short-term investments	\$ 10,424,402
Restricted cash and short-term investments	2,452,960
Noncurrent cash	6,012,506

Cash and short-term investments, end of year	\$ 18,889,868
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(continued)

The accompanying notes are an integral part of these financial statements.

Okaloosa Gas District
Statement of Cash Flows (Continued)

For the year ended September 30,

2019

Reconciliation of operating income to net cash provided (used) by operating activities

Operating income	\$ 6,043,009
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	3,832,435
(Increase) decrease in:	
Receivables	(321,465)
Inventories	(176,191)
Prepaid expenses	72,523
Other assets	(123,500)
Increase (decrease) in:	
Accounts payable	310,957
Funds collected for others	(77,302)
Franchise fees payable	1,807
Obligation for post employment benefits	(155,328)
Other current liabilities	(84,836)
Net pension liability	106,852
Purchased gas and compliance surcharge adjustment	2,754,002
Other liabilities	(38,932)

Net cash provided (used) by operating activities **\$ 12,144,031**

Supplementary cash flow information

Non-cash capital and related financing activities:

Capitalized depreciation on vehicles and equipment used for construction projects	\$ 98,833
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The accompanying notes are an integral part of these financial statements.

Okaloosa Gas District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

By virtue of the enactment of Chapter 29334, Laws of Florida, Special Acts of 1953, the Okaloosa Gas District (“District”), located primarily in Okaloosa County and serving parts of Walton, Escambia and Santa Rosa Counties in Florida, was established as an independent special district. The District is governed by a Board of Directors which is selected and appointed by the member cities with one member from Okaloosa County appointed by the county commission to represent nonmember cities and unincorporated areas. The District receives no fiscal support from any governmental entity; it reports its activities as an enterprise fund. The District is an independent special district as defined by Section 218.31, Florida Statutes, and is not included for financial reporting purposes as a component unit of Okaloosa County or any city or other political subdivision.

The District maintains a natural gas transmission and distribution system. It currently provides natural gas to end-use customers in its member municipalities including Crestview, Niceville, Valparaiso, and Fort Walton Beach as well as nonmember municipalities and other areas in Okaloosa County, Florida. In addition, amendments to the Enabling Act mandated that the District be permitted to add natural gas service to portions of Santa Rosa, Escambia and south Walton Counties. The District services the major military installations of Eglin Air Force Base, Hurlburt Field, and Whiting Field, as well as those customers located in other areas adjacent to the distribution and transmission facilities.

A bill codifying the District's charter was passed by the Florida State legislature during fiscal year 2000. The codification reestablished and recreated the District for purposes of managing gas transmission and distribution systems.

Basis of Accounting

The District maintains its books and records under the accrual method of accounting. Under this method, revenues are recognized when earned rather than when received, and related expenses are recognized when they are incurred rather than when paid. The District complies with generally accepted accounting principles (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The District’s financial statements include a Statement of Net Position, a Statement of Activities and a Statement of Cash Flows. The District classifies net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent

Okaloosa Gas District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on net position imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

The District’s principal operating activities consist of natural gas transmission and distribution. Operating revenues and expenses include all fiscal transactions related to this activity as well as administration, operation and maintenance of assets, and depreciation of capital assets. Nonoperating revenues and expenses include interest expense, investment income (losses), and gains (losses) on disposal of assets.

Revenue Recognition

Gas sales are recorded based on meter readings performed on a cycle basis throughout each month. Estimated unbilled revenues are recognized at the end of each fiscal year on a pro rata basis. The amount is based on the estimated usage of gas between the latest billing date and month-end, plus the proration of the monthly service charge over the billing cycle. Contract sales are recorded as each job is completed.

General Budget Policies

The Board approves total budget appropriations only. The Chief Executive Officer is authorized to transfer budget amounts between departments and object codes. However, any revisions that alter the total budget amounts must be approved by the Board. Therefore, the level of budgetary responsibility is by total budget amount. For reporting purposes, this level has been expanded to departments. Budgets expire annually. Formal budgetary comparisons to actual results are employed as a management device during the year.

Cash, Deposits and Investments

The District’s cash and short-term investments consist of highly liquid instruments, including cash on hand, demand deposits, and certificates of deposit.

Okaloosa Gas District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District maintains deposits with “Qualified Public Depositories” (QPD) as defined in Chapter 280, Florida Statutes. All QPDs must place with the Treasurer of the State of Florida securities in accordance with collateral requirement determined by the State’s Chief Financial Officer. In the event of default by a QPD, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all QPDs.

Under this method, all the District’s deposits are fully insured or collateralized at the highest level of security as defined by *GASB Statement No. 40, Deposits and Investment Disclosures (An Amendment of GASB Statement No. 3)*.

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others direct obligations of the U.S. Treasury; the Local Government Surplus Trust Funds as created by Section 218.405, Florida Statutes; SEC-registered money market funds with the highest credit quality rating from a nationally recognized rating agency and interest-bearing time deposits or savings accounts in a QPD. In addition, the District’s investment policy allows investments in U.S. Agency Securities.

Allowance for Doubtful Accounts

The District provides for doubtful accounts based on an analysis of individual accounts. When specific amounts are determined to be uncollectible, they are written off by charging the allowance and crediting accounts receivable. At September 30, 2019, the amount of the allowance for doubtful accounts totaled \$293,940.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on the average cost basis. Inventories consist principally of gas line pipe and fixtures, gas appliances held for sale, and natural gas. Natural gas included as inventory consists of gas purchased and stored by the District with its transporter. The amount of natural gas stored in inventory at September 30, 2019 totaled \$37,315.

Utility Plant

Utility plant is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for financial reporting purposes are as follows: buildings, improvements and gas distribution system: 25 to 33 years; furniture, computer software and equipment, and construction equipment: 3 to 10 years. The District capitalizes depreciation on vehicles and equipment used for construction projects.

Okaloosa Gas District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain assets of the District are required to be set aside for specific purposes by bond agreement; thus, they are not available to be used at the Board's discretion. Restricted resources are used only after unrestricted resources are depleted.

Franchise Fees Payable

Franchise fees are paid to local municipalities based on the terms of the franchise agreements in effect with each municipality. Those municipalities consist of the following cities and towns: Crestview, Fort Walton Beach, Niceville, Valparaiso, Shalimar, Cinco Bayou, Mary Esther, and Destin.

Debt Issuance Costs

Debt issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period expenses.

Compensated Absences

District policy establishes that all employees are allowed 80 hours sick leave annually. Unused annual sick leave will be converted to vacation time credit as of the last pay period in the fiscal year at a rate of one hour of vacation for every four full hours of sick leave remaining.

In addition to sick leave, employees are allowed to accumulate a limited amount of earned but unused annual leave. Accordingly, the District records an accrual for earned but unused annual leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Capital Contributions

The District receives reimbursements from other governments, commercial entities, and private sources for costs of constructing service lines or mains. The District records these reimbursements as capital contributions.

Okaloosa Gas District Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report 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 a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The items that qualify for reporting in this category are the deferred charge on refunding and items related to pensions and other post-employment benefits. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pensions and OPEB are discussed in subsequent notes.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The items that qualify for reporting in this category relate to pensions and other post-employment benefits. The deferred inflows of resources related to pensions and OPEB are discussed in subsequent notes.

Net Position

The Board of Directors has designated the following funds which are included in unrestricted net position on the Statement of Net Position:

Rate Stabilization Fund: This designated fund was established by the Board as a cushion against unanticipated high spikes in the cost of gas or used for other gas cost mitigating measures.

Governmental Mandates Fund: This designated fund was established by the Board to reserve for costs related to unforeseen future mandates established by the Federal or State government or other higher authorities.

Disaster Recovery Fund: This designated fund was established by the Board for the purpose of reserving for costs related to future natural disasters.

Capital Renewal & Replacement Fund: This designated fund was established by the Board to accumulate funds that would be necessary for completion of the capital program when Bond Construction Funds have been depleted.

Okaloosa Gas District
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: UTILITY PLANT

The following presents activity for utility plant for the year ended September 30, 2019.

<i>September 30,</i>	2018	Transfers in and Additions	Transfers out and Retirements	2019
Transmission plant	\$ 27,429,281	\$ 115,009	\$ (1,861)	\$ 27,542,429
Distribution plant	74,331,281	4,409,033	(1,297,116)	77,443,198
Land	2,127,565	-	(24,264)	2,103,301
General plant:				
Structures and improvements	4,590,402	48,136	(19,772)	4,618,766
Office furniture and equipment	530,823	77,107	(129,741)	478,189
Transportation equipment	3,550,839	299,494	(509,052)	3,341,281
Computer equipment	1,985,754	36,861	(606,208)	1,416,407
Shop equipment	76,413	-	(8,599)	67,814
Tools and work equipment	1,902,823	779,158	(349,519)	2,332,462
Communication equipment	103,305	-	(80,073)	23,232
Total plant-in-service	\$ 116,628,486	\$ 5,764,798	\$ (3,026,205)	\$ 119,367,079
Accumulated depreciation	\$ 61,270,932	\$ 3,896,227	\$ (2,855,496)	\$ 62,311,663
Construction work-in-progress	\$ 296,970	\$ 1,183,393	\$ (1,347,954)	\$ 132,409

All capital assets are depreciated except for land and construction work-in-progress. For the year ended September 30, 2019, depreciation expense totaled \$3,797,394.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 3: CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments at September 30, 2019 consisted of the following:

<i>September 30,</i>	2019
Cash on hand	\$ 10,424,402
Deposits in banks	1,201,239
Certificates of deposit	5,830,935
Short-term money market funds	1,433,292
Total	\$ 18,889,868

The District's investments in certificates of deposit represent nonparticipating interest-earning investment contracts. The District's investments in money market funds consist of shares owned in the fund rather than the underlying investments. In accordance with GASB 72, *Fair Value Measurement and Application*, these amounts are all reported at amortized cost.

Concentration risk – The District places no limit on the amount the District may invest in any one issuer.

Interest rate risk –The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield rates.

Custodial credit risk – For an investment, custodial credit risk is the risk that the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has no formal policy for custodial risk. None of the investments listed above are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 3: CASH AND SHORT-TERM INVESTMENTS (Continued)

Cash and short-term investments of \$6,979,391 are restricted by bond covenants or for specific purposes at September 30, 2019 as follows:

<i>September 30,</i>	2019
Restricted per revenue bonds	
Current	
Revenue/Operations and maintenance fund	\$ 2,263,347
Bond sinking interest fund	189,613
	<u>2,452,960</u>
Noncurrent	
Bond renewal and replacement fund	1,669,636
Bond debt sinking reserve fund	2,856,795
	<u>4,526,431</u>
Total	\$ 6,979,391

The operations and maintenance fund is restricted by the bond agreement to pay for the cost of operation and maintenance of the System.

The revenue fund is restricted by the bond agreement primarily for depositing receipts from all sources and transferring funds to the operation and maintenance fund for operating expenses. No amounts are required to be maintained in the revenue fund.

The bond debt sinking reserve fund is restricted by the bond agreement to pay for the maturing principal and interest if net revenues are not sufficient.

The bond renewal and replacement fund is restricted by the bond agreement to pay for cost of extensions, enlargements and emergency repairs to the System.

The bond sinking interest fund is restricted by the bond agreement to pay for interest on bonds. Interest payments are made on April 1st and October 1st.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 4: LONG-TERM DEBT

The District's long-term debt consists of revenue bonds and loans payable issued by the District.

Bonds payable at September 30, 2019 are summarized as follows:

<i>September 30,</i>	2019
Gas System Refunding Revenue Bonds, Series 2014; interest at 2.78% annually, payable on April 1 and October 1; principal maturing April 2014 - October 2028; secured by pledged funds.	\$ 10,755,000
Current portion of bonds payable	(904,000)
Bonds payable, net of current portion	\$ 9,851,000

Loans payable at September 30, 2019 are summarized as follows:

<i>September 30,</i>	2019
Bank Loan, interest is fixed at 2.98%, payable semi-annually; principal maturing April 2012 - April 2028; secured by pledged revenues and funds.	\$ 8,605,805
Current portion of loans payable	(74,302)
Loans payable, net of current portion	\$ 8,531,503

Pledged funds are defined in the bond documents as "net revenues, the reserve account and the income on investment of any funds held in the reserve account hereunder."

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 4: LONG-TERM DEBT (Continued)

Covenants of Loans and Revenue Bonds

The monthly flow of funds required by the bond covenants is as follows:

1. All system gross revenues are initially deposited into the revenue fund.
2. Monies are then deposited into the operation and maintenance fund to cover the operating expenses per the budget for the next month.
3. Monies are deposited into the 2014, 2012A Hancock Loan, and 2012B Compass Loan bond sinking fund for payment of the next interest payments.
4. Monies are then applied to fund the sinking fund principal and bond amortization requirement.
5. Monies are next deposited into a renewal and replacement fund for capital improvements of the system. The District is required to have 1/12th of 3% of system gross revenues of the previous year, but not less than 3% of total fixed assets.
6. Monies are next deposited into a rate stabilization fund at the Board's discretion.
7. Any remaining monies can be used at the Board's discretion.

The following rate covenant commitments are required with regard to the bonds:

1. The District will establish rates and collect revenues to the extent necessary to provide net revenues in each year sufficient to pay 125% of the bond service requirement in such year on all outstanding bonds and 100% of all administrative costs.
2. The District will set up and appropriate in the annual budget sufficient amounts of pledged revenues to pay 100% of the principal and interest becoming due in the year.

The annual principal and interest payments for long-term debt for the next five years and in five-year increments thereafter are as follows:

<i>Years ending September 30,</i>	Principal	Interest	Total
2020	\$ 978,302	\$ 277,721	\$ 1,256,023
2021	1,985,687	514,407	2,500,094
2022	2,035,928	458,518	2,494,446
2023	2,100,609	398,867	2,499,476
2024	2,165,378	336,639	2,502,017
2025 - 2029	10,094,901	710,304	10,805,205
	\$ 19,360,805	\$ 2,696,456	\$ 22,057,261

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 4: LONG-TERM DEBT (Continued)

The following presents activity for long-term debt for the year ended September 30, 2019.

<i>September 30,</i>	2018	Additions	Reductions	2019	Amount Due Within One Year
<u>Bonds payable</u>					
Gas System Refunding Revenue					
Bonds, Series 2014	\$ 11,476,000	\$ -	\$ (721,000)	\$ 10,755,000	\$ 904,000
<u>Loans payable</u>					
Compass Bank loan 2012B	10,022,752	-	(1,416,947)	8,605,805	74,302
Synovus Vehicle Loan 2018	724,418	-	(724,418)	-	-
Total bonds and loans payable	\$ 22,223,170	\$ -	\$ (2,862,365)	\$ 19,360,805	\$ 978,302

NOTE 5: LINE OF CREDIT

The District renewed a \$2,300,000 line of credit during the year ended September 30, 2018. The interest rate on this line was fixed at 4% and it matured in August 2019. The line was not renewed in the current year.

NOTE 6: OTHER CURRENT AND NONCURRENT LIABILITIES

Activity for compensated absences for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	\$ 723,692	\$ 374,072	\$ (393,867)	\$ 703,897	\$ 91,507

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 6: OTHER CURRENT AND NONCURRENT LIABILITIES (Continued)

The District believes approximately 13% of its compensated absences are due within one year. The majority of the liability for compensated absences consists of leave balances of employees who primarily accrue more leave than they use in a given year thereby offsetting within the current year and not significantly impacting the accrued balance. In addition, there is no requirement for its employees to redeem a certain amount of their accrued leave balance each year.

Other current and noncurrent liabilities are summarized as follows:

<i>September 30,</i>	2019
Current	
Accrued professional fees and other	\$ 128,735
Compensated absences	91,507
Accrued payroll	442,829
Florida gross receipts tax	61,418
Total other current liabilities	\$ 724,489
Noncurrent	
Compensated absences	\$ 612,390
Contract agreements and other	15,745
Total other noncurrent liabilities	\$ 628,135

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 7: NET POSITION

The components of net position as of September 30, 2019 are as follows:

<i>September 30,</i>	2019
Net investment in capital assets	\$ 38,241,635
Restricted	
Reserved per revenue bond agreement	6,979,391
Unrestricted	
Board designated:	
Rate stabilization fund	1,500,000
Governmental mandates fund	3,000,000
Disaster recovery fund	2,080,010
Capital renewal & replacement fund	5,609,756
Unreserved and undesignated	(8,220,008)
Total unrestricted	3,969,758
Total net position	\$ 49,190,784

NOTE 8: PENSION PLANS

Florida Retirement System (FRS) – Defined Benefit Pension Plans

General Information about the FRS

Twenty-one full-time employees of the District, who were hired before January 1, 1996, currently participate in the FRS. Four of those employees are currently in the DROP program as defined below. The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature.

Okaloosa Gas District Notes to Financial Statements

NOTE 8: PENSION PLANS (Continued)

The FRS is a single retirement system administered by the Florida Department of Management benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (<http://www.dms.myflorida.com>).

The District's pension expense totaled \$230,060 for the year ended September 30, 2019.

FRS Pension Plan

Plan Description

The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- DROP – Members who have elected to defer receipt of monthly benefit payments while continuing employment with an FRS employer.

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service. All vested members enrolled prior to July 1, 2011 are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. Members of the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

Benefits Provided

Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. The average final compensation is the average of the 5 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent.

Contributions

The Florida Legislature establishes contribution rates for participating employers. In addition, regular employees are required to contribute an amount equal to 3% of their salary to the plan. Contribution rates for 2019, which include the 1.66% HIS subsidy as described later in this note, were as follows:

	<u>Through June 30,</u>	
	<u>2020</u>	<u>2019</u>
Regular employees	8.47%	8.26%
Employees in the Deferred Retirement Option Program (DROP)	14.60%	14.03%

The District contributions to the Plan totaled \$101,211 for the year ended September 30, 2019.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

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

At September 30, 2019, the District reported a liability of \$1,149,307 for its proportionate share of the net pension liability. 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 proportion of the net pension liability was based on the District's fiscal year 2019 relative to the FRS 2019 fiscal year contributions of all participating members. At June 30, 2019, the District's proportionate share was 0.00334%.

For the fiscal year ended September 30, 2019, the District recognized pension expense of \$226,428 related to the Plan. In addition, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

September 30, 2019				
Description	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual expense	\$	68,169	\$	713
Change of assumptions		295,191		-
Net difference between projected and actual earnings on FRS pension plan investments		-		63,586
Changes in proportion and differences between District FRS contributions and proportionate share contributions		14,482		81,482
District FRS contributions subsequent to the measurement date (July 1, 2018 - September 30, 2018 contributions)		24,940		-
Total	\$	402,782	\$	145,781

The deferred outflows of resources related to pensions, totaling \$24,940, resulting from the District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

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

Fiscal Year Ending September 30,

	2019	\$	74,022
	2020		12,791
	2021		68,453
	2022		55,855
	2023		16,048
	Thereafter		4,892

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	
Investment rate of return	6.90%, net of pension plan investment expense, including inflation	

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

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.

In order to develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2019, the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by multiple contracted capital markets assumptions teams. The table below shows resulting assumptions for each of the asset classes in which the plan was invested based on the long-term target asset allocation. 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, an increase adjustment for inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

The target allocation 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 (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.30%	3.30%	1.20%
Fixed Income	18.00%	4.10%	4.10%	3.50%
Global Equity	54.00%	8.00%	6.80%	16.50%
Real Estate (Property)	10.00%	6.70%	6.10%	11.70%
Private Equity	11.00%	11.20%	8.40%	25.80%
Strategic Investments	6.00%	5.90%	5.70%	6.70%
Total	100.00%			

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The 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.

Sensitivity of the District's Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.90%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (5.90%) or 1% higher (7.90%) than the current rate.

	1% Decrease 5.90%	Current Discount Rate 6.90%	1% Increase 7.90%
District's proportionate share of net pension liability	\$ 1,986,768	\$ 1,149,307	\$ 449,884

Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

NOTE 8: PENSION PLANS (Continued)

HIS Pension Plan

Plan Description

The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided

For the fiscal year ended September 30, 2019, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2019, the contribution rate was 1.66% of payroll pursuant to section 112.363, Florida Statutes. The District contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District contributions to the Plan totaled \$21,994 for the year ended September 30, 2019.

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

At September 30, 2019, the District reported a net pension liability of \$461,671 for its proportionate share of the HIS Plan's net pension liability. 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 fiscal year 2019 relative to the HIS 2019 fiscal year contributions of all participating members. At June 30, 2019, the District's proportionate share was 0.00413%.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

For the fiscal year ended September 30, 2019, the District recognized pension expense of \$3,632 related to the Plan. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

September 30, 2019		
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual expense	\$ 5,608	\$ 565
Change of assumptions	53,457	37,733
Net difference between projected and actual earnings on HIS pension plan investments	298	-
Changes in proportion and differences between District HIS contributions and proportionate share contributions	-	95,517
District HIS contributions subsequent to the measurement date (July 1, 2018 - September 30, 2018 contributions)	5,373	-
Total	\$ 64,736	\$ 133,815

The deferred outflows of resources related to pensions, totaling \$5,373, resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020.

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

<i>Fiscal Year Ending September 30,</i>	
2018	\$ (22,809)
2019	(16,515)
2020	(13,137)
2021	(15,073)
2022	(7,481)
Thereafter	563

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 8: PENSION PLANS (Continued)

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 rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the plan, the actuarial assumptions that determined the total pension liability for the Plan were based on certain results of the recent experience study for the FRS Plan. The following changes in the actuarial assumptions occurred in 2019:

- The municipal bond rate used to determine total pension increased from 3.87% to 3.50%.

Discount Rate

In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. 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 presents the District's proportionate share of the net pension liability calculated using the discount rate of 3.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current rate:

	1% Decrease	Current	1% Increase
	2.50%	Discount Rate	4.50%
		3.50%	
District's proportionate share of net pension liability	\$ 527,021	\$ 461,671	\$ 407,242

Okaloosa Gas District Notes to Financial Statements

NOTE 8: PENSION PLANS (Continued)

Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Defined Contribution Plan

Employees hired after December 31, 1995 are eligible for a Section 401(a) plan known as the Okaloosa Gas District Defined Contribution Plan, which is administered through an administrative service agreement. Eligibility for contributions begins in the fourth month of employment. The District contributes 8% of covered employees' gross salaries. The District's policy is to expense contributions as they are paid. As of the date of this report, the District has made all payments required for the benefit of active participants. The vesting schedule is 25% after three years of service, 50% in four, 75% in five, and 100% in six. The District's contributions under this plan were \$589,839 for 2019.

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS

The District follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for reporting the employers' OPEB plan liability.

Plan Description

The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, dental, and life insurance coverage. The District offers its retirees medical and prescription drug coverage until they are eligible for Medicare. The District also pays approximately 80% of the dependent premium. Retirees may also contribute to their life insurance coverage until they reach age 65. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and it is not included in the report of a public employee retirement system or another entity. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

All employees of the District who retire are eligible to continue their participation in the medical health insurance plans and dental plans offered by the District. Additionally, employees must be covered under the medical plan or dental plan as an active employee immediately prior to retirement. The post-employment benefits provided are the same health insurance plans and dental plans as those provided for active employees. Vision is not available to retirees. Spouses and dependents of eligible retirees are also eligible for medical coverage and dental coverage.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Employees Covered by Benefits Terms

As of September 30, 2017, the following employees were covered by the benefit terms:

Inactive members currently receiving benefits	19
Active members	167
Total	186

Total OPEB Liability

The District's total OPEB liability of \$3,982,877 was measured as of October 1, 2018. The measurement period for the OPEB expense was October 1, 2018 to September 30, 2019. The reporting period is October 1, 2018 to September 30, 2019.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017 and updated as of September 30, 2018 using the following actuarial assumptions:

Inflation rate	3.00%
Salary increase rate(s)	4.00%
Discount rate	3.57%
Initial trend rate	6.50%
Ultimate trend rate	5.00%
Years to ultimate	11

For all employees, mortality rates were based on the RP-2000 mortality tables. For female lives, 100% of the white-collar table was used. For male lives, a 50% white collar table, 50% blue collar table blend was used. All tables include fully generational adjustments for mortality improvements using improvement scale BB. For disabled lives, mortality rates were based on the RP-2000 sex-distinct disabled mortality tables with female lives set forward two (2) years, male lives set back four (4) years. Disabled mortality has not been adjusted for mortality improvements. For post-employment mortality, the RP-2000 Annuitant mortality tables were used with the modifications above. For mortality during employment, the RP-2000 Combined Healthy mortality tables were used with the modifications above. Given the District's decision not to fund the program, all future benefit payments were discounted using a high quality municipal bond rate of 3.35 percent. The high quality municipal bond rate was based on the week closest but not later than the measurement date of the Bond Buyer 20-Bond Index as published by the Federal Reserve. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's AA.

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Changes in Total OPEB Liability

The following table illustrates the total OPEB liability under GASB 75:

	Net OPEB Liability
Balance as of September 30, 2018	\$ 4,205,951
Changes for the year:	
Service cost	136,434
Interest	133,425
Changes in assumptions	(40,124)
Benefit payments	(446,223)
Other changes	(6,586)
Balance as of September 30, 2019	3,982,877

Interest Rate Sensitivity

The following table illustrates the impact of interest rate sensitivity on the Total OPEB Liability for the fiscal year ended September 30, 2019:

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability	\$ 4,166,684	\$ 3,982,877	\$ 3,803,504

Healthcare Cost Trend Sensitivity

	1% Decrease (5.5 - 4.0%)	Health Care (6.5 - 5.0%)	1% Increase (7.5 - 6.0%)
Net OPEB liability	\$ 3,702,213	\$ 3,982,877	\$ 4,308,183

**Okaloosa Gas District
Notes to Financial Statements**

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources

For the year ended September 30, 2019, the District recognized OPEB expense of \$325,937. At September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ 86,525
Changes of assumptions	643,232	128,020
Total	\$ 643,232	\$ 214,545

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

Year ending June 30,

2020		\$ 56,077
2021		56,077
2022		56,077
2023		56,077
2024		56,077
Thereafter		148,302
Total		\$ 428,687

NOTE 10: DEFERRED COMPENSATION PLAN

The District offers its employees a tax-deferred supplemental retirement program created in accordance with Internal Revenue Code Section 457. This plan allows public employees to contribute a portion of their salary before federal income taxes to a retirement account. As required by the Internal Revenue Code Section 457, the assets are held in a trust for the employees' benefit.

Okaloosa Gas District Notes to Financial Statements

NOTE 11: 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; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 12: COMMITMENTS AND CONTINGENCIES

The District is involved in several outstanding legal claims, which it is vigorously defending. The District cannot determine what exposure, if any, these claims may have. However, after consulting with legal counsel on the cases above, management believes the claims will not have a material adverse impact on the District.

During the normal course of business when favorable market conditions occur, the District may enter into a forward purchase contract by placing a buy order through Infinite Energy, the District's gas supplier. The District will place the order using NYMEX futures pricing for a portion of gas quantities budgeted for future customer demand not to exceed 50% of the District's base load. At September 30, 2019, the District had orders for natural gas into the future totaling approximately \$8.2 million.

The District has entered into a 23-year agreement with the United States Government to supply natural gas to Eglin Air Force Base at a fixed price. Starting with the year beginning March 2020, the District will provide 244,000 dekatherms of natural gas annually at a cost per dekatherm of \$4.05/Dth. The commodity cost holds at that price for 10 years and then increases gradually over the remaining term of the agreement to a final-year price of \$8.8812/Dth.

NOTE 13: CONCENTRATIONS

The District sells gas to local military bases including Eglin Air Force Base, Hurlburt Field, and Whiting Field. Gas sales to the military represent approximately 9% of total gas sales for the year ended September 30, 2019.



Supplementary Information

Okaloosa Gas District
Schedule of Changes in the Net OPEB Liability and Related Ratios
(Last 10 Fiscal Years)

<i>September 30,</i>	2019	2018
Total OPEB Liability:		
Service cost	\$ 136,434	\$ 134,724
Interest	133,425	120,188
Difference between expected and actual experience	-	(108,815)
Changes of assumptions and other inputs	(40,124)	210,061
Benefit payments	(446,223)	(457,541)
Other changes	(6,586)	490,873
Net change in total OPEB liability	(223,074)	389,490
Total OPEB liability, beginning	4,205,951	3,816,461
Total OPEB liability, ending	<u>\$ 3,982,877</u>	<u>\$ 4,205,951</u>
Covered employee payroll	\$ 8,702,574	\$ 7,523,627
Net OPEB liability as a percentage of covered employee payroll	45.77%	55.90%

Note: Data was unavailable prior to 2018

**Okaloosa Gas District
Schedule of Proportionate Share of Net Pension Liability –
Florida Retirement System (Last 10 Fiscal Years)**

	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0033373%	0.0032521%	0.0034327%	0.0035801%	0.0041114%	0.0044229%
District's proportionate share of the net pension liability (asset)	\$ 1,149,307	\$ 979,540	\$ 1,015,369	\$ 903,987	\$ 531,044	\$ 269,864
District's covered - employee payroll	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
District's proportionate share of the net pension liability (asset) as a percentage of its own covered-employee payroll	86.4%	70.3%	70.9%	60.3%	33.7%	16.0%
FRS Plan fiduciary net position as a percentage of the total pension liability	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

Note: Data was unavailable prior to 2014.

**Okaloosa Gas District
Schedule of Contributions –
Florida Retirement System (Last 10 Fiscal Years)**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 101,211	\$ 100,470	\$ 93,484	\$ 89,661	\$ 101,493	\$ 103,232
Contributions in relation to the contractually required contribution	101,211	100,470	93,484	89,661	101,493	103,232
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
Contributions as a percentage of covered-employee payroll	7.6%	7.2%	6.5%	6.0%	6.4%	6.1%

**Okaloosa Gas District
Schedule of Proportionate Share of Net Pension Liability –
Health Insurance Subsidy Program (Last 10 Fiscal Years)**

	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0041261%	0.0042168%	0.0046340%	0.0049350%	0.0052896%	0.0057497%
District's proportionate share of the net pension liability (asset)	\$ 461,671	\$ 446,312	\$ 495,494	\$ 575,149	\$ 539,461	\$ 537,609
District's covered - employee payroll	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
District's proportionate share of the net pension liability (asset) as a percentage of its own covered-employee payroll	34.7%	32.0%	34.6%	38.4%	34.2%	31.9%
HIS Plan fiduciary net position as a percentage of the total pension liability	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

Note: Data was unavailable prior to 2014.

**Okaloosa Gas District
Schedule of Contributions –
Health Insurance Subsidy Program (Last 10 Fiscal Years)**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 21,994	\$ 19,886	\$ 21,219	\$ 23,913	\$ 18,736	\$ 19,544
Contributions in relation to the contractually required contribution	21,994	19,886	21,219	23,913	18,736	19,544
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
Contributions as a percentage of covered-employee payroll	1.7%	1.4%	1.5%	1.6%	1.2%	1.2%

Okaloosa Gas District Notes to Required Supplementary Information

NOTE 1: OPEB PLAN

The actuarial methods and assumptions used to calculate the total OPEB liability are described in Note 9 to the financial statements.

The net OPEB liability amount presented for each fiscal year was determined as of September 30 measurement date prior to the fiscal year-end.

The schedule is intended to present ten years of data. Additional years of data will be presented as they become available.

The District has not presented a Schedule of Contributions since an actuarially determined contribution has not been calculated and there is no contractually or statutorily determined contribution applicable to the District.

NOTE 2: PENSION PLAN

The actuarial methods and assumptions used to calculate the total pension liability (asset) are described in Note 8 to the financial statements.

The net pension liability amounts presented for each fiscal year were determined as of the June 30 measurement date prior to the fiscal year-end.

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

FRS: The long-term expected rate of return was decreased from 7.0% to 6.9%.

HIS: The municipal bond rate used to determine total pension liability was decreased from 3.87% to 3.50%.

Okaloosa Gas District
Schedule of Operating Revenue and Expenses – Budget and Actual

<i>For the year ended September 30, 2019</i>	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable) (Unaudited)
Operating revenue	\$ 45,838,898	\$ 43,914,193	\$ (1,924,705)
Operating expenses			
Cost of gas	12,677,191	13,410,360	(733,169)
Operating and maintenance expenses	20,495,525	20,628,389	(132,864)
Depreciation	3,780,000	3,797,394	(17,394)
Other post-employment benefits	562,000	35,041	526,959
Total operating expenses	37,514,716	37,871,184	(356,468)
Net operating income	8,324,182	6,043,009	(2,281,173)
Net nonoperating revenue (expense)	(515,947)	(209,464)	306,483
Net income before contributions	\$ 7,808,235	\$ 5,833,545	\$ (1,974,690)

Comparison of operating revenue by class

Residential	\$ 21,280,724	\$ 20,752,481	\$ (528,243)
Commercial	13,443,831	12,644,021	(799,810)
Military	3,782,114	3,666,077	(116,037)
Off-system utilities	876,193	1,036,364	160,171
Off-system transportation	383,250	383,250	-
Competitive	2,422,955	2,336,186	(86,769)
Installation and piping	2,407,295	1,933,138	(474,157)
Service charges	875,951	766,986	(108,965)
Late charges	338,625	332,291	(6,334)
Other operating revenue	27,960	63,399	35,439
Total operating revenues	\$ 45,838,898	\$ 43,914,193	\$ (1,924,705)

Comparison of operating and maintenance expenses by department

Marketing	\$ 6,581,169	\$ 6,792,474	\$ (211,305)
Operations	6,702,857	7,313,966	(611,109)
Executive management	1,131,526	1,080,325	51,201
Information technology	1,022,790	916,137	106,653
Human resources	845,482	636,244	209,238
Accounting and finance	2,202,845	2,005,302	197,543
Non-departmental	2,008,856	1,883,941	124,915
Total operating and maintenance expenses	\$ 20,495,525	\$ 20,628,389	\$ (132,864)

**Okaloosa Gas District
Schedule of Operating Expenses**

For the year ended September 30,

2019

Cost of gas	\$ 13,410,360
<hr/>	
Marketing	
Marketing	2,173,559
Sales representatives	656,830
Appliance sales	1,083,526
Dispatch	817,256
Call center	519,094
Appliance service	658,700
Installation	883,509
Department total	6,792,474
<hr/>	
Operations	
Supervision	610,007
Engineering/CAD	757,682
Operations	234,759
Meter reading	484,429
Construction	1,347,343
Maintenance	1,898,510
Measurement	799,255
Compliance	526,140
Corrosion	219,872
Leak survey	161,211
Facility location	632,383
Fleet	668,687
Labor allocation	(1,026,312)
Department total	7,313,966
<hr/>	
Executive management	
General management	617,056
Risk management	463,269
Department total	1,080,325
<hr/>	
Information technology	
Information services	916,137
Department total	916,137
<hr/>	

(continued)

**Okaloosa Gas District
Schedule of Operating Expenses (Continued)**

<i>For the year ended September 30,</i>	2019
Human resources	
Human resources	636,244
Department total	636,244
Accounting and finance	
Accounting	508,763
Bookkeeping	781,254
Buildings and grounds maintenance	172,642
Customer relationship management	349,836
Warehouse operations/purchasing agent	192,807
Department total	2,005,302
Non-departmental	
Gross receipts tax	1,177,240
Franchise fees	921,867
Regulatory assessment fees	82,469
Other non-departmental expenses, net of allocations	(297,635)
Department total	1,883,941
Total operating and maintenance expenses	20,628,389
Depreciation	3,832,435
Total operating expenses including depreciation	\$ 37,871,184

Okaloosa Gas District

Schedules of Gas Consumption and Customer Count – Budget and Actual

	Budget	Actual	Variance Favorable (Unfavorable)
Comparison of dekatherms sold by class			
Residential	1,225,264	1,227,490	2,226
Commercial	1,321,224	1,326,534	5,310
Military	529,679	519,489	(10,190)
Off system utilities	230,546	261,374	30,828
Industrial	147,854	386,771	238,917
Total	3,454,567	3,721,658	267,091

Comparison of number of customers by class

Residential	42,478	42,422	(56)
Commercial	3,125	3,178	53
Military	6	6	-
Off system utilities	3	3	-
Industrial	4	5	1
Total	45,616	45,614	(2)



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INDEPENDENT AUDITORS' REPORT ON BOND COVERAGE

To the Board of Directors and Chief Executive Officer
Okaloosa Gas District
Valparaiso, Florida

We have completed our audit of Okaloosa Gas District ("District") for the year ended September 30, 2019, and have issued our Independent Audit Report dated April 30, 2020. During the course of our audit, we examined the books and records of the District relating to the collection and receipt of System Gross Revenues during the year ended September 30, 2019. System Gross Revenues for this period were \$44,427,239.

We also reviewed the Annual Budget for the fiscal year ending September 30, 2019. The System Gross Revenues estimated in the budget exceed requirements of the 2014 Gas System Refunding Revenue Bonds, 2012A Hancock Loan, 2012B Compass Loan, and 2018 Synovus Loan.

Based on our examination of the books and records of the District and our understanding of the applicable Bond covenants, we believe the District is in compliance with the provisions established by the 2014 Bond issue, the 2012A and 2012B Loan issues, and the 2018 Loan issue. The District is not in financial default as of September 30, 2019.

This Certificate is provided as part of the requirements of the provisions of the 2014 Gas System Refunding Revenue Bonds, 2012A Hancock Bank Loan, 2012B BBVA Compass Bank Loan, and 2018 Synovus Loan. The actual results of operations in future years will determine continued compliance.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." The signature is written in a cursive style.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
April 30, 2020

**Okaloosa Gas District
Schedule of Bond Service Coverage**

For the year ended September 30,

2019

Funds provided

Operating revenues	\$ 43,914,193
Nonoperating revenues over expenses other than interest expense	513,046

System gross revenues	44,427,239
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Funds applied

Cost of gas	13,410,360
Marketing	6,792,474
Operations	7,313,966
Executive management	1,080,325
Information technology	916,137
Human resources	636,244
Accounting and finance	2,005,302
Non-departmental	1,883,941

Funds applied to operations	34,038,749
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Funds available for debt service	\$ 10,388,490
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Debt service *	\$ 2,499,480
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Bond coverage	4.16
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* Excludes bond reacquisition costs amortized as a component of interest expense totaling \$108,088.



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

To the Board of Directors and Chief Executive Officer
Okaloosa Gas District
Valparaiso, 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 financial statements of Okaloosa Gas District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements and have issued our report dated April 30, 2020.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the District's internal control. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." The signature is written in a cursive, flowing style.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida

April 30, 2020



Carr, Riggs & Ingram, LLC
Certified Public Accountants
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MANAGEMENT LETTER

To the Board of Directors and Chief Executive Officer
Okaloosa Gas District
Valparaiso, Florida

Report on the Financial Statements

We have audited the financial statements of the Okaloosa Gas District (“District”) as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated April 30, 2020.

Auditors’ 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; and Chapter 10.550, Rules of the Florida Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated April 30, 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. There were no findings or recommendations made in the preceding annual audit report.

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 information required is disclosed in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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 to identify 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.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. 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 communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we communicate 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 Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
April 30, 2020



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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Chief Executive Officer
Okaloosa Gas District
Valparaiso, Florida

We have examined Okaloosa Gas District's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2019. Management of the District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District's compliance with the specified requirements based on our examination.

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

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
April 30, 2020