

# **OKALOOSA GAS DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2020**

**OKALOOSA GAS DISTRICT  
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SEPTEMBER 30, 2020**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Okaloosa Gas District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Okaloosa Gas District (the District), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Okaloosa Gas District as of September 30, 2020, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules related to the pension and OPEB liabilities and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary schedule of revenues and expenses – budget to actual comparison is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information 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 our report dated March 17, 2021, 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 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 effectiveness of internal control over financial reporting or 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.

*Warren Averett, LLC*

Destin, Florida  
March 17, 2021

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

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As management of the Okaloosa Gas District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2020.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by approximately \$58.8 million (net position), which represents an increase of \$9.6 million from the prior year.
- Of the \$58.8 million of net position at September 30, 2020, \$42.1 million represents investments in capital assets (e.g. land, construction in process, utility plant, and equipment) less any related debt used to acquire these assets that is still outstanding, \$7.3 million is restricted for future obligations, and \$9.4 million is unrestricted and may be used to meet the District's ongoing obligations to customers and creditors.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts: management's discussion and analysis, basic financial statements, other supplementary information, and the compliance section. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The basic financial statements of the District report information using accounting methods similar to those used by private sector companies. These statements offer both short and long-term financial information about its activities.

The statement of net position presents information on all of the District's assets and deferred outflows of resources as well as liabilities and deferred inflows of resources, with the difference between the two groups reported as total net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered its costs through user fees and other charges, profitability, and credit worthiness. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

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**REQUIRED FINANCIAL STATEMENTS – CONTINUED**

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

The basic financial statements are found on pages 11 - 15 of this report.

**NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information, which is essential to the full understanding of the data provided in the basic financial statements. The notes to the financial statements begin on page 16 of this report.

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension and other post-employment benefits (OPEB) to employees. The required supplementary information is found on pages 39 - 43 of this report.

**FINANCIAL ANALYSIS OF THE DISTRICT**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$58.8 million (net position) as of September 30, 2020, as reported in Table 1.

By far, the largest portion of the District's net position, \$42.1 million (or 71.6%) reflects its investment in capital assets (e.g. land, construction in process, utility plant, and equipment) less any related debt used to acquire these assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District reports investment in its capital assets net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT – CONTINUED**

**TABLE 1  
OKALOOSA GAS DISTRICT  
STATEMENTS OF NET POSITION  
AS OF SEPTEMBER 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>	<b>Difference</b>
Current assets	\$ 22,952,379	\$ 18,541,734	\$ 4,410,645
Noncurrent assets	6,227,062	6,012,506	214,556
Capital assets, net	<u>59,221,623</u>	<u>57,187,825</u>	<u>2,033,798</u>
<b>TOTAL ASSETS</b>	<u>88,401,064</u>	<u>81,742,065</u>	<u>6,658,999</u>
Deferred outflows related to pensions	453,934	467,518	(13,584)
Deferred outflows related to OPEB	1,016,181	643,232	372,949
Deferred charges on refunding	<u>306,527</u>	<u>414,615</u>	<u>(108,088)</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,776,642</u>	<u>1,525,365</u>	<u>251,277</u>
Current liabilities	7,838,249	8,978,013	(1,139,764)
Long-term liabilities	<u>22,529,052</u>	<u>24,604,493</u>	<u>(2,075,441)</u>
<b>TOTAL LIABILITIES</b>	<u>30,367,301</u>	<u>33,582,506</u>	<u>(3,215,205)</u>
Deferred inflows related to pensions	295,531	279,596	15,935
Deferred inflows related to OPEB	<u>694,361</u>	<u>214,545</u>	<u>479,816</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>989,892</u>	<u>494,141</u>	<u>495,751</u>
Net position			
Net investment in capital assets	42,125,056	38,241,635	3,883,421
Restricted	7,273,600	6,979,391	294,209
Unrestricted	<u>9,421,857</u>	<u>3,969,757</u>	<u>5,452,100</u>
<b>TOTAL NET POSITION</b>	<u>\$ 58,820,513</u>	<u>\$ 49,190,783</u>	<u>\$ 9,629,730</u>

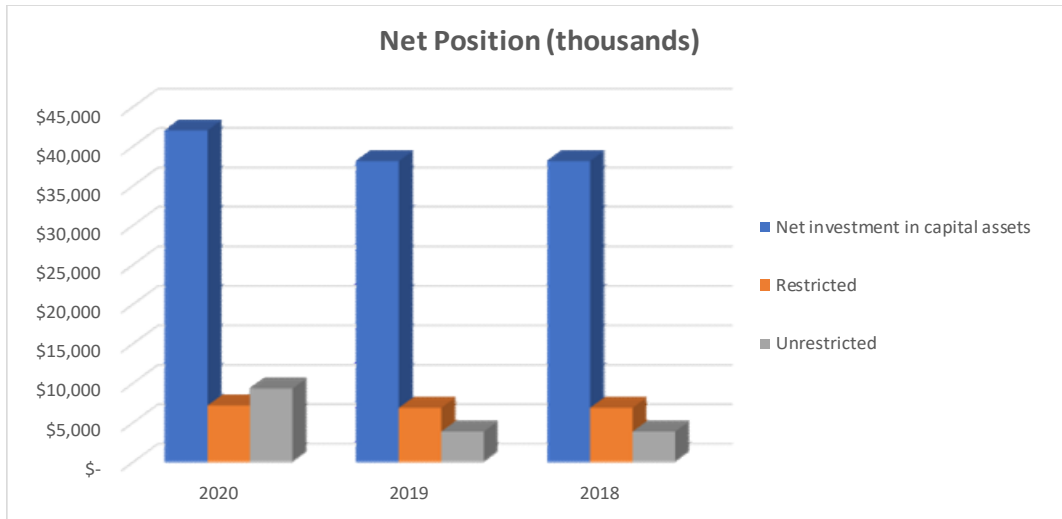
An additional portion of the District's net position, \$7.3 million, represents resources that are subject to restrictions in accordance with existing bond covenants. The remaining balance of unrestricted net position, \$9.4 million, may be used to meet the District's ongoing obligations to customers and creditors.

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

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**FINANCIAL ANALYSIS OF THE DISTRICT – CONTINUED**

The District's total net position increased by \$9.6 million during the current fiscal year. Of this amount, \$5.5 million (56.6%) represents an increase in unrestricted net position and \$3.9 million (40.3%) represents an increase in Net Investment in Capital Assets.





**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT – CONTINUED**

Table 2 shows comparative revenue and expense data.

**TABLE 2  
OKALOOSA GAS DISTRICT  
STATEMENTS OF REVENUE, EXPENSES,  
AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 45,446,894	\$ 43,850,794	\$ 1,596,100
Other operating revenue	62,903	78,394	(15,491)
<b>TOTAL OPERATING REVENUES</b>	<u>45,509,797</u>	<u>43,929,188</u>	1,580,609
<b>OPERATING EXPENSES</b>			
Cost of gas sold	11,239,820	13,410,360	(2,170,540)
Personnel	12,926,282	12,608,496	317,786
Operations and maintenance	8,074,787	8,054,934	19,853
Depreciation	3,999,804	3,797,394	202,410
<b>TOTAL OPERATING EXPENSES</b>	<u>36,240,693</u>	<u>37,871,184</u>	(1,630,491)
<b>OPERATING INCOME</b>	9,269,104	6,058,004	3,211,100
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	130,029	172,984	(42,955)
Interest expense	(649,857)	(722,510)	72,653
Other nonoperating revenue, net	296,671	325,067	(28,396)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(223,157)</u>	<u>(224,459)</u>	1,302
<b>CAPITAL CONTRIBUTIONS</b>	<u>583,783</u>	<u>458,591</u>	125,192
<b>INCREASE IN NET POSITION</b>	9,629,730	6,292,136	3,337,594
<b>NET POSITION, BEGINNING</b>	<u>49,190,783</u>	<u>42,898,647</u>	6,292,136
<b>NET POSITION, ENDING</b>	<u>\$ 58,820,513</u>	<u>\$ 49,190,783</u>	<u>\$ 9,629,730</u>

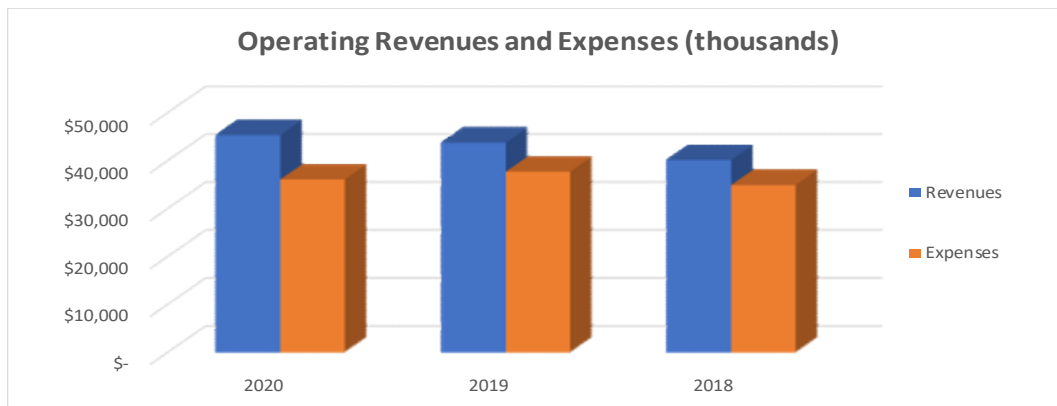
**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

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**FINANCIAL ANALYSIS OF THE DISTRICT – CONTINUED**

Key elements of the increase in net position for the fiscal year ended September 30, 2020, are as follows:

- Fees and charges for services increased approximately \$1.6 million (or 3.6%) due to an increase in the number of customers served by the District and the utilization of compliance surcharge deferred revenues. The District's territory is experiencing high demand for the installation of gas appliances due to new housing starts and existing conversions from electricity.
- The cost of the gas purchased for resale decreased approximately \$1.7 million (or 4.3%) due to decreased commodity pricing for natural gas. During fiscal year 2020, approximately 50% of the gas sold to customers was purchased at market pricing.



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets as of September 30, 2020, amounts to approximately \$59.2 million (net of accumulated depreciation). This investment in capital assets includes land, construction in process, utility plant and improvements, and machinery and equipment. The total increase in the District's investment in capital assets for the current fiscal year was approximately \$2.0 million (or 3.6%). Highlights are summarized as follows and in Table 3.

- Capital assets outdated, unserviceable and no longer used are systematically disposed of on an annual basis. Fiscal year 2020 disposals totaled \$353,186.
- The District continued replacing cast iron pipeline at a cost of \$307,510.
- New mains and service lines were installed at a cost of \$4,132,854.

Additions for the year ended September 30, 2020, were offset by depreciation expense of \$3,999,804.

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION – CONTINUED**

**TABLE 3  
OKALOOSA GAS DISTRICT  
CAPITAL ASSETS (NET OF DEPRECIATION)  
AS OF SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Land	\$ 2,103,301	\$ 2,103,301	\$ -
Construction in progress	486,425	132,409	354,016
Transmission plant	9,022,984	9,696,026	(673,042)
Distribution plant	44,430,963	41,543,194	2,887,769
Structures and improvements	681,426	843,253	(161,827)
Office furniture and equipment	101,871	124,513	(22,642)
Transportation equipment	1,005,066	1,252,809	(247,743)
Computer equipment	166,084	204,543	(38,459)
Shop equipment	17,833	22,579	(4,746)
Tools and work equipment	1,205,670	1,265,198	(59,528)
<b>TOTAL</b>	<u>\$ 59,221,623</u>	<u>\$ 57,187,825</u>	<u>\$ 2,033,798</u>

Additional information on capital assets can be found in Note 5 of the financial statements.

**Long-Term Debt**

As of September 30, 2020, the District had long-term debt outstanding of approximately \$17.4 million, which represents a decrease of approximately \$2.0 million from the prior fiscal year. The last payment on the debt is due in fiscal year 2029. The maximum debt service in any one year on this debt is approximately \$2.6 million in fiscal year 2028. The District's outstanding long-term debt is summarized in Table 4.

**TABLE 4  
OKALOOSA GAS DISTRICT  
LONG-TERM DEBT OUTSTANDING  
AS OF SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>	<u>Difference</u>
Revenue notes	\$ 8,456,094	\$ 8,605,805	\$ (149,711)
Revenue bonds	8,947,000	10,755,000	(1,808,000)
<b>TOTAL</b>	<u>\$ 17,403,094</u>	<u>\$ 19,360,805</u>	<u>\$ (1,957,711)</u>

**OKALOOSA GAS DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2020**

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**CAPITAL ASSET AND DEBT ADMINISTRATION – CONTINUED**

Additional information on long-term debt can be found in Note 10 of the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Although COVID-19 had a negative impact on tourism, which is one of the major industries in the District's service territory, indicators point to gains in residential consumption due to more customers sheltering in place and a continued increase in the number of people moving to Northwest Florida. Low interest rates are fueling the demand for new housing driving the expansion of the District's service territory.

These indicators as well as others were taken into account when preparing the District's budget for fiscal year 2021.

Due to economic uncertainties and potential hardships faced by customers as a result of the COVID-19 pandemic, the District has elected to delay implementation of rate increases suggested by our most recent rate study in the fiscal year 2021 budget. In addition, the District was very conservative in developing estimates for gas consumption by customers in the upcoming fiscal year. For these reasons, charges for services are budgeted to decrease 1.7% for the fiscal year ended September 30, 2021. Operating expenses and commodity gas cost are budgeted to increase 2.5%. Personnel costs are budget to increase 10.6% due to added positions to support the growth in the territory.

The District's 2021 budget provides for total appropriations of \$48.3 million, including capital acquisitions and principal payments on long-term debt, which is an increase of \$2.9 million (or 6.6%) from the final 2020 budget.

**CONTACTING THE DISTRICT**

This financial report is designed to provide a general overview of the District's finances and to demonstrate its accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Accounting and Finance Department, 364 Valparaiso Pkwy, Valparaiso, FL 32580. Additional information can also be found online at [www.okaloosagas.com](http://www.okaloosagas.com).

**OKALOOSA GAS DISTRICT  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

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**ASSETS**

Current assets	
Cash and short-term investments – unrestricted	\$ 14,375,854
Cash and short-term investments – restricted	2,586,530
Accounts receivable, net	3,527,213
Merchandise contracts receivable	468,173
Other receivables	25,992
Inventory	1,499,494
Prepaid expenses	409,758
Other current assets	<u>59,365</u>
Total current assets	22,952,379
Noncurrent assets	
Restricted cash and short-term investments	6,227,062
Capital assets, net	
Non-depreciable	2,589,726
Depreciable, net	<u>56,631,897</u>
Total capital assets	<u>59,221,623</u>
<b>TOTAL ASSETS</b>	<b>88,401,064</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,776,642</b>

See notes to the financial statements.

**OKALOOSA GAS DISTRICT  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

**LIABILITIES**

Current liabilities	
Accounts payable	\$ 1,306,821
Due to other governments	55,196
Accrued liabilities	
Compensated absences	121,402
Payroll	602,775
Other	260,997
Purchased gas adjustment and compliance liability	2,944,788
Revenue note payable	78,278
Revenue bonds payable	928,000
Payable from restricted assets	
Customer deposits	<u>1,539,992</u>
Total current liabilities	7,838,249
Non-current liabilities	
Accrued compensated absences	637,358
Other non-current liabilities	52,977
Revenue note payable	8,377,816
Revenue bonds payable	8,019,000
Other postemployment benefits liability	3,772,543
Net pension liability	<u>1,669,358</u>
Total non-current liabilities	<u>22,529,052</u>
<b>TOTAL LIABILITIES</b>	<b>30,367,301</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>989,892</b>
<b>NET POSITION</b>	
Net investment in capital assets	42,125,056
Restricted for:	
Debt service	2,971,435
Capital outlay	1,715,635
Operations and maintenance	2,586,530
Unrestricted	<u>9,421,857</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 58,820,513</u></b>

See notes to the financial statements.

**OKALOOSA GAS DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**OPERATING REVENUES**

Charges for services	
Gas sales, including sales to other utilities	\$ 42,098,880
Appliance sales and installation revenues	2,383,391
Service charges	696,180
Late charges	268,443
Other operating revenues	<u>62,903</u>

**TOTAL OPERATING REVENUES** 45,509,797

**OPERATING EXPENSES**

Cost of gas sold	11,239,820
Personnel	12,926,282
Operations and maintenance	8,074,787
Depreciation	<u>3,999,804</u>

**TOTAL OPERATING EXPENSES** 36,240,693

Operating income 9,269,104

**NONOPERATING REVENUES (EXPENSES)**

Interest income	130,029
Interest expense	(649,857)
Loss on disposal of assets	(62,592)
Other nonoperating revenues	<u>359,263</u>

**TOTAL NONOPERATING REVENUES (EXPENSES)** (223,157)

Income before capital contributions 9,045,947

Capital contributions 583,783

**CHANGE IN NET POSITION** 9,629,730

**NET POSITION AT BEGINNING OF YEAR** 49,190,783

**NET POSITION AT END OF YEAR** \$ 58,820,513

See notes to the financial statements.

**OKALOOSA GAS DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 44,010,094
Payments to suppliers	(19,457,338)
Payments to employees	(12,730,579)
Other receipts (payments)	<u>359,263</u>
Net cash provided by operating activities	12,181,440
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisitions of capital assets	(5,533,173)
Proceeds from sale of capital assets	20,762
Principal paid on revenue note	(149,711)
Principal paid on revenue bonds	(1,808,000)
Interest paid on notes and bonds payable	<u>(541,769)</u>
Net cash provided by (used in) capital and related financing activities	(8,011,891)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earned on time and savings deposits	<u>130,029</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,299,578
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>18,889,868</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 23,189,446</u></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>	
Current cash and short-term investments – unrestricted	\$ 14,375,854
Current cash and short-term investments – restricted	2,586,530
Noncurrent cash and short-term investments – restricted	<u>6,227,062</u>
Total cash and cash equivalents	<u><u>\$ 23,189,446</u></u>

See notes to the financial statements.



**OKALOOSA GAS DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 9,269,104
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,999,804
Miscellaneous revenue	359,263
Decrease (increase) in assets:	
Accounts receivable, net	56,831
Merchandise contracts receivable	(100,680)
Other receivables	63,826
Inventory	(348,679)
Prepaid expenses	(97,801)
Other current assets	100,880
Increase in deferred outflows of resources	(359,365)
Increase (decrease) in liabilities:	
Accounts payable	154,441
Due to other governments	(7,703)
Compensated absences	54,863
Accrued payroll	156,408
Other accrued liabilities	18,899
Purchased gas adjustment and compliance liability	(1,560,889)
Customer deposits	41,209
Other non-current liabilities	37,232
Other postemployment benefits liability	(210,334)
Net pension liability	58,380
Increase in deferred inflows of resources	495,751
Net cash provided by operating activities	\$ 12,181,440

**SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS**

Amortization of deferred loss on refunding	\$ 108,088
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See notes to the financial statements.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Okaloosa Gas District (the District) was established as an independent special district under Chapter 29334, Laws of Florida, 1953, as amended; for purposes of acquiring, constructing, owning, operating, managing, maintaining, extending, improving, and financing one or more gas distribution systems or gas transmission systems in Northwest Florida. The present charter was enacted on June 5, 2000. The District serves residential, commercial, and military customers throughout Okaloosa, Walton, Santa Rosa, and Escambia Counties. The District is governed by a Board of Directors, which is comprised of individuals appointed by the member municipalities and Okaloosa County (the County). The Director appointed by the County represents the non-member municipalities and unincorporated areas.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

**The Reporting Entity**

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include, or exclude, a potential component unit in the reporting entity was made by applying the criteria set forth in the GASB guidance. The District has no component units and is not included as a component unit, for financial reporting purposes, of the County or any other governmental entity.

**Measurement Focus and Basis of Accounting**

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

**Basis of Presentation**

The District follows the provisions of various GASB Statements, which establish standards for external financial reporting for all state and local governmental entities, which include presentation of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District's financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District consist of charges to customers for sales of natural gas. Operating expenses consist of the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Presentation – Continued**

Regular monthly billings to customers are recognized as revenue during the period for which they are invoiced. Monthly billings are calculated based on usage determined by meter readings performed on a cycle basis. Estimated unbilled revenues are recognized at the end of each fiscal year on a pro rata basis. The unbilled 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.

**Assets, Liabilities, Deferred Outflows/Inflows, and Net Position**

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the District considers cash on hand, demand and savings deposits, certificates of deposit, and short-term investments to be cash and cash equivalents.

*Deposits and Short-Term Investments*

Section 218.415, Florida Statutes, permits the investment of surplus public funds and prescribes the types of investments authorized. The District strictly adheres to the provisions of that statute as well as Chapter 280, Florida Statutes, which requires the District to maintain deposits only with “Qualified Public Depositories”.

Pursuant to Section 218.415, Florida Statutes, the District has an investment policy that allows investment of surplus funds in Qualified Public Depositories, money market instruments and mutual funds, U.S. Treasury and U.S. Government agency obligations (including mortgage-backed securities), local government investment pools, and other securities that meet minimum ratings thresholds from a nationally recognized credit rating organization.

*Receivables*

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The District provides for doubtful accounts based on historical experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. The District’s allowance for doubtful accounts was \$332,853 at September 30, 2020.

*Inventory*

Inventory consists primarily of gas line pipes and fixtures, spare parts used to repair gas lines, appliances held for sale, and natural gas held in storage by the District’s supplier. Inventory is stated at the lower of cost or market. Cost is determined using the average cost method.

*Restricted Assets*

Certain resources are set aside and classified as restricted assets because their use is limited by applicable debt covenants. Deposits received from customers of the natural gas system are restricted to use as payment of the final customer bill or are returned to the customer upon settlement of the final bill.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows, and Net Position – Continued**

*Capital Assets*

Property, plant, and equipment with an original cost greater than \$1,000 and a useful life of one year or more are capitalized at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the capital assets, which range from three to ten years for furniture, software, vehicles, and equipment; and 25 to 33 years for buildings and system improvements.

Donated capital assets are recorded at their estimated acquisition value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

*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 which 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 District currently has two items that qualify for reporting in this category – deferred losses on refunding and activity related to the defined benefit pension and OPEB plans.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources which, 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 District currently has one item that qualifies for reporting in this category – activity related to the defined benefit pension and OPEB plans.

*Purchased Gas Adjustments and Compliance Liability*

The purchased gas adjustment (PGA) allows the District to recover costs incurred for natural gas purchased on behalf of its customers. The difference between the actual natural gas costs and the costs billed to customers for a given period is deferred as a purchased gas adjustment liability. This PGA liability represents over-recovered costs from natural gas customers, and such amounts are expected to be returned to customers in the form of reduced gas commodity costs within one year of the deferral.

The compliance surcharge allows the District to recover costs incurred for system improvements by virtue of compliance with federal and state mandated operating and safety standards. The difference between the amounts billed to customers for the compliance surcharge and amounts expended for mandated operating and safety expenses is deferred as a compliance liability. Such amounts will be recognized in future periods as expenses are incurred to comply with operating and safety standards mandated by regulatory agencies.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows, and Net Position – Continued**

*Compensated Absences*

The District has a policy that establishes annual and sick leave benefits for its employees. Regular, full-time employees accrue 80 hours for sick leave each year to a maximum of 800 hours. Unused sick leave will be paid out to employees upon separation from service at rates ranging from 2.5% to 25.0% of the amount accrued based on the employee’s number of service years.

Regular, full-time employees accrue annual leave according to the schedule below. Upon termination of employment or separation from service, employees are paid for all unused annual leave up to the maximum accrual amount.

<u>Years of Service</u>	<u>Annual Hours Accrued</u>	<u>Maximum Hours Accrued</u>
Less than 1	48	48
2 - 6	96	288
7 - 15	120	360
16 - 20	160	480
More than 21	200	500

All annual leave is accrued when incurred. Sick leave is accrued based on a ratio of the sum of sick leave paid over the last several years to the total balance of sick leave at the end of each fiscal year. A liability for the accrued amounts of vacation and sick leave is reported in the District’s financial statements.

*Long-Term Obligations*

Long-term debt and other long-term obligations are reported as liabilities in the accompanying financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective and straight-line interest methods. Bond issuance costs are expensed as they are incurred.

For debt refunding transactions, the difference between the reacquisition price of new debt and the net carrying value of the old debt created a deferred gain/loss from advance refunding of debt. This difference is classified as a deferred outflow/inflow of resources and is amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

*Other Postemployment Benefits (OPEB) Liability*

For the purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows, and Net Position – Continued**

*Net Pension Liability*

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement Systems (FRS) and Health Insurance Subsidy (HIS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by FRS. Investments are reported at fair value.

*Capital Contributions*

Capital contributions consist of reimbursements from municipalities, commercial entities, and other private sources for the costs of constructing or relocating natural gas lines or mains.

*Net Position*

Net position is classified as 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 is reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, 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 restricted assets, other than capital assets, reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- ◆ *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The District considers restricted amounts to be spent first when both restricted and unrestricted net position is available.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The District has evaluated events and transactions that occurred between September 30, 2020, and March 17, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgets**

The Board approves total budget appropriations only. The Chief Executive Officer (CEO) 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. Formal budgetary comparisons to actual results are employed as a management device during the year. No budget amendments were made for fiscal year 2020. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

**3. CASH AND SHORT-TERM INVESTMENTS**

The investment of surplus funds is governed by Section 218.415, Florida Statutes, as to the type of investments that can be made. Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned.

The District manages its custodial credit risk by maintaining its deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. This statute allows Qualified Public Depositories to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All Qualified Public Depositories must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all Qualified Public Depositories. Under this method, all District deposits, including certificates of deposit, are considered fully insured.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**3. CASH AND SHORT-TERM INVESTMENTS – CONTINUED**

The District's short-term investments consist of certificates of deposits, which are reported at amortized cost. The certificates of deposit have maturity dates ranging from November 2020 through August 2021, and bear interest at rates ranging from 0.4% to 2.2% per annum.

As of September 30, 2020, the value of the District's deposits with financial institutions was \$23,242,421. These deposits were entirely covered by FDIC or pooled collateral held by the State Treasurer and, therefore, have no custodial credit risk.

**4. RECEIVABLES**

The District's receivables consisted of the following as of September 30, 2020:

Accounts receivable – gas customers	\$ 2,703,213
Unbilled revenues	1,622,978
Customer overpayments and prepayments	(466,125)
Allowance for uncollectible accounts	<u>(332,853)</u>
Accounts receivable – net	3,527,213
Contracts and merchandise sales receivable	468,173
Other receivables	<u>25,992</u>
Total	<u><u>\$ 4,021,378</u></u>



**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**5. CAPITAL ASSETS**

A summary of the changes in capital assets for the year ended September 30, 2020, follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Adjustments / Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land	\$ 2,103,301	\$ -	\$ -	\$ -	\$ 2,103,301
Construction in progress	132,409	1,575,318	-	(1,221,302)	486,425
Total capital assets not being depreciated	<u>2,235,710</u>	<u>1,575,318</u>	<u>-</u>	<u>(1,221,302)</u>	<u>2,589,726</u>
Capital assets being depreciated					
Transmission plant	27,542,429	-	-	-	27,542,429
Distribution plant	77,443,198	4,152,057	(248,537)	1,220,674	82,567,392
Structures and improvements	4,618,766	14,557	-	-	4,633,323
Office furniture and equipment	478,189	-	-	-	478,189
Transportation equipment	3,341,281	162,392	(103,461)	-	3,400,212
Computer equipment	1,416,407	37,359	-	4,700	1,458,466
Shop equipment	67,814	-	-	-	67,814
Tools and work equipment	2,332,462	171,202	(1,263)	-	2,502,401
Communication equipment	23,232	-	-	-	23,232
Total capital assets being depreciated	<u>117,263,778</u>	<u>4,537,567</u>	<u>(353,261)</u>	<u>1,225,374</u>	<u>122,673,458</u>
Less accumulated depreciation					
Transmission plant	(17,846,403)	(673,042)	-	-	(18,519,445)
Distribution plant	(35,900,004)	(2,415,368)	178,943	-	(38,136,429)
Structures and improvements	(3,775,513)	(176,384)	-	-	(3,951,897)
Office furniture and equipment	(353,676)	(22,642)	-	-	(376,318)
Transportation equipment	(2,088,472)	(396,374)	89,700	-	(2,395,146)
Computer equipment	(1,211,864)	(80,518)	-	-	(1,292,382)
Shop equipment	(45,235)	(4,746)	-	-	(49,981)
Tools and work equipment	(1,067,264)	(230,730)	1,263	-	(1,296,731)
Communication equipment	(23,232)	-	-	-	(23,232)
Total accumulated depreciation	<u>(62,311,663)</u>	<u>(3,999,804)</u>	<u>269,906</u>	<u>-</u>	<u>(66,041,561)</u>
Total capital assets being depreciated	<u>54,952,115</u>	<u>537,763</u>	<u>(83,355)</u>	<u>1,225,374</u>	<u>56,631,897</u>
Total capital assets, net	<u>\$ 57,187,825</u>	<u>\$ 2,113,081</u>	<u>\$ (83,355)</u>	<u>\$ 4,072</u>	<u>\$ 59,221,623</u>

Depreciation expense was \$3,999,804 for the fiscal year ended September 30, 2020.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

As of September 30, 2020, the District's deferred outflows of resources and deferred inflows of resources were comprised of the following components:

**Deferred outflows of resources**

Deferred loss on refunding	\$	306,527
District pension contributions made subsequent to the measurement date		28,948
Net difference between projected and actual earnings on pension plan investments		75,689
Differences between expected and actual experience on pension plan actuarial assumptions		64,953
Changes in assumptions related to pension plan		272,544
Changes in proportionate share of net pension liability		11,800
Changes in assumptions related to OPEB plan		1,016,181
Total deferred outflows of resources	\$	1,776,642

**Deferred inflows of resources**

Differences between expected and actual experience on pension plan actuarial assumptions	\$	311
Changes in assumptions related to pension plan		23,466
Changes in proportionate share of net pension liability		271,754
Differences between expected and actual experience on OPEB plan actuarial assumptions		510,865
Changes in assumptions related to OPEB plan		183,496
Total deferred inflows of resources	\$	989,892

**7. RETIREMENT PLANS**

**Defined Contribution Retirement Plan**

In 1996, the District implemented the Okaloosa Gas District 401(a) Defined Contribution Pension Plan. The plan provides retirement benefits to substantially all District employees who began their service on or after January 1, 1996. To be eligible for the plan, employees must have completed ninety (90) days of service. All benefits begin vesting after three years of credited service and are fully vested after six years. The District contributes an amount equal to 8% of each eligible employee's compensation. The plan prohibits contributions by employees. The plan participants individually select and make changes in investment options, which are made available by the independent plan administrator. Since participants select the investment fund or funds in which their deferred compensation accounts are invested, the District has no liability for investment losses.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**7. RETIREMENT PLANS – CONTINUED**

**Defined Contribution Retirement Plan – Continued**

The authority for establishing and amending the plan's provisions, including contribution requirements, lies with the Board of Directors. The District's contributions to the plan totaled \$595,649 for the fiscal year ended September 30, 2020.

**Deferred Compensation Plan**

The District offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is a tax-deferred supplemental retirement program that allows employees to contribute a portion of their salary, before federal income taxes, to a retirement account. The assets are held in trust for the employees' benefit. The District's only responsibilities with regard to the plan are to fund its matching contributions and to administer authorized payroll deductions. All other administrative requirements are the responsibility of Nationwide Mutual Insurance Group. The Plan participants individually select and make changes in investment options, which are made available by the independent plan administrator. The District's fiduciary responsibility is to administer the plan properly and to assure the investment alternatives made available are reasonable.

Contributions made by plan members during fiscal year 2020 were \$172,531.

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM**

District employees hired prior to January 1, 1996, may participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("Pension Plan") and the Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA"). The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Research and Education Section, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan**

*Plan Description*

The pension plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (“DROP”) for eligible employees.

*Benefits Provided*

Benefits under the pension plan are computed on the basis of age, average final compensation, and service credit. Regular Class members enrolled before July 1, 2011, who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.60% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits.

Senior Management Service Class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service.

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the pension plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three 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 three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with an FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Contributions*

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for each of the prior three years are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Regular Class:	10.00%	8.47%	8.26%
Senior Management Class:	27.29%	25.41%	24.06%
DROP:	16.98%	14.60%	14.03%

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2017 through September 30, 2020. The District's contributions, including employee contributions, to the Pension Plan totaled \$97,268, \$100,470, and \$96,609 for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2020, the District reported a liability of \$1,265,795 for its proportionate share of the Pension Plan's net pension liability. The District's proportionate share of the net pension liability was based on the District's share of contributions to the FRS relative to the contributions of all participating governments. At June 30, 2020, the District's proportionate share was 0.002920518%.

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020.

For the fiscal year ended September 30, 2020, the District recognized pension expense of \$213,396. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 48,445	\$ -
Changes of assumptions	229,149	-
Net difference between projected and actual earnings on pension plan investments	75,367	-
Changes in proportionate share of District's net pension liability contributions and proportionate share of contributions	11,800	132,540
District pension plan contributions subsequent to the measurement date	25,172	-
	<b>\$ 389,933</b>	<b>\$ 132,540</b>

A component of deferred outflows of resources related to the pension plan of \$25,172 resulting from 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, 2021. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense as follows:

<b>Fiscal year ending <u>September 30:</u></b>	<b>Amount</b>
2021	\$ 34,814
2022	84,691
2023	74,516
2024	40,236
2025	(2,036)
	<b>\$ 232,221</b>

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Actuarial Assumptions*

The total pension liability in the July 1, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.80%, net of pension plan investment expense, including inflation

Mortality rates were based on the PUB-2010 based table, projected generationally with Scale MP-2018.

The actuarial assumptions used in the July 1, 2020 valuation were based on the results of a 2019 actuarial experience study for the period July 1, 2013 through June 30, 2018.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.00%	2.20%	2.20%	1.20%
Fixed income	19.00%	3.00%	2.90%	3.50%
Global equity	54.20%	8.00%	6.70%	17.10%
Private equity	11.10%	10.80%	8.10%	25.70%
Strategic investments	4.40%	5.50%	5.30%	6.90%
Real estate (property)	10.30%	6.40%	5.80%	11.70%
Total	<u>100.00%</u>			
Assumed inflation – mean			2.40%	1.70%

(1) As outlined in the Pension Plan's investment policy

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Discount Rate*

The discount rate used to measure the total pension liability was 6.80%. The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

*Sensitivity of the Net Position Liability to Changes in the Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80%, 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 one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (5.80%)</b>	<b>Current Discount Rate (6.80%)</b>	<b>1% Increase (7.80%)</b>
District's proportionate share of the net pension liability (asset)	\$ 2,021,263	\$ 1,265,795	\$ 634,826

*Pension Plan Fiduciary Net Position*

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

**HIS Plan**

*Plan Description*

The 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 Florida Department of Management Services, Division of Retirement.

*Benefits Provided*

For the fiscal year ended September 30, 2020, 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. To be eligible to receive these benefits, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which may include Medicare.



**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*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, 2020, the HIS contribution for the plan was 1.66%. 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 legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The District's contributions to the HIS Plan totaled \$17,449, \$21,986, and \$23,140 for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2020, the District reported a liability of \$403,563 for its proportionate share of the HIS Plan's net pension liability. At June 30, 2020, the District's proportionate share was 0.003305229%.

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020.

For the fiscal year ended September 30, 2020, the District recognized pension income of \$10,748. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 16,508	\$ 311
Changes of assumptions	43,395	23,466
Net difference between projected and actual earnings on pension plan investments	322	-
Changes in proportionate share of District's net pension liability contributions and proportionate	-	139,214
District pension plan contributions subsequent to the measurement date	3,776	-
	<b>\$ 64,001</b>	<b>\$ 162,991</b>

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

A component of deferred outflows of resources related to the HIS Plan, totaling \$3,776 resulting from 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, 2021. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS plan, except for changes in proportion and related differences in the share of contributions, will be recognized in pension expense as follows:

<b>Fiscal year ending <u>September 30:</u></b>	<b><u>Amount</u></b>
2021	\$ (25,787)
2022	(21,763)
2023	(22,347)
2024	(15,427)
2025	(8,193)
Thereafter	<u>(9,249)</u>
	<u><u>\$ (102,766)</u></u>

*Actuarial Assumptions*

The total pension liability in the July 1, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	2.21%

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

Because the HIS Plan is funded on a pay-as-you-go basis, no experience study has been completed for that plan. The actuarial assumptions used in the July 1, 2020 valuation were based on certain results of the most recent experience study for the FRS Pension Plan.

*Discount Rate*

The discount rate used to measure the total pension liability was 3.50%. 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.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Sensitivity of the Net Position Liability to Changes in the Discount Rate*

The following represents the District's proportionate share of the net pension liability calculated using the discount rate 2.21%, 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 one percentage point lower one percentage point higher than the current rate:

	<b>1% Decrease (1.21%)</b>	<b>Current Discount Rate (2.21%)</b>	<b>1% Increase (3.21%)</b>
District's proportionate share of the net pension liability (asset)	\$ 466,501	\$ 403,563	\$ 352,049

*Pension Plan Fiduciary Net Position*

Detailed information regarding 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.

*Pension Expense*

For the fiscal year ended September 30, 2020, the District recognized an aggregate pension expense of \$202,648 on all defined benefit pension plans.

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**OPEB Plan**

*Plan Description*

The District provides certain continuing health care and life insurance benefits for its retired employees. The plan is a single employer defined benefit OPEB plan administered by the District.

Plan Membership as of September 30, 2020:

Inactive Plan Members or Beneficiaries Current Receiving Benefits	21
Active Plan Members	170
	191

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Total OPEB Liability**

*Benefits Provided*

Medical benefits are provided through comprehensive plans and are made available to employees upon actual retirement. For employees participating in the FRS pension plan, eligibility is the same as that of the pension plan. For non-FRS pension plan participants, employees are eligible to receive full benefits after 30 years of service or 6 years of service and attained the age of 62.

*Actuarial Assumptions*

The total OPEB liability was determined by an actuarial valuation as of October 1, 2019, using the following actuarial assumptions:

Inflation	3.00%
Salary Increases	4.00%
Discount Rate	2.14%
Initial Trend Rate	6.00%
Ultimate Trend Rate	4.50%
Years to Ultimate	16

*Changes in Total OPEB Liability*

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Total OPEB Liability (a) – (b)</b>
Balances at September 30, 2019	\$ 3,982,877	\$ -	\$ 3,982,877
Changes for the year:			
Service cost	148,052	-	148,052
Interest	134,380	-	134,380
Differences between expected and actual experience	(474,499)	-	(474,499)
Changes of assumptions and others	419,160	-	419,160
Contributions – employer	-	437,427	(437,427)
Benefit payments	(437,427)	(437,427)	-
Net changes	(210,334)	-	(210,334)
Reporting period ended September 30, 2020	<u>\$ 3,772,543</u>	<u>\$ -</u>	<u>\$ 3,772,543</u>

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Total OPEB Liability – Continued**

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

	<b>1% Decrease 1.14%</b>	<b>Current Discount Rate 2.14%</b>	<b>1% Increase 3.14%</b>
Total OPEB liability	\$ 3,913,479	\$ 3,772,543	\$ 3,619,654

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

	<b>1% Decrease 3.50%-5.00%</b>	<b>Healthcare Cost Trend Rates 4.50%-6.00%</b>	<b>1% Increase 5.50%-7.00%</b>
Total OPEB liability	\$ 3,429,173	\$ 3,772,543	\$ 4,184,371

*OPEB Liabilities, OPEB Expense, and Deferred Inflows/Outflows of Resources*

For the fiscal year ended September 30, 2020, the District recognized OPEB expense of \$333,960. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 510,865
Changes of assumptions	1,016,181	183,496
Total	<u>\$ 1,016,181</u>	<u>\$ 694,361</u>

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Total OPEB Liability – Continued**

Components of deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense (income) as follows:

Year ended September 30:

2021	\$	51,527
2022		51,527
2023		51,527
2024		51,527
2025		51,527
Thereafter		64,185
	<u>\$</u>	<u>321,820</u>

**10. LONG-TERM DEBT**

Long-term debt activity for the year ended September 30, 2020, is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Direct placements:</i>					
Revenue Note, Series 2012B	\$ 8,605,805	\$ -	\$ (149,711)	\$ 8,456,094	\$ 78,278
Gas System Refunding Revenue Bonds, Series 2014	10,755,000	-	(1,808,000)	8,947,000	928,000
Compensated absences	703,897	598,060	(543,197)	758,760	121,402
Total	<u>\$20,064,702</u>	<u>\$ 598,060</u>	<u>\$ (2,500,908)</u>	<u>\$18,161,854</u>	<u>\$ 1,127,680</u>

**Description of Long-Term Debt Outstanding – Direct Placements**

In 2012, the District obtained a note payable, Series 2012B, totaling \$17,795,316 from a local financial institution requiring semiannual payments ranging from of \$160,007 to \$951,129, including interest at 2.98%, through maturity in April 2028. The note is secured by pledged revenues derived from the natural gas system. Proceeds were used to refund multiple prior debt issuances.

In 2014, the District issued \$13,078,000 Gas System Revenue Refunding Bonds, Series 2014, which bear interest at 2.78% and mature in October 2028. The bonds require annual installments ranging from \$296,771 to \$1,053,495. The bond proceeds were used finance the cost of capital improvements to the natural gas system as well as to refund a previous bond issuance. The bonds are secured by pledged revenues derived from the natural gas system.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**10. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Direct Placements – Continued**

For the direct placement issuances shown above, there are no significant finance-related consequences in the event of default or termination, and there are no subjective acceleration clauses.

**Annual Requirements to Amortize Debt Outstanding**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2020, are as follows:

<u>Year Ending September 30</u>	<u>Revenue Note</u>		<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 78,278	\$ 125,996	\$ 928,000	\$ 124,363
2022	906,928	248,475	1,129,000	210,043
2023	1,690,609	210,119	410,000	188,748
2024	1,371,378	159,387	794,000	177,252
2025	1,041,749	123,705	1,184,000	149,939
2026-2030	3,367,152	178,774	4,502,000	257,887
Total	<u>\$ 8,456,094</u>	<u>\$ 1,046,456</u>	<u>\$ 8,947,000</u>	<u>\$ 1,108,232</u>

**Pledged Revenues**

The District has pledged certain revenues to repay certain bonds and notes outstanding as of September 30, 2020. The following table reports the revenues, sometimes net of related operating expenses, pledged for each debt issue, the amount of such revenues received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement, and the total pledged future revenues for each debt, which is the amount of principal and interest on the debt at year end.

<u>Debt Outstanding</u>	<u>Pledged Revenue</u>	<u>Current Year Total Pledged Revenue</u>	<u>Pledged Outstanding Principal &amp; Interest</u>	<u>Estimated Revenue Percentage Pledged</u>	<u>Principal &amp; Interest Paid</u>	<u>Maturity Calendar Year</u>
Revenue Note, Series 2012B	Gas system net revenues	\$ 13,758,200	\$ 9,502,550	69%	\$ 405,056	2028
Revenue Refunding Bonds, Series 2014	Gas system net revenues	\$ 13,758,200	\$ 10,055,233	73%	\$ 2,094,423	2028

The District's outstanding long-term debt have certain financial and non-financial debt covenants. The District is not aware of any instances of noncompliance with these covenants.

**OKALOOSA GAS DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**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; workers' compensation claims; and natural disasters for which the District carries commercial insurance. Settled claims resulting from these risks have not exceeded related insurance coverage in any of the past three fiscal years.

**12. COMMITMENTS AND CONTINGENCIES**

**Litigation Matters**

The District is party to various claims and assessments arising from its actions in the course of providing goods and services to customers. The District carries general liability coverage and management believes its coverage is sufficient to cover all significant losses arising from unsuccessful outcome of any pending and/or threatened litigation.

**Natural Gas Supply Contracts**

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. The District entered into a prepay arrangement for natural gas with Black Belt Energy (BBE) that is in effect through October 2048. The BBE contract specifies indexed prices for delivered volumes of natural gas during the contract term.

**Natural Gas Sales Contracts**

The District has entered into an agreement with the United States Government to supply natural gas to Eglin Air Force Base at a fixed commodity price. Beginning in March 2020, the District began providing 244,000 dekatherms (dkth) of natural gas annually at a commodity cost per dkth of \$4.05. 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 per dkth in February 2043. The District reserves the difference between the purchase and sales price of the gas. Natural gas sales to Eglin AFB were \$2,391,677 for the fiscal year ended September 30, 2020.



**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**OKALOOSA GAS DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
FLORIDA RETIREMENT SYSTEM  
LAST SEVEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.002920518%	0.003337262%	0.003252068%	0.003432697%	0.003580137%	0.004111411%	0.004422939%
District's proportionate share of the net pension liability (asset)	\$ 1,265,795	\$ 1,149,275	\$ 979,540	\$ 1,015,717	\$ 903,987	\$ 531,044	\$ 269,864
District's covered payroll	\$ 995,219	\$ 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 as a percentage of its covered payroll	127.19%	86.44%	70.29%	70.95%	60.28%	33.69%	16.00%
Plan fiduciary net position as a percentage of the total pension liability	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

\* Amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

See independent auditors' report.

**OKALOOSA GAS DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
HEALTH INSURANCE SUBSIDY  
LAST SEVEN YEARS**

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability (asset)	0.003305229%	0.004126116%	0.004216814%	0.004634046%	0.004934959%	0.005289646%	0.005749680%
District's proportionate share of the net pension liability (asset)	\$ 403,563	\$ 461,671	\$ 446,312	\$ 495,494	\$ 575,149	\$ 539,461	\$ 537,609
District's covered payroll	\$ 995,219	\$ 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 as a percentage of its covered payroll	40.55%	34.72%	32.03%	34.61%	38.35%	34.22%	31.88%
Plan fiduciary net position as a percentage of the total pension liability	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

\* Amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

See independent auditors' report.

**OKALOOSA GAS DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
FLORIDA RETIREMENT SYSTEM  
LAST SEVEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 97,268	\$ 100,470	\$ 96,609	\$ 90,726	\$ 86,415	\$ 97,131	\$ 103,959
Contributions in relation to the contractually required contribution	<u>(97,268)</u>	<u>(100,470)</u>	<u>(96,609)</u>	<u>(90,726)</u>	<u>(86,415)</u>	<u>(97,131)</u>	<u>(103,959)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 995,219	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
Contributions as a percentage of covered payroll	9.77%	7.56%	6.93%	6.34%	5.76%	6.16%	6.16%

\* Amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

See independent auditors' report.

**OKALOOSA GAS DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
HEALTH INSURANCE SUBSIDY  
LAST SEVEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 17,449	\$ 21,986	\$ 23,140	\$ 24,167	\$ 24,825	\$ 21,646	\$ 19,513
Contributions in relation to the contractually required contribution	<u>(17,449)</u>	<u>(21,986)</u>	<u>(23,140)</u>	<u>(24,167)</u>	<u>(24,825)</u>	<u>(21,646)</u>	<u>(19,513)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 995,219	\$ 1,329,592	\$ 1,393,633	\$ 1,431,505	\$ 1,499,593	\$ 1,576,315	\$ 1,686,282
Contributions as a percentage of covered payroll	1.75%	1.65%	1.66%	1.69%	1.66%	1.37%	1.16%

\* Amounts presented for each fiscal year were determined as of 6/30. Information prior to 2014 is not available.

\*\* This schedule is intended to show information for ten years. Additional years will be displayed as it becomes available.

See independent auditors' report.

**OKALOOSA GAS DISTRICT  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST THREE YEARS**

Reporting Date *	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 148,052	\$ 136,434	\$ 134,724
Interest	134,380	133,425	120,188
Differences between expected and actual experience	(474,499)	-	(108,815)
Changes of assumptions and other inputs <sup>1</sup>	438,524	(40,124)	210,061
Benefit payments	(437,427)	(446,223)	(457,541)
Other changes	(19,364)	(6,586)	490,873
Net change in total OPEB liability	(210,334)	(223,074)	389,490
Total OPEB liability at beginning of year	<u>3,982,877</u>	<u>4,205,951</u>	<u>3,816,461</u>
Total OPEB liability at end of year	<u>\$ 3,772,543</u>	<u>\$ 3,982,877</u>	<u>\$ 4,205,951</u>
Covered employee payroll	\$ 7,865,749	\$ 8,702,574	\$ 7,523,627
District's total OPEB liability as a percentage of covered employee payroll	47.96%	45.77%	55.90%

\* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

<sup>1</sup> The following discount rates are used for in each period:

2020	2.14%
2019	3.57%
2018	3.35%

See independent auditors' report.

**SUPPLEMENTARY INFORMATION**

**OKALOOSA GAS DISTRICT  
SCHEDULE OF REVENUES AND EXPENSES – BUDGET TO ACTUAL COMPARISON  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>OPERATING REVENUES</b>			
Charges for services			
Gas sales, including sales to other utilities			
Residential	\$ 22,834,610	\$ 22,029,918	\$ (804,692)
Commerical	14,679,479	12,516,153	(2,163,326)
Military	4,866,437	4,009,706	(856,731)
Off system utilities	835,045	810,689	(24,356)
Off system transportation	384,300	384,300	-
Competitive	<u>1,147,075</u>	<u>2,348,114</u>	<u>1,201,039</u>
Total gas sales, including sales to other utilities	44,746,946	42,098,880	(2,648,066)
Appliance sales and installation revenues	2,163,898	2,383,391	219,493
Service charges	805,395	696,180	(109,215)
Late charges	321,674	268,443	(53,231)
Other operating revenues	<u>334,625</u>	<u>62,903</u>	<u>(271,722)</u>
<b>TOTAL OPERATING REVENUES</b>	<u>48,372,538</u>	<u>45,509,797</u>	<u>(2,862,741)</u>
<b>OPERATING EXPENSES</b>			
Cost of gas sold	12,350,898	11,239,820	1,111,078
Personnel, operations and maintenance			
Executive and risk	1,229,919	1,199,208	30,711
Accounting and finance	2,255,354	2,008,271	247,083
Human resources	809,518	504,800	304,718
Information technology	998,482	918,293	80,189
Marketing	6,978,033	7,210,447	(232,414)
Operations	7,052,984	7,007,351	45,633
Non departmental	<u>2,666,367</u>	<u>2,152,699</u>	<u>513,668</u>
Total personnel, operations and maintenance	21,990,657	21,001,069	989,588
Depreciation	<u>3,873,252</u>	<u>3,999,804</u>	<u>(126,552)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>38,214,807</u>	<u>36,240,693</u>	<u>1,974,114</u>
Operating income	<u>10,157,731</u>	<u>9,269,104</u>	<u>(888,627)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	150,000	130,029	(19,971)
Interest expense	(695,070)	(649,857)	45,213
Loss on disposal of assets	-	(62,592)	(62,592)
Other nonoperating revenues	<u>72,812</u>	<u>359,263</u>	<u>286,451</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(472,258)</u>	<u>(223,157)</u>	<u>249,101</u>
Income before capital contributions	9,685,473	9,045,947	(639,526)
Capital contributions	<u>367,192</u>	<u>583,783</u>	<u>216,591</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 10,052,665</u>	<u>\$ 9,629,730</u>	<u>\$ (422,935)</u>



## **COMPLIANCE SECTION**

**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  
Okaloosa Gas District

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 (the District), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 17, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. 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 financial statements. 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.

*Warren Averett, LLC*

Destin, Florida  
March 17, 2021

**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION OF  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER  
10.550, RULES OF THE AUDITOR GENERAL**

To the Board of Directors  
Okaloosa Gas District

We have examined Okaloosa Gas District's (the District) compliance with Section 218.415, Florida Statutes, in regard to investments for the year ended September 30, 2020.

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements. 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 judgement, including the 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 of 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, 2020.

*Warren Averett, LLC*

Destin, Florida  
March 17, 2021

## MANAGEMENT LETTER

To the Board of Directors and Management  
Okaloosa Gas District

### **Report on the Financial Statements**

We have audited the financial statements of Okaloosa Gas District (the District), as of and for the year ended September 30, 2020, and have issued our report thereon dated March 17, 2021.

### **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 Auditor General*.

### **Other Reporting Requirements**

We have also issued our 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*; and Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in these reports, which are dated March 17, 2021, 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 report. There were no findings and recommendations in the preceding annual financial 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 official title and legal authority for the District has been disclosed in Note 1 to the financial statements.

**Financial Condition and Management**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require 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 identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District as of September 30, 2020. 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 Auditor General, requires that we address in the management letter 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 us to 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

**Purpose of this Letter**

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

We greatly appreciate the assistance and cooperation extended to us during our audit.

*Warren Averett, LLC*

Destin, Florida  
March 17, 2021