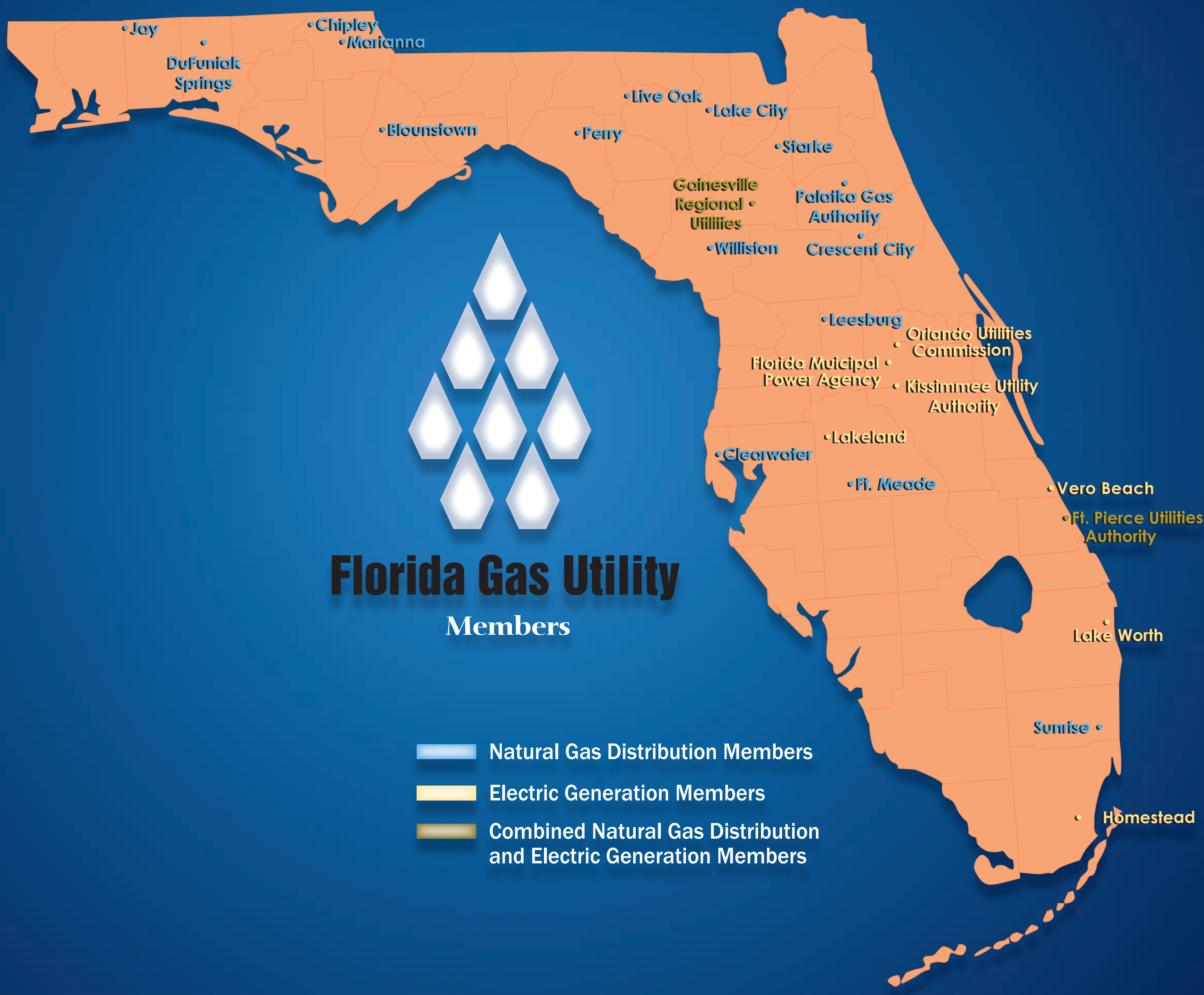
Florida Gas Utility

2013 annual report


Florida Gas Utility
Members
Jay
DuFuniak Springs
Chipley
Marianna
Blountstown
Live Oak
Lake City
Perry
Starke
Gainesville Regional Utilities
Palatka Gas Authority
Williston
Crescent City
Leesburg
Orlando Utilities Commission
Florida Muicipal Power Agency
Kissimmee Utility Authority
Lakeland
Clearwater
Ft. Meade
Vero Beach
Ft. Pierce Utilities Authority
Lake Worth
Sunrise
Homestead
Natural Gas Distribution Members
Electric Generation Members
Combined Natural Gas Distribution and Electric Generation Members

Letter to Members

> *One key to successful leadership is continuous personal change. Personal change is a reflection of our inner growth and empowerment.*
>
> – Robert E. Quinn

A YEAR OF TRANSITION

Transition is a natural occurrence in life. As one door closes, another opens, sometimes better, sometimes worse, always new. Florida Gas Utility (FGU) has experienced transitional periods in the past that have molded it into the organization it is today. FGU experienced a major transition in 2013 with a change in leadership due to the retirement of Katrina Vaughan Warren. Katrina was the leader of FGU since its inception over 20 years ago. What began as a two-person endeavor has blossomed into a major player in the Florida natural gas market. As General Manager, Katrina assembled a highly professional full-time staff and increased membership to 25 municipal utility systems. FGU members are located throughout Florida, from the western Panhandle to the southern tip of peninsular Florida. Katrina consistently promoted and adhered to the core mission of FGU – providing members with reliable and low cost natural gas supply. Throughout her career, she successfully navigated FGU through turbulent times and a constantly changing market, all while consistently producing significant benefits for the members. Especially noteworthy were the two successful long-term pre-pay natural gas projects which resulted in substantial savings to the members' natural gas supply costs over many years. One of her last challenges at FGU was to ensure that the future of FGU was left in good hands. Katrina, along with the Board of Directors, believes the goal has been accomplished.

As of June 2013, FGU's new General Manager is Thomas A. Geoffroy. Throughout his career, Tom has gained extensive experience in all facets of the natural gas industry. FGU and its members will greatly benefit from his industry knowledge and capabilities. His industry involvement spans over 30 years, working in leadership positions for companies such as Gainesville Regional Utilities (GRU), Chesapeake Utilities Corporation, and Florida Public Utilities Company. He has also served as President and Director for the Florida Municipal Natural Gas Association, Associated Gas Distributors of Florida, and Florida Natural Gas Association. Members and staff look forward to working with Tom for many years to come.

As FGU transitions from one leader to the next, our core mission remains constant. We will continue to provide reliable, competitively priced natural gas supply to meet our members' requirements. It is through the dedication and diligence of our employees that FGU has been able to consistently achieve its mission throughout the years. Going forward, we believe that our knowledgeable and experienced employees will continue to achieve superior results for our members. We have developed numerous supplier relationships that allow FGU to "shop" for the best supply prices. Additionally, FGU's members are afforded additional savings through the effective management of pipeline capacity for and among our members. FGU is constantly looking for favorable market conditions for pre-paid long-term natural gas supply acquisitions and other opportunities to bring value to our members. The results speak for themselves - about $4 million in savings and benefits to members this fiscal year.

FLORIDA'S NATURAL GAS MARKET – PARADIGM SHIFT

The Florida natural gas market has dramatically changed over the last 10 to 15 years. Not long ago, industry experts were projecting that there was only 50 to 70 years of natural gas supply available. Prior to 2002, only one major pipeline provided service to Florida, limiting the quantity of natural gas that could be transported into the state. As would be expected given these circumstances, prices were relatively high and subject to significant "spikes" during hot summer and cold winter weather and during hurricane events. Due to these factors, new electric generation plants were projected to utilize a mix of fuels, including coal, nuclear, natural gas and renewables. Local distribution systems' growth was almost totally dependent on new construction in the industrial, commercial and residential markets, until the economic downturn stopped virtually all residential and commercial construction activity in Florida. Overall, there was general concern about the long term viability of natural gas as an energy source in the country and in Florida.

How things have changed! Today, thanks to the shale gas plays being developed, natural gas supply is plentiful with current projections of 200+ years of reserves (some estimates are higher). Florida Gas Transmission (FGT) has built, through several expansion projects, additional pipeline capacity. Gulfstream Pipeline was placed into service in 2002 and has since been expanded. In addition, a major new pipeline into Florida has been announced along with the possibility of one or more market-area storage projects. Hence, natural gas prices are at historically low levels and significant price fluctuations are no longer the norm. The impact to the Florida market has been significant. Now, future electric generation plants are almost solely relying on natural gas as the fuel source. Local distribution systems, with natural gas having a significant price advantage over competing alternative fuels, are growing by converting existing industrial and commercial accounts to natural gas.

As a result of these advances in gas supply and infrastructure, the natural gas industry in Florida has never been brighter.

FUTURE OUTLOOK

With this incredible paradigm shift in the natural gas industry, FGU is continuing to evolve, finding additional ways to guide our members through this new marketplace.

> *"Change is the law of life and those who look only to the past or present are certain to miss the future."*
>
> – John F. Kennedy

Since prices have dropped and stabilized, natural gas is becoming increasingly more attractive as the fuel of choice for traditional uses, such as power plants and industrial, commercial and residential equipment, as well as new market opportunities, including the use of natural gas as fuel for trucks, ships and trains. Florida is on the forefront of this movement and FGU is working with members to evaluate projects within their service areas.

We have spent substantial time assessing compressed natural gas (CNG) and liquefied natural gas (LNG) opportunities with our members and expect that several projects will be feasible. CNG fueling stations are being constructed all across the state of Florida and FGU is striving to help our members be a part of the boom. Waste hauling trucks, school and transit buses, and commercial trucking companies are looking to take advantage of the savings in fuel costs and are requesting service from our members. Additionally, LNG is fast becoming a viable fuel option for both locomotives and maritime shipping coming in and out of Florida's rapidly expanding ports, in response to the expansion of the Panama Canal. Both CNG and LNG provide exciting opportunities for growth for our members.

FGU is preparing for further changes in the market with the proposed addition of new pipelines into Florida, as well as potential new storage options within the state. The Sabal Trail and Florida Southeast Connection pipelines should bring significant opportunities to add value for our members by providing new supply options for power plants and local distribution system expansions in geographic areas where existing pipeline capacity is constrained. Market-area storage projects in Florida should also bring additional options and value to members in lieu of subscribing for additional pipeline capacity. FGU is excited to work with our members to fully evaluate the opportunities that come with these projects.

As we look towards the future, we believe that it is necessary to update our strategic plan so that it reflects the new reality in Florida and charts an appropriate course for FGU. We will focus on developing strategic partners to help execute these plans and overcome challenges that will inevitably arise from the new natural gas paradigm in Florida's marketplace. Additionally, FGU will work diligently to expand our membership as well as the services we provide to our members.

I would like to thank Katrina, the Executive Committee and the Board of Directors for their confidence and support as I begin my role as General Manager of FGU. I am very excited to be a part of an excellent team of employees and look forward to working with them to provide value and benefits to all FGU members.

Sincerely,

Thomas L. Geoffroy

Thomas A. Geoffroy
General Manager

Larry Mattern

Larry Mattern
Chair

FGU Organization, Management, and Services

FGU GOVERNANCE

FGU is a joint-action agency, formed under Florida Statute 163.01, known as The Interlocal Cooperation Act. FGU is governed by a Board of Directors consisting of one representative from each of the member utilities. The Board of Directors is responsible for approval of FGU's budget, adoption of bylaws, establishment of policies and the selection of officers and Executive Committee members. The seven-member Executive Committee provides general direction to the General Manager in accordance with the policies established by the Board. The Executive Committee is made up of the Chair and Vice-Chair of the Board, two directors representing municipal gas distributors, two directors representing municipal electric power generators and one at-large director from an electric power generator or gas distributor. Additionally, there are three alternate directors able to fill any vacancy if a member is unable to serve at a particular meeting. Executive Committee members and certain officers are elected for two-year terms. The General Manager is the chief executive officer of FGU and has responsibility for the day-to-day operation and management of FGU. As a not-for-profit agency, the cost of gas supply and transportation are passed through to the members at the actual cost incurred by FGU on behalf of the members. FGU's service charge to the members is designed to recover the cost of operating FGU and is established by the Board of Directors through approval of the annual operating budget.

FGU SERVICES

Headquartered in Gainesville, Florida, FGU employs a staff of 10 full time professional employees dedicated to the natural gas supply and transportation management of its members' natural gas requirements. On a daily basis, FGU's Operations Group is responsible for gas scheduling, supply acquisition, transportation management, asset optimization, storage management, marketing of excess capacity, hedging strategies, and member services. FGU's Financial Services Group is responsible for accounts payable and receivable, managing FGU's investments, contract administration, human resources, information technology, financial accounting for routine operations and special projects, administration of all long-term debt, and credit risk management. Additionally, FGU's staff offers a wide array of expertise and assistance in other areas related to natural gas, including, but not limited to, rate design, growth strategies, regulatory activity, contract development and contract negotiation assistance to its members.

FGU Mission Statement

FGU was created as a non-profit municipal organization for the sole purpose of reducing the costs of purchased natural gas for its members. This is achieved by providing cost effective gas purchasing and gas management services and by securing long-term stability in fuel costs and supplies. Since the maximum benefits of bulk purchasing and long-term stability of fuel supplies are best assured by the largest diversity and size of supplies and demands, FGU will attempt to expand its membership prudently over time. FGU will develop and implement procedures to maximize the use of available transportation entitlements among the FGU members in order to balance the needs of systems with different seasonal peaks and to share the ability to use alternative fuels between electric generating systems and gas distribution systems. FGU makes its services and benefits available in such a manner to assure that the costs imposed upon FGU by a member are, as far as practicable, recovered from that member through appropriate cost recovery mechanisms.

Natural Gas Supply

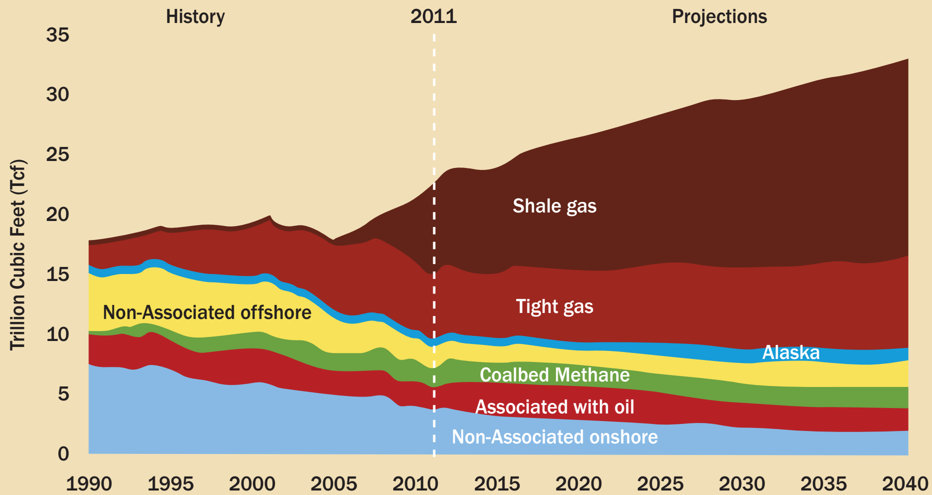
The future outlook for natural gas has changed dramatically over the past few years. Not that long ago, experts predicted that natural gas supply production would be unable to keep up with demand. Reserves were stable but conventional production had been steadily declining, causing widespread fears of impending shortages. Few believed the market could support any significant growth in demand.

As this situation continued to play out for the natural gas industry, the technology of hydraulic fracturing was developed and implemented. Hydraulic fracturing, known commonly as "fracking", is a method of horizontal drilling that allows producers to extract natural gas from low-permeability reservoirs, including coalbed methane, sandstone, and shale rock. With this technology, production increased significantly and has overcome the decline in traditional methods of extraction. As the practice of fracking spread across the U.S., the discovery of huge shale basins laden with natural gas forever changed the outlook of the natural gas market. Experts now predict hundreds of years of natural gas supply, even with the renewed increase in demand. The U.S. supply of natural gas is expected to continue to increase as new basins are further explored and discovered.

When supply estimates seemed limited, natural gas prices reacted accordingly. The supply/demand imbalance caused intense price sensitivity, with prices skyrocketing from changes in the weather including hurricanes. For example, in 2006, the range in natural gas supply prices was approximately $11/Dth. The volatility in prices worried consumers and made them hesitant to use natural gas. Additionally, pipelines were reluctant to build new capacity into Florida.

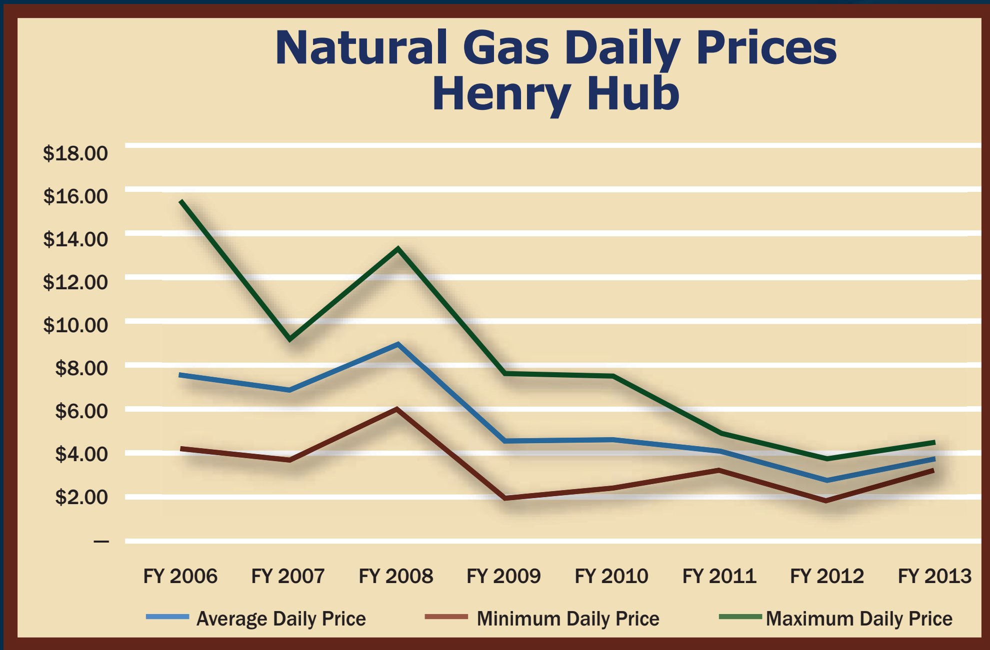
Fortunately, as supply became abundant, the volatility in prices stabilized and demand started to increase. Pipelines began to construct additional capacity into Florida and supply reliability was no longer significantly impacted by weather events. Current prices are lower and typically trade within a narrow range throughout the year.

Natural Gas Production by Source



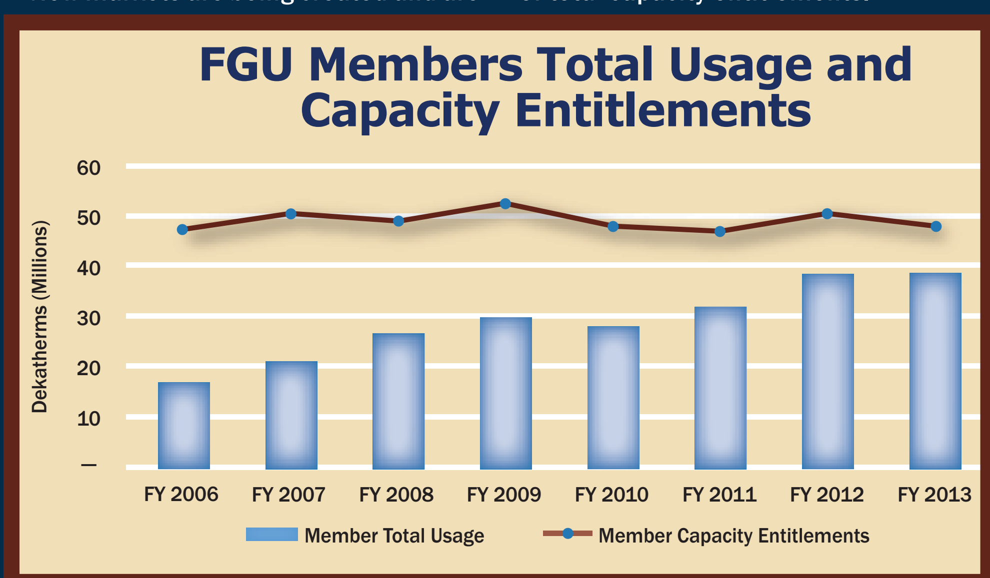
Source: U.S. Energy Information Administration, *Annual Energy Outlook 2013 Early Release*

> *"Whosoever desires constant success must change his conduct with the times."*
>
> – Niccolo Machiavelli



Now, natural gas has become the fuel of choice in Florida for all market sectors, including electric generation, industrial, commercial, and residential customers. Natural gas has increasingly become the primary fuel option for electric generation throughout Florida. 87% of FGU's total usage in 2013 was consumed by electric generating members. Industrial plants are eager to convert their equipment to natural gas and have approached several of our members for service. Commercial accounts are also reducing operating costs by converting to natural gas. Most new residential communities are using natural gas and our distribution members have been expanding their systems to serve existing communities requesting natural gas service.

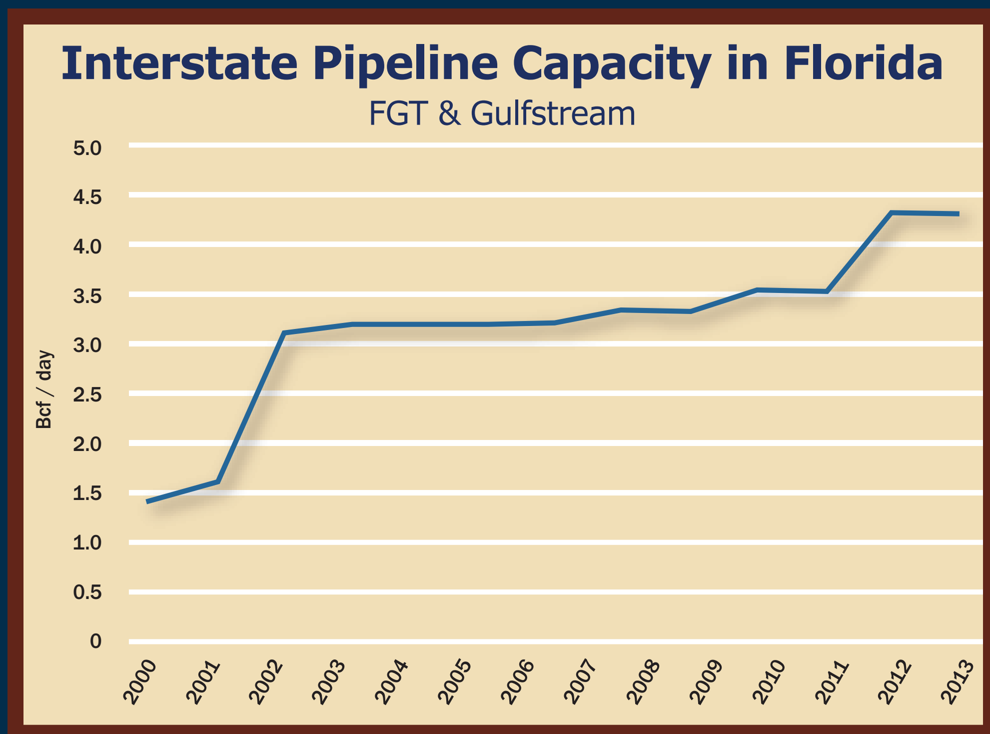
New markets are being created and are evolving. With the enactment in Florida of natural gas vehicle rebates beginning in 2014, Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG) usage is poised to significantly increase demand in the near future. CNG fueling stations are being built throughout the state of Florida, serving high fuel consuming vehicles such as waste haulers, school and transit buses, and commercial trucking companies - saving them thousands of dollars in fuel costs each year. LNG is becoming a viable option for some of our members to serve large ships, trains and the long-haul trucking industry. With all of this growth, FGU members' usage continues to increase. FGU's total member natural gas usage for FY 2013 was over 39 million Dths or 80% of total capacity entitlements.



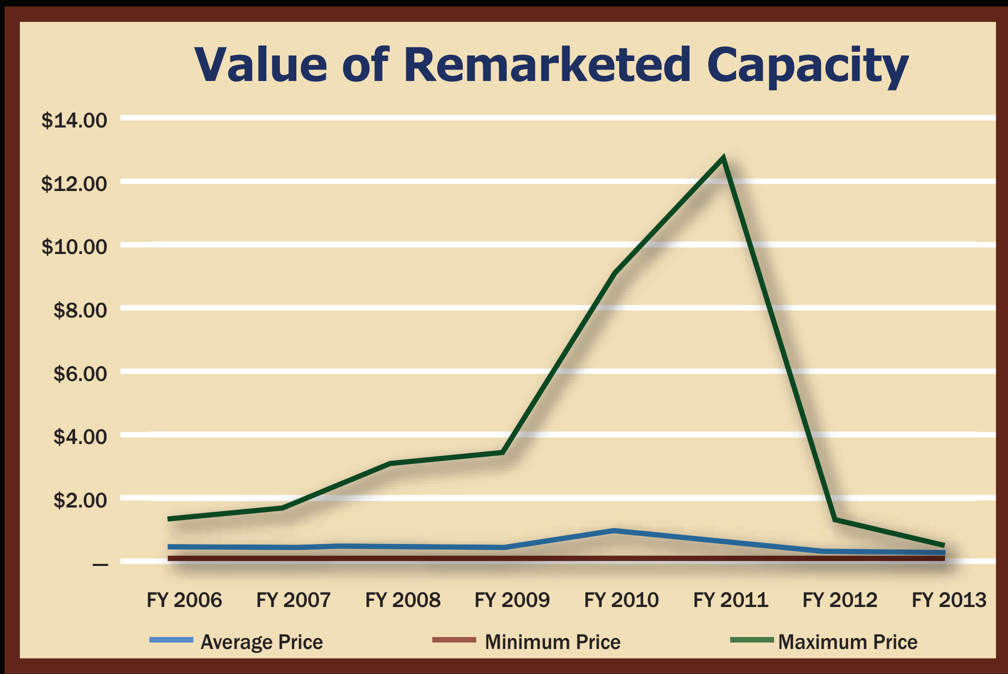
Pipeline Capacity

Historically, pipeline capacity for transportation of natural gas supplies was limited and difficult to acquire on a long-term basis. As such, it was a significant component of the overall cost of natural gas to FGU's members. Several years ago, remarketed capacity on the pipelines serving Florida would bring in top dollar. It was a scarce commodity and high demand would drive the price up during peak times. Once the supply dilemma was resolved, pipeline companies decided it was prudent to build additional infrastructure to serve the Florida market. The addition of a second major pipeline, coupled with multiple expansion projects resulted in abundant capacity available to serve the state.

> *"Nothing is secure but life, transition, the energizing spirit."*
>
> – Ralph Waldo Emerson

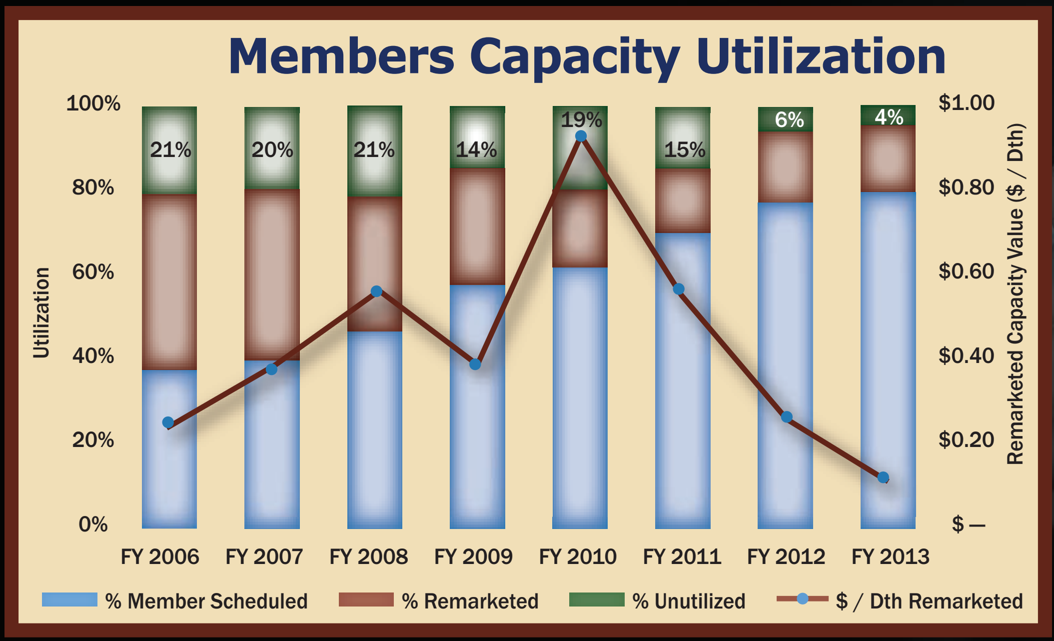


FGU has transitioned its focus to better navigate its members through this market shift. Remarketing excess capacity was previously an area where FGU could bring significant value to our members. FGT's Phase VIII expansion came into service in April of 2011, resulting in a major reduction in the value of capacity. In today's market, it is more valuable to use capacity than to remarket it. Efficient utilization of capacity achieved through aggregation of our members' entitlements is a major cost-saving benefit that FGU brings to our members. In fact, since 2006 members utilization of contracted capacity has doubled.



> *To turn really interesting ideas and fledgling technologies into a company that can continue to innovate for years, it requires a lot of disciplines.*
>
> – Steve Jobs

FGU has responded to the increase in members' usage in ways that continue to bring value to members. FGU currently manages capacity on multiple pipelines to give members more flexibility in acquiring natural gas. When scheduling gas, we consider historical usage, weather conditions, monthly imbalance levels, and anticipated changes in fuel requirements on a daily basis. This allows us to accurately forecast consumption and make appropriate nominations to minimize pipeline imbalance and non-compliance penalties on transporting pipelines – all resulting in major savings to our members. With the growth our members are experiencing, over 80% of total entitlements in 2013 were used by the members themselves. FGU continues to remarket most of the remaining capacity. In 2013, 96% of members' capacity was utilized or successfully remarketed by FGU. Even with an average of only $0.14/Dth recovery, the total cost savings to our members from remarketing capacity was $2.7 million.



Florida Gas Utility Consultants

Holland & Knight LLP
Lakeland, FL
Bond Counsel

First Southwest Company
Orlando, FL
Financial Advisor

Holland & Knight LLP
Lakeland, FL
General Counsel

John & Hengerer
Washington, DC
Industry Counsel

Purvis, Gray & Company, LLP
Gainesville, FL
Independent Auditors

FGU Staff L to R: Renee Rollins, Katie Hennemann, Jenni Hodge, Lisa Marousky, Melanie Scott, Tom Geoffroy, Katrina Warren, Aaron Harris, Nancy Holloway, Seth Jacobs, Tammy Turnbull.

INDEPENDENT AUDITORS' REPORT

Board of Directors and

Members of Florida Gas Utility

Gainesville, Florida

We have audited the accompanying financial statements of Florida Gas Utility (FGU) and each of its major projects, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise FGU'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 preforming 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 respective financial position of FGU and each of its major projects as of September 30, 2013, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Purvis Gray & Company

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 9, 2013, on our consideration of FGU's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Purvis, Gray and Company, LLP

December 9, 2013
Gainesville, Florida

Management's Discussion and Analysis

The management of Florida Gas Utility (FGU) provides readers of FGU's financial statements this discussion and analysis of the financial activities of FGU for the fiscal year ended September 30, 2013. This information should be read in conjunction with the auditors' report, basic financial statements and the notes.

Overview of the Financial Statements

FGU maintains its accounts on a fund basis. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like governments and other special agencies or districts, FGU uses fund accounting to comply with finance-related legal requirements. FGU currently has two proprietary funds, the Operating fund and the All Requirements Project fund. Each of these funds has the same basic business purpose - to provide natural gas to FGU's members, customers, and project participants. Each of these funds is described in detail in the "Individual Funds" section below.

The Statement of Net Position reports on all of FGU's assets and liabilities, with the differences between the two reported as net position. Due to the not-for-profit nature of FGU, its net position will not accumulate significantly over time. FGU passes through operational expenses to its members, customers, and project participants as incurred with no built-in profit. FGU funds its administrative and general costs through a service charge. When actual administrative and general costs do not equal actual service charge revenues for the year, it results in a change of net position (positive or negative). The factors that contribute to the change in net position will be discussed in the "Financial Highlights" section below.

The Statement of Revenues, Expenses, and Changes in Net Position reflects how FGU's net position changed during the fiscal year. All of FGU's revenues and expenses are reported as soon as they are incurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Current Year vs. Prior Year Comparison

The following combined, condensed financial information compares, in summary, the financial condition and operations of FGU for the years ended September 30, 2013 and 2012, respectively. The combined information should be read cautiously when evaluating FGU's financial position due to the legal separation that must be maintained between each fund.

Net Position	FY 2013	FY 2012	% Change
Current assets, including restricted	$ 20,710,312	$ 21,961,627	-5.70%
Property and equipment, net	389,773	411,500	-5.28%
Other assets	0	0	0.00%
Total assets	21,100,085	22,373,127	-5.69%
Current liabilities, including restricted	19,215,272	20,355,501	-5.60%
Long-term liabilities	0	0	0.00%
Total liabilities	19,215,272	20,355,501	-5.60%
Net Position invested in capital assets, net of related debt	389,773	411,500	-5.28%
Net Position – unrestricted	1,495,040	1,606,126	-6.92%
Total net assets	1,884,813	2,017,626	-6.58%

Management's Discussion and Analysis *(Concluded)*

Revenues, Expenses and Changes in Net Position	FY 2013	FY 2012	% Change
Revenues – gas operations	$ 196,994,034	$ 194,545,543	1.26%
Revenues – service charge and other	1,500,322	1,535,237	-2.27%
Total operating revenues	198,494,356	196,080,780	1.23%
Expenses - gas operations	196,994,034	194,545,543	1.26%
Expenses - administrative and general	1,625,049	1,634,319	-0.57%
Depreciation & amortization	31,484	26,537	18.64%
Total operating expenses	198,650,567	196,206,399	1.25%
Operating income	(156,211)	(125,619)	24.35%
Interest and finance charge income	23,398	46,486	-49.67%
Other income and other expense, net	0	0	0.00%
Gain (loss) on disposal of assets	0	350	37.82%
Change in net Position	$ (132,813)	$ (78,783)	-68.58%

Financial Highlights

- In fiscal year 2013, current assets decreased by $1.3 million primarily due to the decrease in storage inventory of $2.6 million and the increase in accounts receivable of $1.1 million. Current liabilities decreased by $1.1 million primarily due to the decrease in deferred revenue related to storage inventory of $2.6 million netted against the increase in accounts payable of $1.4 million.
- Gas operating revenues and gas operating expenses both increased by $2.4 million. The slight increase in gas prices is the major contributor to the increase in these accounts.
- FGU's interest income was $23 thousand lower in fiscal year 2013 than in fiscal year 2012. This change is due mainly to a slight decrease in interest rates.
- FGU's total change in net position in fiscal year 2013 was a negative $132,813 as compared to a negative $78,783 in fiscal year 2012. In fiscal year 2013, the Board of Directors approved a budget amendment to use $87,000 of the working capital reserve for expenses related to the General Manager search. As discussed in the "Overview of the Financial Statements" section above, FGU does not generally accumulate or expend significant amounts of net position. FGU establishes its service charges based on revenue requirements.

Individual Funds

The Operating fund accounts for general operations beneficial to all members not participating in the All Requirements Project. All of FGU's administrative expenses are paid out of the Operating fund and allocated to the other funds. The Operating fund is FGU's only fund that accumulates net position. Refer to the discussion of net position above.

The All Requirements Project (ARP) fund accounts for the operations beneficial to those members that participate in FGU's All Requirements Project. This project began in March 2002. At the end of fiscal year 2013, this project consisted of 12 members. The ARP has no accumulated net position since any excess revenues are transferred to the Operating fund to offset future service charges.

Contact Information

This financial report is designed to provide a general overview of FGU's finances. Questions concerning any of the information provided in this report should be addressed to Florida Gas Utility, Financial Services Department, 4619 N.W. 53rd Avenue, Gainesville, Florida 32653.

Florida Gas Utility
Statement of Net Position
As of September 30, 2013

	Operating	All Requirements Project	Total
Assets			
Current Assets			
Cash and Cash Equivalents	$ 1,527,862	$ 3,375	$ 1,531,237
Accounts Receivable:			
Members	17,073,985	0	17,073,985
Project Participants	0	1,291,639	1,291,639
Customers	275,192	0	275,192
Other	236,957	5,865	242,822
Prepaid Expenses	28,841	7,083	35,924
Due from ARP Fund	22,437	0	22,437
Total Current Assets	19,165,274	1,307,962	20,473,236
Restricted Assets			
Cash and Cash Equivalents	237,076	0	237,076
Total Restricted Assets	237,076	0	237,076
Property and Equipment, Net of Accumulated Depreciation of $385,289	389,773	0	389,773
Total Assets	19,792,123	1,307,962	21,100,085
Liabilities and Net Position			
Current Liabilities			
Trade	17,308,254	1,276,193	18,584,447
Other	256,224	2,249	258,473
Due to Gas Operating Fund	0	22,437	22,437
Accrued Expenses	105,756	0	105,756
Deferred Revenue	0	7,083	7,083
Total Current Liabilities	17,670,234	1,307,962	18,978,196
Liabilities Payable from Restricted Assets			
Deposits Held	237,076	0	237,076
Total Liabilities Payable from Restricted Assets	237,076	0	237,076
Total Liabilities	17,907,310	1,307,962	19,215,272
Net Position			
Invested in Capital Assets, Net of Related Debt	389,773	0	389,773
Unrestricted	1,495,040	0	1,495,040
Total Net Position	$ 1,884,813	$ 0	$ 1,884,813

See accompanying notes

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2013

	Operating	All Requirements Project	Total
Operating Revenues			
Gas Operations	$ 178,608,505	$ 18,385,529	$ 196,994,034
Service Fees and Other	1,130,151	370,171	1,500,322
Total Operating Revenues	179,738,656	18,755,700	198,494,356
Operating Expenses			
Gas Operations	178,608,505	18,385,529	196,994,034
Administrative and General	1,254,878	370,171	1,625,049
Depreciation and Amortization	31,484	0	31,484
Total Operating Expenses	179,894,867	18,755,700	198,650,567
Operating (Loss) Income	(156,211)	0	(156,211)
Nonoperating Revenues/(Expenses)			
Interest Income	22,330	633	22,963
Finance Charge Income	423	12	435
(Loss) Income Before Operating Transfers	(133,458)	645	(132,813)
Operating Transfers	645	(645)	0
Change in Net Position	(132,813)	0	(132,813)
Total Net Position, Beginning of Year	2,017,626	0	2,017,626
Total Net Position, End of Year	$ 1,884,813	$ 0	$ 1,884,813

See accompanying notes

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2013

	Operating	All Requirements Project	Total
Cash Flows from Operating Activities			
Receipts from (Credits to) Members and Customers	$ 178,742,789	$ 18,640,041	$ 197,382,830
Payments to or for the Benefit of Employees	(1,256,498)	0	(1,256,498)
Payments to Suppliers	(177,511,274)	(18,361,798)	(195,873,072)
Internal Activity Between Funds	275,770	(275,770)	0
Net Cash Provided by (Used in) Operating Activities	250,787	2,473	253,260
Cash Flows from Noncapital Financing Activities			
Interfund Transfers	645	(645)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	645	(645)	0
Cash Flows from Capital and Related Financing Activities			
Purchase of Property and Equipment	(9,757)	0	(9,757)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(9,757)	0	(9,757)
Cash Flows from Investing Activities			
Interest Income Received	22,330	633	22,963
Finance Charge Income	423	12	435
Net Cash Provided by (Used in) Investing Activities	22,753	645	23,398
Net Increase (Decrease) in Cash and Cash Equivalents	264,428	2,473	266,901
Cash and Cash Equivalents, Beginning of Year	1,500,510	902	1,501,412
Cash and Cash Equivalents, End of Year	$ 1,764,938	$ 3,375	$ 1,768,313
Consisting of:			
Unrestricted Funds	$ 1,527,862	$ 3,375	$ 1,531,237
Restricted Funds	237,076	0	237,076
	$ 1,764,938	$ 3,375	$ 1,768,313

See accompanying notes

Florida Gas Utility
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2013

	Operating	All Requirements Project	Total
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating (Loss) Income	$ (156,211)	$ 0	$ (156,211)
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	31,484	0	31,484
Accounts Receivable	(995,867)	(115,659)	(1,111,526)
Inventory	2,637,100	0	2,637,100
Prepaid Expenses	(5,631)	0	(5,631)
Accounts Payable and Other Current and Restricted Liabilities	(1,258,361)	116,405	(1,141,956)
Due to/Due from	(1,727)	1,727	0
Net Cash Provided by (Used in) Operating Activities	$ 250,787	$ 2,473	$ 253,260

See accompanying notes

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Florida Gas Utility (FGU) was created on September 1, 1989, to take advantage of opportunities made available by open access to natural gas transmission pipelines in the late 1980s. FGU is a public body corporate and politic pursuant to Section 163.01, Florida Statutes (the Florida Interlocal Cooperation Act), as amended, and the Interlocal Agreement, dated September 1, 1989, which was subsequently amended by the Amended Interlocal Agreement on June 1, 1992, amended and restated by the Amended and Restated Interlocal Agreement, dated July 1, 1996, which was subsequently amended and restated by the Second Amended and Restated Interlocal Agreement, dated July 27, 1999, and thereafter amended and restated by the Third Amended and Restated Interlocal Agreement, dated March 25, 2011, (the Interlocal Agreement), executed and delivered among FGU and its members, which include municipalities, municipal utilities, and an interlocal agreement agency consisting of such entities. Due to the diverse needs of municipal utility systems, FGU established itself as a project-oriented agency. Under this structure, each member has the option whether or not to participate in a project.

FGU has the authority to, among other things, plan, finance, acquire, construct, manage, operate, deliver, service, utilize, own, broker, exchange and distribute natural gas, or other energy and energy services pursuant to the Interlocal Agreement. As of September 30, 2013, FGU has 25 members.

The accounting and reporting policies of FGU conform with the accounting rules prescribed by the Governmental Accounting Standards Board (GASB).

Regulatory Matters

FGU utilizes contracts for transportation of natural gas over interstate pipelines which are regulated by the Federal Energy Regulatory Commission (FERC). The FERC's commitment to maintaining common standards among interstate pipelines and assuring nondiscriminatory open-access to natural gas transportation results in regulatory changes from time-to-time which impact FGU and its members and customers.

Basis of Accounting

FGU maintains its accounts on the accrual basis in accordance with generally accepted accounting principles applicable to proprietary funds and other governmental entities that use proprietary fund accounting. The accounts are substantially in conformity with accounting principles and methods prescribed by the FERC and other regulatory authorities. Under the provisions contained in the FASB, *Accounting Standards Codification* (ASC) 980, *Regulated Operations*, FGU's Board of Directors prescribes rate making recovery for certain transactions.

Fund Accounting

FGU maintains its accounts on a fund basis. The Operating fund accounts for general operations beneficial to all members except those members in the All Requirements Project (ARP). The ARP fund accounts for operations beneficial to the members participating in the ARP. Interproject transactions, revenues and expenses are not eliminated.

Budget

As required by the Interlocal Agreement, FGU adopts an annual budget, prepared on a basis consistent with generally accepted accounting principles and covenants contained in any bond indenture. The budget is submitted by the General Manager and approved by the Board of Directors.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in a money market deposit account and in investments having an original maturity of less than three months. Such investments are considered cash equivalents.

Inventory

Inventory consists of natural gas in storage and is recorded using the weighted average index price method. An offsetting deferral is recorded for inventory. As of September 30, 2013, FGU had no inventory.

Compensated Absences

Liabilities related to compensated absences are recognized as incurred in accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* and included in accrued expenses.

Gas Imbalances

FGU is subject to imbalances that result from over and/or under-deliveries of gas as compared to volumes nominated at receipt points, as well as over and/or undertakes as compared to volumes nominated at delivery points. Imbalances are resolved each month through Florida Gas Transmission's (FGT) and Peoples Gas System's (PGS) imbalance mechanisms. Costs associated with delivery imbalances are allocated to the members who had imbalances during the month. Costs associated with receipt imbalances are recovered under provisions in FGU's supply contracts.

Property and Equipment

Any asset costing greater than $100 and a useful life greater than one year is capitalized at cost when purchased. Depreciation is recorded using the straight-line method. The estimated useful lives of the classes of depreciable assets are as follows:

Office Building	30 Years
Office Furniture	15 Years
Appliances	10 Years
Other Miscellaneous Property	7 Years
Telephone Equipment	5 Years
Office Equipment	5 Years
Computer Equipment	3 Years
Automobiles	3 Years
Computer Software	3 Years

The costs of assets retired or sold, together with the related accumulated depreciation, are removed from the accounts. Any gain or loss on disposition is credited or charged to earnings.

Note 1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

Gas costs and related transportation expenses incurred for members' and customers' gas supplies purchased by FGU and delivered to members and customers are recognized within FGU's operating revenues and expenses.

Revenues are recognized by all projects when services have been provided to members and customers through the transmission and or distribution of gas.

Use of Estimates

In preparing FGU's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 may differ from those estimates.

Price Risk Management

In November 2001, the Board of Directors gave FGU's General Manager the authority to, upon written directive by a member, execute Price Risk Management Financial Products, such as futures contracts, commodity swaps, and hedging arrangements related to the pricing or supply of gas. During fiscal year 2013, no amounts were paid or received under natural gas hedges.

Credit Policy

On November 7, 2001, FGU's Board of Directors established a Credit Committee and adopted a credit policy that requires all members to provide a letter of credit to FGU, give FGU a cash deposit, establish a cash depository account available only to FGU, or execute the All Requirements Gas Services Agreement. For those members who signed the All Requirements Gas Services Agreement, FGU obtained a line of credit for the ARP participants with SunTrust Bank. The Credit Committee established the amount required for each member for the letter of credit, cash deposit, depository account, or line of credit. As a part of the Credit Committee's ongoing review of appropriate credit enhancement levels for each member in its meeting on December 13, 2002, the Credit Committee finalized a methodology for determining credit levels.

Per the methodology adopted by the Credit Committee, the Board of Directors, as part of the budget process, approved new credit enhancement levels to become effective October 1, 2013. The following table reflects the breakdown of each member's credit requirement through September 30, 2013, and their requirements beginning October 1, 2013. At the time these financial statements are issued, all members are in compliance with these requirements.

Note 1. Summary of Significant Accounting Policies (Concluded)

Credit Enhancement Requirements

	Approved Level Fiscal Year 2013	Amount Beginning October 1, 2013
Blountstown	$ 24,000	$ 29,000
Chipley	19,000	23,000
Clearwater	1,104,000	1,318,000
Crescent City	14,000	17,000
DeFuniak Springs	37,000	42,000
FMPA Group	16,664,000	21,528,000
Ft. Meade	7,000	11,000
Ft. Pierce LDC	182,000	218,000
Homestead	110,000	156,000
Jay	8,000	10,000
Lake City	153,000	192,000
Lakeland	0	0
Leesburg	256,000	322,000
Live Oak	46,000	58,000
Marianna	89,000	103,000
OUC	0	0
Palatka	70,000	88,000
Perry	36,000	45,000
Starke LDC	26,000	31,000
Sunrise	214,000	274,000
Williston	13,000	18,000
Total	$ 19,072,000	$ 24,483,000

Note 2. Assets, Liabilities and Net Position

Cash, Cash Equivalents and Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* requires disclosure concerning certain investment and deposit risk attributes for custodial credit risk, concentration of credit risk, credit risk, foreign currency risk, and interest rate risk. The following information, as required by GASB Statement No. 40, is presented by FGU as follows:

- FGU's deposits are covered by the Federal Deposit Insurance Corporation or collateralized pursuant to the Public Depository Security Act of the State of Florida. All of FGU's investments are classified as insured or registered, with securities held by FGU or its agent in FGU's name. None of FGU's deposits or investments are exposed to foreign currency risk.
- Investments made in the Operating fund and ARP fund are subject to FGU's Investment Policy and to Florida state law.

As of September 30, 2013, FGU had no investments.

Note 2. Assets, Liabilities and Net Position (Continued)

Restricted Assets

FGU's only restricted assets are the amounts held in the FGU Deposit Account for those members and customers who choose to provide their required credit enhancements in the form of a cash deposit. At September 30, 2013, FGU held $237,076 in this account.

Due from/Due to Balances

As of September 30, 2013, there was a net amount of $22,437 due from the ARP fund to the Operating fund. Approximately $18,000 was due to the Operating fund for ARP fund's service charges. Approximately $3,800 of the amount due to the Operating fund are supply costs that were paid out of the Operating fund but not reimbursed by ARP as of September 30, 2013. Another $645 is the amount of the annual operating transfer from ARP to the Operating fund. The net amount was transferred in October 2013.

Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance at 9/30/2012	Additions	Disposals	Depreciation Expense	Balance at 9/30/2013
Assets Not Being Depreciated:					
Land	$ 129,500	$ 0	$ 0	$ 0	$ 129,500
Assets Subject to Depreciation:					
Office Building	348,031	0	0	0	348,031
Office Furniture	32,656	0	(213)	0	32,443
Office Equipment	23,174	0	0	0	23,174
Computer Equipment	110,272	5,003	(460)	0	114,815
Computer Software	97,033	4,754	0	0	101,787
Telephone Equipment	22,794	0	0	0	22,794
Appliance	2,026	0	0	0	2,026
Other Miscellaneous Property	492	0	0	0	492
Total	765,978	$ 9,757	(673)	0	775,062
Accumulated Depreciation	(354,478)		$ 673	$ (31,484)	(385,289)
Net Book Value of Fixed Assets	$ 411,500				$ 389,773

Working Capital Reserve Fund

The Board of Directors has approved the establishment of a working capital reserve fund in the Operating fund, which is financed through collections from members and customers. Each member or customer is obligated to reimburse FGU for all out-of-pocket gas supply, transportation and other costs incurred for the primary benefit of the member or customer. In addition, FGU is reimbursed for operating expenses and for the purchase of equipment through a service charge collected against sales volumes. The service charge is based on estimated annual operating expenses and anticipated sales volumes. As of September 30, 2013, FGU maintained a designated working capital fund balance of approximately $480,159. FGU used $465,721 of the working capital reserve funds to purchase an office building in December 2001. This amount is being amortized over fifteen years and the working capital reserve fund will be completely replenished. FGU's Board of Directors deferred the amortization for fiscal year 2013.

Note 2. Assets, Liabilities and Net Position (Concluded)

Lines of Credit

On June 8, 2012, the Board of Directors accepted the Credit Committee's recommendation to combine the All Requirements Project Line of Credit (LOC) in the maximum principal amount of $5,000,000 and the $15,000,000 Systemwide LOC into one combined bank line of credit and reduce the total outstanding amount of the combined line of credit to $7,500,000. The Board of Directors simultaneously approved Resolution No. 2012-01 authorizing Revolving Credit Taxable Certificate of Indebtedness, Series 2012 in the maximum principal amount of $7,500,000 with SunTrust Bank with an effective date of October 1, 2012. As of October 1, 2013, $2,112,000 of the $7,500,000 bank line of credit is allocated to fulfill the credit enhancement requirements of the All Requirements Project participants.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2013 was for $645 from the All Requirements Project fund to the Operating fund. This amount represents all interest earned and finance charges billed in the All Requirements Project fund during the fiscal year. These amounts are used to offset the members' and participants' service charge in future years.

Note 3. Retirement Benefits

FGU sponsors a defined contribution retirement plan that covers substantially all employees. FGU contributes a defined percentage of each qualified employee's salary, with maximum retirement contributions being the lesser of 25% of the employee's salary or $51,000 per year. FGU's contributions generally become fully vested to employees after three years of employment. Contribution expense, included in administrative and general expenses on the accompanying Statement of Revenues, Expenses, and Changes in Net Position, was $95,405 for the year ended September 30, 2013.

Note 4. Major Customers

Five of FGU's members are part of the Florida Municipal Power Agency's (FMPA) All Requirements Project. Revenues from this group make up approximately 80.20% of FGU's fiscal year 2013 operating revenues.

Note 5. Commitments and Contingencies

Transportation

FGU holds firm transportation agreements (FTS-1 and FTS-2) with FGT. These agreements aggregate the firm entitlement of FGU's FTS members and coincide with the original terms of the underlying member contracts. FGT's FERC Gas Tariff FTS rate schedules provide for a reservation charge for firm entitlements.

On June 1, 2005, FGU entered into agreements with eleven of its members with gas distribution systems originally and now a total of thirteen members and two agreements with Peoples Gas System (PGS) to convert the members' entitlements from SFTS to FTS-1, relinquish that capacity to PGS and then buy the capacity back from PGS on an as needed basis for the members. The two PGS agreements, the Pipeline Capacity Release Agreement and the Gas Transportation Agreement, are set to expire upon written notice, on May 31, 2014 and for a term to coincide with the second successive FGT rate proceeding filed by FGT in 2010, respectively.

Note 5. Commitments and Contingencies (Concluded)

Transportation (Concluded)

On May 29, 2008, FGU entered into an agreement with Infinite Energy, Inc. to release FGT capacity for an initial term of one year. This agreement has been extended since such initial term and will expire on July 31, 2017. FGU releases up to 10,000 MMBtu per day for each month of the agreement. FGU has the ability to recall any amount of the capacity released should this capacity be needed. Infinite Energy, Inc. remarkets this capacity and pays FGU for any volumes used by Infinite Energy, Inc. to make a delivery that is not on behalf of FGU.

On May 1, 2011, FGU acquired capacity rights via a release from one of its members on Transcontinental Gas Pipe Line. Such capacity has been released to FGU through October 31, 2014 at a zero rate, which makes the releasing member responsible for payment of the reservation charges but provides FGU the rights to manage the capacity. The capacity is 50,000 MMBtu per day.

Natural Gas Supply

On behalf of and at the specific direction of certain members, FGU has entered into firm gas supply agreements at fixed and floating prices. The terms and volumes of such agreements vary. The longest term currently in place is through July 31, 2015. Pursuant to FGU's policies and service agreements, each member or customer for whom a firm fixed or floating price contract was entered into is responsible for the cost of such gas under the terms of their gas services agreement with FGU.

Storage

FGU held firm storage capacity rights in Southern Pines Energy Center through a release from one of FGU's members and these rights coincide with the original terms of the underlying member's contract. The capacity was released to FGU through March 31, 2013 at a zero rate, which made the releasing member responsible for payment of the reservation charges. This release provided FGU the rights to manage the storage capacity. The storage capacity is 1,000,000 MMBtu per month. On April 1, 2013, FGU entered into an Asset Management Agreement (AMA) on behalf of the member for one year term with renewal options with an outside party to manage the storage capacity. The outside party purchased the storage inventory on April 1, 2013. The contract is set to expire on March 31, 2014, at which time the contract can be extended for an additional year or be terminated. Should the member choose to terminate the contract, the storage inventory will be purchased back from the outside party and FGU will manage the storage capacity for such member.

6. Subsequent Events

Fort Meade

On December 2, 2013 (the "Termination Date'), the City of Fort Meade sold its gas distribution system to Florida Public Utilities. Pursuant to such sale, FGU and the City of Fort Meade entered into the Termination, Settlement and Release Agreement that released and discharged each other from all of their respective liabilities and obligations under the All Requirements Gas Services Agreement, dated as of February 15, 2002, except that the City of Fort Meade remains obligated to pay for any Cost of Services accrued through the Termination Date, and its monthly cost for gas delivered during the month of November 2013, and any other fees, costs and expenses incurred by FGU in unwinding the All Requirements Gas Services Agreement and related documents. FGU received notice from the City of Fort Meade on March 27, 2013, of its intentions to sell its gas distribution system and terminate the All Requirements Gas Services Agreement.

Florida Gas Utility
4619 N.W. 53rd Avenue
Gainesville, Florida 32653