Florida
GAS UTILITY

# 2014 Annual Report

# Letter to Members

## NEW OPPORTUNITIES

In 2014, Florida Gas Utility (FGU) celebrated its 25th Anniversary of providing value-added services to its members. This marks twenty-five years of providing reliable and low-cost natural gas supply and realizing considerable value for excess capacity for members. During this time, FGU has consistently met and exceeded expectations in these areas, including two successful long-term pre-pay natural gas projects which resulted in substantial savings to the members' natural gas supply costs. In addition, membership has grown from the five original members to twenty-three members across the state of Florida. FGU has endured volatile markets, a turbulent economy, and is currently navigating through a paradigm shift in the industry. The company remains dedicated to the mission of providing reliable and low cost natural gas supply, while looking for additional ways to bring value to the members. The 25th Anniversary celebration culminated in June at the Annual Meeting in Clearwater Beach. A record number of attendees participated in the event as FGU completed one era and entered into the next.

After a year of transitioning, FGU finds itself beginning to explore a new frontier. As promised with the revised service charge methodology, FGU is now able to provide a new array of services designed to increase value to members. These services range from performing the City of Williston's Public Awareness Program in 2014 to conducting rate studies for certain members. FGU assisted in a Request for Proposal (RFP) response and consulted on several contract negotiations. FGU has also been involved with several CNG refueling station projects, a new market opportunity for local distribution members. A highlight of FY 2014 was managing the construction of a six mile long high density plastic distribution main for the City of Lake City. This new main will not only provide natural gas to a commercial asphalt plant, but also allow for the future growth of Lake City's natural gas system and provide a much needed back feed into its existing distribution system. The project will be completed in early 2015. FGU has established relationships with contractors, engineers, pipeline material suppliers, and others that will facilitate similar projects in the future. Sales and marketing assistance has been expressed by several members as a desirable, high-value service. This will be a key focus for 2015 as we continue to explore ways to increase the overall value to members. And the best part: all of these services are included with FGU membership.

*There are no dreams too large, no innovation unimaginable and no frontiers beyond our reach.*

*–John S. Herrington*

*We are always looking to the future; the present does not satisfy us. Our ideal, whatever it may be, lies further on.*
*–Ezra Gillet*

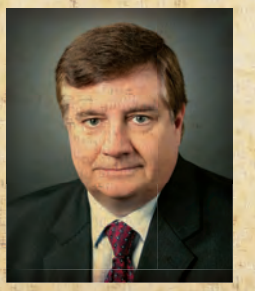
To provide a diversity of services at the highest level of excellence, FGU has reorganized its staff functions, creating a Member Services Department that has resources dedicated to these efforts. This group is in constant communication with members, helping to identify the areas of need and then developing the various processes and procedures needed to perform these functions, resulting in additional value to members.

In order to focus the new direction of FGU, a Strategic Planning Committee was formed. One of the committee's first tasks was the approval of the creation of a new logo. The new logo incorporates the joint-action of local distribution companies (LDC) and electric generation to achieve economic benefits. Additionally, the committee approved redesigning the company website. The new website design is underway and is expected to be unveiled in early 2015. The committee's efforts will continue in 2015 as the focus shifts towards the completion of a strategic plan, along with new mission, vision, and value statements for the organization.

FGU's Executive Committee has also instructed FGU staff to begin developing criteria to evaluate serving Full Service Customers again. In 2005, FGU's Credit and Risk Management Committee elected to terminate service to Full Service Customers due to a variety of reasons, primarily the degradation of counterparty creditworthiness. FGU believes market conditions and other factors have improved, and that providing service to customers may be favorable to members through more effective use of any excess capacity and by reducing overall service charges.

Mr. Larry Mattern has served as the Chairman of FGU's Board of Directors and Executive Committee for the last five years. His leadership has been instrumental in the success of FGU and he has positioned us well for the future. His dedication to the organization is evident to all that know him, and we sincerely thank him and appreciate all that he has contributed.

*Sincerely,*



**Thomas A. Geoffroy**
*General Manager*

**Larry Mattern**
*Chair*

# FGU ORGANIZATION, MANAGEMENT AND SERVICES

## FGU GOVERNANCE

### *Board of Directors*

FGU is governed by its Board of Directors, which consists of one representative from each member organization. This group is responsible for approving FGU's budget, adopting bylaws, establishing policies, issuing any bonds, notes, or any other debt obligations, and selecting officers and Executive Committee members.

### *Executive Committee*

The business and affairs of FGU are managed by the General Manager under the general direction of the Executive Committee. The Executive Committee implements the policies approved by the Board of Directors, approves operating procedures used by FGU in carrying out its duties and obligations, and has the power to approve the execution of contracts on behalf of FGU.

FGU's Executive Committee is made up of seven member representatives and three alternates:

- The Chair and Vice-Chair of the Board of Directors
- 2 Board members representing electric generating utilities
- 2 Board members representing natural gas distribution utilities
- 1 at-large Board member
- 3 alternates

Executive Committee members are elected for two-year terms, and provide general guidance to FGU's General Manager/Chief Executive Officer.

## 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.**

*New discoveries in science will continue to create a thousand new frontiers for those who still would adventure.*

*—Herbert Hoover*

### *Committees*

The Board of Directors has the ability to appoint new committees as needed. Currently, four (4) other committees exist:

1. **Nominating Committee**
   The Nominating Committee is responsible for selecting candidates for open Executive Committee positions due to term expirations and vacancies.
2. **Credit Committee**
   The Credit Committee evaluates any credit-related matters and recommends credit policies and procedures to the Executive Committee.
3. **Compensation Committee**
   The Compensation Committee assesses all salary adjustments for employees and gives their recommendation to the Executive Committee.
4. **Strategic Planning Committee**
   The Strategic Planning Committee assists FGU with creating a strategic plan to guide the direction of the company.

## FGU SERVICES

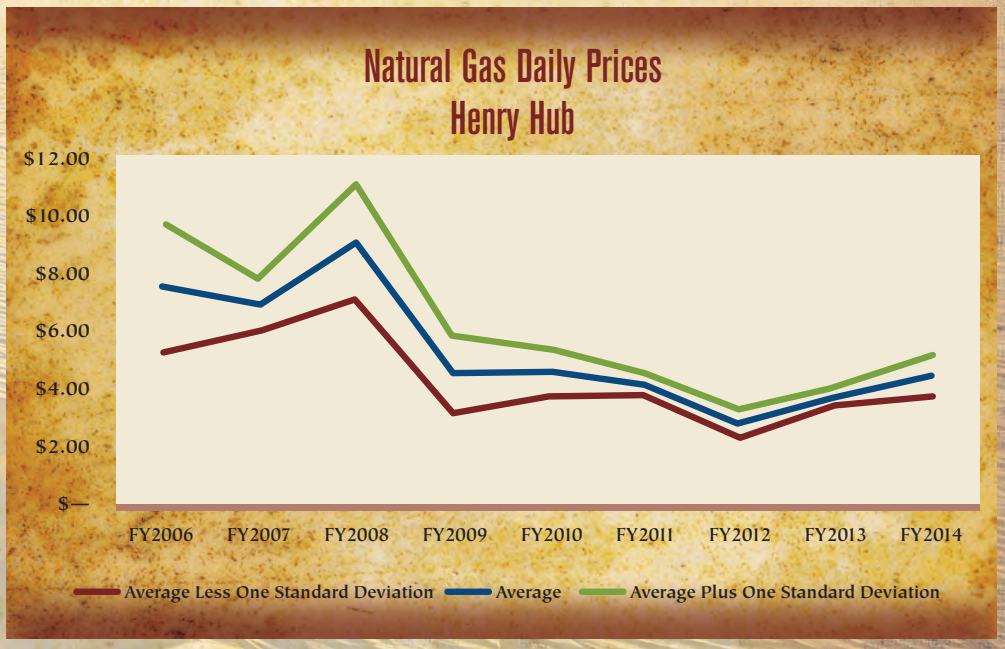
Headquartered in Gainesville, Florida, FGU employs a staff of 10 full time professional employees dedicated to bringing substantial value to its members. Value is achieved through the efficient management of their natural gas supply and transportation requirements and the performance of other services for members as described earlier. 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 related services. FGU's Member Services Group performs tasks including capital project management, sales and marketing, public awareness, operation assistance, and providing industry information resources. 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. FGU continues to expand the services offered to provide additional value to its members.

# Natural Gas Supply

FGU has natural gas purchase contracts with over 70 suppliers. With huge quantities of natural gas being produced from shale rock formations, supply continues to increase well over the rate of demand. The result: natural gas prices have stabilized at historically low prices, reducing the probability for a long-term pre-pay deal. However, the upside of this paradigm shift is that the low prices are attracting industrial and commercial customers to use natural gas instead of propane or diesel fuels. FGU members have been experiencing this first hand, with commercial projects going on in Lake City, Perry, Marianna, Leesburg, and Live Oak just to name a few.

Additionally, the low, stable prices have also boosted compressed natural gas (CNG) and liquefied natural gas (LNG) stations across the state. Several FGU members have constructed CNG fueling stations, including Clearwater and Palatka. Opportunities for CNG projects have been in discussion in Lake City, Sunrise, and DeFuniak Springs. We anticipate that these projects will come to fruition in 2015. The state of Florida continues to provide $6 million per year in funding for the conversion of vehicles to run on CNG. As both private and governmental agencies take advantage of this funding, we believe that this trend will continue in the years to come.

Although prices have stablized, FGU has continued to bring value to members through its gas supply acquisition strategy. Natural gas prices have dropped considerably over the last ten years, making it more difficult to garner significant savings on a dollar basis than it has been in years past. On a percentage basis, however, FGU has continued to achieve comparable savings year after year, regardless of the market prices for gas supply. FGU's flexibility in receipt points allows staff to attain discounted gas supply pricing. In an environment where pricing spreads are minimal, FGU has negotiated various deals with several different suppliers to secure favorably priced gas.

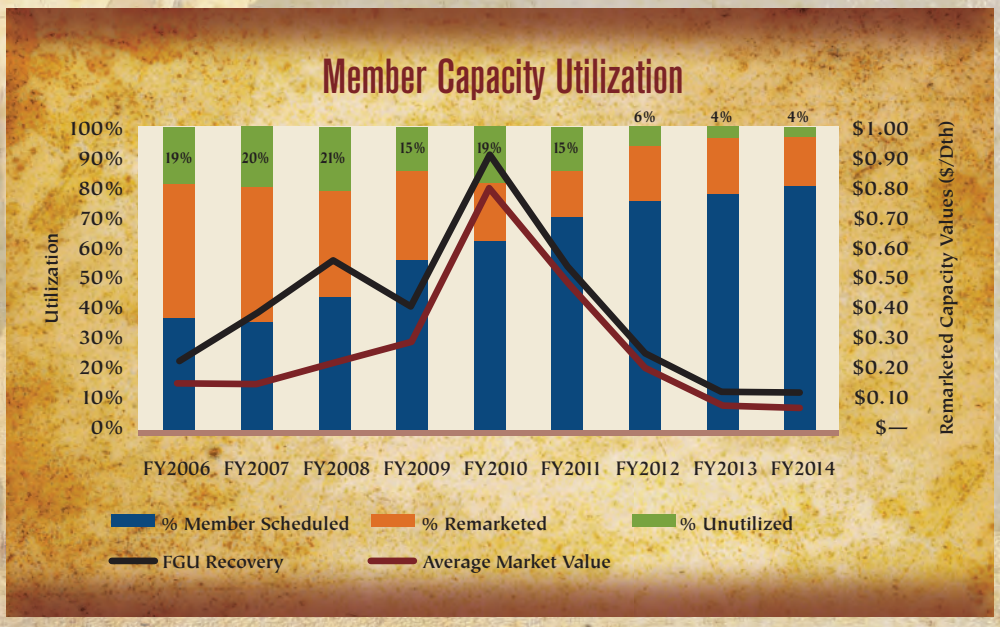


*Still, our knowledge of the planets was meager, and where ignorance lurks, so too do the frontiers of discovery and imagination.*
*—Neil Degrasse Tyson*

# Pipeline Capacity

The other element of the paradigm shift the natural gas industry has been experiencing involves the value of pipeline capacity. Currently, the latest expansion of Florida Gas Transmission's (FGT) pipeline is not fully subscribed, meaning there is still space available on the pipe to flow gas. Furthermore, there are plans to construct two new pipelines, Sabal Trail and Florida Southeast Connection, that will also create additional capacity in the state. With these activities, unutilized pipeline capacity is abundant, both currently and in the foreseeable future. As such, it is now more valuable for members to utilize their capacity to serve customers or generate electricity than to remarket it. FGU members are steadily increasing their throughput, allowing them to use their capacity for native loads. The adverse effects of having too much capacity, however, is growing.

This capacity scenario is similar to what's unfolding with gas prices: there is more supply than demand. Remarketing excess capacity was once a reliable way to achieve significant value for FGU members. Today's market is experiencing capacity being remarketed for pennies on the dollar, and FGU is diligently working to find ways to extract value from members' excess capacity. For instance, in 2014, FGU was able to renegotiate a deal with a third party to effectively utilize twelve FGU members' excess capacity, resulting in lower costs than available alternatives. Through various deals, FGU was successful in remarketing all but 4% of members' capacity in FY 2014. Additionally, FGU prides itself on continuously achieving recoveries from these activities that are above the market average.



# Value Added Services

FGU used FY 2014 as a year to focus on exploring new possibilities to bring value to its members. After reviewing the current services offered to members, staff focused on developing new services, all of which are included in the Member Service Charges. Numerous members have already experienced increased value from these additional services during FY 2014. The City of Lake City requested FGU to be the project manager of a six mile high density plastic distribution main project to serve an asphalt plant. FGU worked closely with the City to hire an engineer, chose the best route to be most beneficial to the City, compiled the request for proposals, hired contractors, managed the project and handled any problems that arose during the process. The project has gone very smoothly and should be completed in January 2015.

Beginning in 2014, FGU also began performing the Public Awareness Program for the City of Williston. Staff developed a comprehensive plan to make sure the City is in compliance with the standards set forth in the Recommended Practice 1162 (RP1162). FGU believes this is a service that more members will begin to use in the future.

Additionally, several members asked for a variety of other services. FGU was requested to perform a rate study for a couple of its members. Several members looked for contract development and guidance during negotiations with commercial customers. Staff also consulted on a bid proposal to serve an industrial customer. Furthermore, FGU assisted with developing a System Reliability Program, CNG rates, and a Physical Gas Supply Hedging Program for other members. Future projects include the development of a sales and marketing program to help certain local distribution companies grow their commercial and residential customer classes.

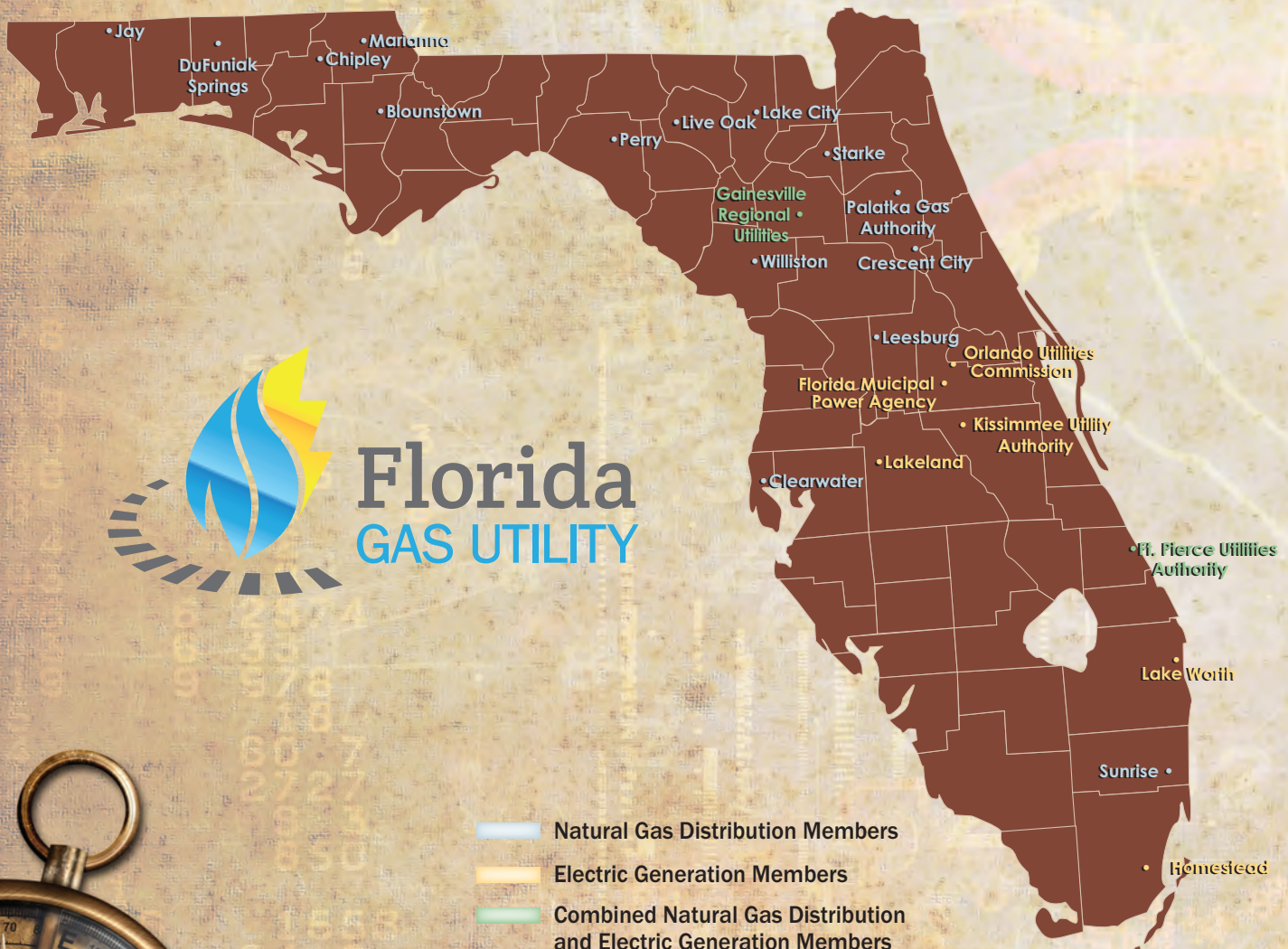
As FGU begins FY 2015, the focus will be to continue to expand the list of services offered and encourage members to take advantage of them.

*New natural gas distribution main being installed in Lake City.*

*There exist limitless opportunities in every industry. Where there is an open mind, there will always be a frontier.*

*– Charles Kettering*

# Florida Gas Utility Members




Florida GAS UTILITY

# Staff

**Lisa Marousky**
Controller

**Nancy Holloway**
Chief Financial Officer

**Tammy Turnbull**
Sr. Accounting Specialist

**Renee Rollins**
Scheduler

**Seth Jacobs**
Operations Manager

**Jenni Sweat**
Trader

**Tom Geoffroy**
General Manager & CEO

**Aaron Harris**
Energy Analyst

**Melanie Scott**
Member Services Specialist

**Katie Hall**
Member Services Manager

# INDEPENDENT AUDITORS' REPORT

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, 2014, 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, 2014, 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

# INDEPENDENT AUDITORS' REPORT *(Concluded)*

## 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 3, 2014, 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 3, 2014
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, 2014. 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.

The Statement of Cash Flows were presented using the direct method and outline the sources and uses of cash as resulting from operations, non-capital related financing, capital related financing, and investing activities.

## 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, 2014 and 2013, 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 2014 | FY 2013 | % Change |
|---|---|---|---|
| Current assets, including restricted | $ 26,837,195 | $ 20,710,312 | 29.6% |
| Property and equipment, net | 372,807 | 389,773 | -4.4% |
| Other assets | 0 | 0 | 0.0% |
| Total assets | 27,210,002 | 21,100,085 | 29.0% |
| Current liabilities, including restricted | 25,244,053 | 19,215,272 | 31.4% |
| Long-term liabilities | 0 | 0 | 0.0% |
| Total liabilities | 25,244,053 | 19,215,272 | 31.4% |
| Net position invested in capital assets, net of related debt | 372,807 | 389,773 | -4.4% |
| Net position – unrestricted | 1,593,142 | 1,495,040 | 6.6% |
| Total net assets | $ 1,965,949 | $ 1,884,813 | 4.3% |

# Management's Discussion and Analysis *(Concluded)*

| Revenues, Expenses and Changes in Net Position | FY 2014 | FY 2013 | % Change |
|---|---|---|---|
| Revenues – gas operations | $ 265,212,340 | $ 196,994,034 | 34.6% |
| Revenues – member special services | 252,087 | 0 | 100.0% |
| Revenues – service charge and other | 1,615,388 | 1,500,322 | 7.7% |
| Total operating revenues | 267,079,815 | 198,494,356 | 34.6% |
| Expenses - gas operations | 265,212,340 | 196,994,034 | 34.6% |
| Expenses - administrative and general | 1,585,693 | 1,625,049 | -2.4% |
| Expenses - member special services | 252,087 | 0 | 100.0% |
| Depreciation and amortization | 32,119 | 31,484 | 2.0% |
| Total operating expenses | 267,082,239 | 198,650,567 | 34.4% |
| Operating income | (2,424) | (156,211) | 98.4% |
| Interest and finance charge income | 5,615 | 4,048 | 38.7% |
| Other income and other expense, net | 78,113 | 19,350 | 303.7% |
| Gain (loss) on disposal of assets | (168) | 0 | N/A |
| Change in net position | $ 81,136 | $ (132,813) | 161.1% |

## Financial Highlights

- In fiscal year 2014, current assets increased by $5.7 million primarily due to the increase in storage inventory of $2.6 million and the increase in accounts receivable of $2.4 million. Current liabilities increased by $5.6 million primarily due to the increase in Inventory Held for Members of $2.6 million and the increase in accounts payable of $3 million.
- Gas operating revenues and gas operating expenses both increased by $68 million. The increase in gas prices and volumes are the major contributor to the increase in these accounts.
- In fiscal year 2014, FGU began providing special services to its members. Member Special Services revenues and expenses include costs associated with managing Member specific projects. As of September 30, 2014, FGU was managing special projects for one member.
- FGU's interest income was $1,500 higher in fiscal year 2014 than in fiscal year 2013. This change is due mainly to an increase in deposits due to higher gas rates.
- FGU's total change in net position in fiscal year 2014 was a positive $81,136 as compared to a negative $132,813 in fiscal year 2013. The improvement in net position is primarily due to the increase in other income, the non-expenditure of administrative costs and no required use of the Working Capital Reserve for administrative expenses as compared to fiscal year 2013. In fiscal year 2013, $87,000 of the working capital reserve was required 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 2014, this project consisted of 11 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, 2014

| | Operating | All Requirements Project | Total |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | $ 2,198,506 | $ 8,331 | $ 2,206,837 |
| Accounts Receivable: | | | |
| Members | 18,557,220 | 0 | 18,557,220 |
| Project Participants | 0 | 1,334,038 | 1,334,038 |
| Customers | 1,152,064 | 0 | 1,152,064 |
| Other | 246,123 | 250 | 246,373 |
| Inventory | 2,642,151 | 0 | 2,642,151 |
| Prepaid Expenses | 17,874 | 7,083 | 24,957 |
| Due from ARP Fund | 29,547 | 0 | 29,547 |
| **Total Current Assets** | 24,843,485 | 1,349,702 | 26,193,187 |
| **Restricted Assets** | | | |
| Cash and Cash Equivalents | 644,008 | 0 | 644,008 |
| **Total Restricted Assets** | 644,008 | 0 | 644,008 |
| **Property and Equipment, Net of Accumulated Depreciation of $409,591** | 372,807 | 0 | 372,807 |
| **Total Assets** | 25,860,300 | 1,349,702 | 27,210,002 |
| **Liabilities and Net Position** | | | |
| **Current Liabilities** | | | |
| Trade | 19,242,186 | 1,309,711 | 20,551,897 |
| Other | 1,337,811 | 10,444 | 1,348,255 |
| Due to Operating Fund | 0 | 29,547 | 29,547 |
| Accrued Expenses | 92,055 | 0 | 92,055 |
| Inventory Held for Members | 2,642,151 | 0 | 2,642,151 |
| **Total Current Liabilities** | 23,314,203 | 1,349,702 | 24,663,905 |
| **Liabilities Payable from Restricted Assets** | | | |
| Deposits Held | 580,148 | 0 | 580,148 |
| **Total Liabilities Payable from Restricted Assets** | 580,148 | 0 | 580,148 |
| **Total Liabilities** | 23,894,351 | 1,349,702 | 25,244,053 |
| **Net Position** | | | |
| Invested in Capital Assets, Net of Related Debt | 372,807 | 0 | 372,807 |
| Unrestricted | 1,593,142 | 0 | 1,593,142 |
| **Total Net Position** | $ 1,965,949 | $ 0 | $ 1,965,949 |

*See accompanying notes*

**Florida Gas Utility**
**Statement of Revenues, Expenses, and Changes in Net Position**
**For the Year Ended September 30, 2014**

| | Operating | All Requirements Project | Total |
|---|---|---|---|
| **Operating Revenues** | | | |
| Gas Operations | $ 242,964,523 | $ 22,247,817 | $ 265,212,340 |
| Member Special Services | 252,087 | 0 | 252,087 |
| Service Fees and Other | 1,170,161 | 445,227 | 1,615,388 |
| **Total Operating Revenues** | 244,386,771 | 22,693,044 | 267,079,815 |
| **Operating Expenses** | | | |
| Gas Operations | 242,964,523 | 22,247,817 | 265,212,340 |
| Administrative and General | 1,140,466 | 445,227 | 1,585,693 |
| Member Special Services | 252,087 | 0 | 252,087 |
| Depreciation and Amortization | 32,119 | 0 | 32,119 |
| **Total Operating Expenses** | 244,389,195 | 22,693,044 | 267,082,239 |
| **Operating (Loss) Income** | (2,424) | 0 | (2,424) |
| **Nonoperating Revenues/(Expenses)** | | | |
| Interest Income | 5,007 | 608 | 5,615 |
| Other Income | 74,972 | 3,083 | 78,055 |
| Finance Charge Income | 58 | 0 | 58 |
| (Loss) on Disposal of Assets | (168) | 0 | (168) |
| **Income Before Operating Transfers** | 77,445 | 3,691 | 81,136 |
| **Operating Transfers** | 3,691 | (3,691) | 0 |
| **Change in Net Position** | 81,136 | 0 | 81,136 |
| **Total Net Position, Beginning of Year** | 1,884,813 | 0 | 1,884,813 |
| **Total Net Position, End of Year** | $ 1,965,949 | $ 0 | $ 1,965,949 |

*See accompanying notes*

## Florida Gas Utility
## Statement of Cash Flows
## For the Year Ended September 30, 2014

| | Operating | All Requirements Project | Total |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from (Credits to) Members and Customers | $ 242,017,497 | $ 22,656,261 | $ 264,673,758 |
| Payments to or for the Benefit of Employees | (1,211,366) | 0 | (1,211,366) |
| Payments to Suppliers | (240,141,741) | (22,306,526) | (262,448,267) |
| Internal Activity Between Funds | 344,780 | (344,780) | 0 |
| **Net Cash Provided by (Used in) Operating Activities** | 1,009,170 | 4,955 | 1,014,125 |
| **Cash Flows from Noncapital Financing Activities** | | | |
| Interfund Transfers | 3,691 | (3,691) | 0 |
| **Net Cash Provided by (Used in) Noncapital Financing Activities** | 3,691 | (3,691) | 0 |
| **Cash Flows from Capital and Related Financing Activities** | | | |
| Purchase of Property and Equipment | (15,321) | 0 | (15,321) |
| **Net Cash Provided by (Used in) Capital and Related Financing Activities** | (15,321) | 0 | (15,321) |
| **Cash Flows from Investing Activities** | | | |
| Interest Income Received | 5,006 | 609 | 5,615 |
| Other Income | 74,972 | 3,083 | 78,055 |
| Finance Charge Income | 58 | 0 | 58 |
| **Net Cash Provided by (Used in) Investing Activities** | 80,036 | 3,692 | 83,728 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 1,077,576 | 4,956 | 1,082,532 |
| **Cash and Cash Equivalents, Beginning of Year** | 1,764,938 | 3,375 | 1,768,313 |
| **Cash and Cash Equivalents, End of Year** | $ 2,842,514 | $ 8,331 | $ 2,850,845 |
| Consisting of: | | | |
| Unrestricted Funds | $ 2,198,506 | $ 8,331 | $ 2,206,837 |
| Restricted Funds | 644,008 | 0 | 644,008 |
| | $ 2,842,514 | $ 8,331 | $ 2,850,845 |

*See accompanying notes*

**Florida Gas Utility**
**Statement of Cash Flows (Concluded)**
**For the Year Ended September 30, 2014**

| | Operating | All Requirements Project | Total |
|---|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities** | | | |
| Operating (Loss) Income | $ (2,424) | $ 0 | $ (2,424) |
| Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities: | | | |
| Depreciation and Amortization | 32,119 | 0 | 32,119 |
| Accounts Receivable | (2,369,273) | (36,783) | (2,406,056) |
| Inventory | (2,642,151) | 0 | (2,642,151) |
| Prepaid Expenses | 10,967 | 0 | 10,967 |
| Accounts Payable and Other Current and Restricted Liabilities | 5,987,042 | 34,628 | 6,021,670 |
| Due to/Due from | (7,110) | 7,110 | 0 |
| **Net Cash Provided by (Used in) Operating Activities** | $ 1,009,170 | $ 4,955 | $ 1,014,125 |

*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, 2014, FGU has 24 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. Since the FGU Board of Directors has the authority to set rates, FGU follows GASB regulated guidance in GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which provides the reporting of assets and liabilities consistent with the economic effect of the rate structure.

## 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 liability is recorded for inventory. As of September 30, 2014, FGU had inventory of $2,642,151.

### 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 2014, 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 initial 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 the 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, 2014. The following table reflects the breakdown of each member's credit requirement through September 30, 2014, and their requirements beginning October 1, 2014. 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 2014 | Amount Beginning October 1, 2014 |
|---|---|---|
| Blountstown | $ 29,000 | $ 29,000 |
| Chipley | 23,000 | 22,000 |
| Clearwater | 1,318,000 | 1,265,000 |
| Crescent City | 17,000 | 17,000 |
| DeFuniak Springs | 42,000 | 60,000 |
| FMPA Group | 21,528,000 | 21,516,000 |
| Ft. Meade | 11,000 | 0 |
| Ft. Pierce LDC | 218,000 | 229,000 |
| Homestead | 156,000 | 128,000 |
| Jay | 10,000 | 10,000 |
| Lake City | 192,000 | 244,000 |
| Lakeland | 0 | 0 |
| Leesburg | 322,000 | 332,000 |
| Live Oak | 58,000 | 56,000 |
| Marianna | 103,000 | 125,000 |
| OUC | 0 | 0 |
| Palatka | 88,000 | 91,000 |
| Perry | 45,000 | 49,000 |
| Starke LDC | 31,000 | 29,000 |
| Sunrise | 274,000 | 303,000 |
| Williston | 18,000 | 19,000 |
| **Total** | $24,483,000 | $24,524,000 |

The Credit Policy was revised at the June 27, 2014 Board of Directors meeting with an effective date of the later of October 1, 2014, or upon approval by the Executive Committee of the Credit Policy Operating Procedures. The effective date was November 1, 2014, consistent with the Executive Committee approval. There were no changes to Member or Affiliate requirements. The revisions to the Credit Policy establish the following objectives to FGU suppliers and counterparties: (1) allow FGU to make informed decisions as to the credit worthiness of a Counterparty, (2) maintain better control over cash flows, (3) minimize losses to FGU and Members from Counterparty defaults, and (4) provide for Member directives to extend additional credit to specified Counterparties and assume responsibility for the additional credit.

# 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, 2014, FGU had no investments.

## Restricted Assets

FGU's 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 and amounts held in the Member Special Projects Account. At September 30, 2014, FGU held $644,008 in these accounts.

## Due from/Due to Balances

As of September 30, 2014, there was a net amount of $29,547 due from the ARP fund to the Operating fund. Approximately $25,900 was due to the Operating fund for ARP fund's service charges. Another $3,700 is the amount of the annual operating transfer from ARP to the Operating fund. The net amount was transferred in October 2014.

## Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

| | Balance at 9/30/2013 | Additions | Disposals | Depreciation Expense | Balance at 9/30/2014 |
|---|---|---|---|---|---|
| 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 | 32,443 | 0 | 7,986 | 0 | 24,457 |
| Office Equipment | 23,174 | 9,058 | 0 | 0 | 32,232 |
| Computer Equipment | 114,815 | 4,256 | 0 | 0 | 119,071 |
| Computer Software | 101,787 | 2,008 | 0 | 0 | 103,795 |
| 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** | 775,062 | $ 15,322 | 7,986 | 0 | 782,398 |
| **Accumulated Depreciation** | (385,289) | | $ 7,817 | $ (32,119) | (409,591) |
| **Net Book Value of Fixed Assets** | $ 389,773 | | | | $ 372,807 |

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

### 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, 2014, FGU maintained a designated working capital fund balance of approximately $558,676. 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 2014.

### 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, 2014, $2,111,000 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 2014 was for $3,691 from the All Requirements Project fund to the Operating fund. This amount represents all interest earned, finance charges, and other income 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 $70,565 for the year ended September 30, 2014.

## 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 83.62% of FGU's fiscal year 2014 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.

## *Note 5. Commitments and Contingencies (Concluded)*

### *Transportation (Concluded)*

On September 22, 2014, FGU entered into two agreements for eleven of its members with gas distribution systems with PGS to relinquish FTS-1 capacity to PGS and then buy the capacity back from PGS on an as needed basis for the members. The contract requires the capacity be relinquished in the months October through April only. The term of the agreements is October 1, 2015 through September 30, 2016. The two PGS agreements contain provisions that, if executed, would extend these agreements for an additional two years.

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, 2015, 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 September 30, 2018. 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 October 31, 2015, 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 AMA was a one year contract with provisions that allowed for an extension. The AMA was not extended and terminated on March 31, 2014, and the storage inventory was purchased back for FGU to manage for the member.

## 6. Subsequent Events

### Florida Gas Transmission Rate Case

On October 31, 2014, FGT filed revised tariff sheets proposing to change its rates and make certain modifications to the General Terms and Conditions section of its tariff. The proposed rates are expected to become effective May 1, 2015, subject to refund pending the outcome of the Rate Case. The proposed FTS-1 rates will increase approximately 41.9% to $0.666 per MMBtu and FTS-2 rates will decrease approximately 7.3% to $0.666 per MMBtu.

# Florida Gas Utility

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