

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FLORIDA GAS UTILITY
GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2018

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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, 2018, 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of FGU and each of its major projects as of September 30, 2018, 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.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

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 7, 2018, 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* in considering FGU's internal control over financial reporting and compliance.

Durvis, Gray and Company, LLP

December 7, 2018
Gainesville, Florida

Management's Discussion and Analysis

The management of Florida Gas Utility ("FGU") is providing this discussion and analysis of the financial statements of FGU for the fiscal year ended September 30, 2018. This information should be utilized in conjunction with the auditors' report, basic financial statements, and the notes when evaluating FGU's financial position.

Overview of the Financial Statements

FGU utilizes fund accounting to comply with Governmental Accounting Standards Board ("GASB") and finance-related legal requirements, consistent with governments and other special agencies or districts. FGU currently maintains two proprietary funds, the Operating fund and the All Requirements Project ("ARP") 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 further described in the "Individual Funds" section below.

The Statement of Net Position reports on all FGU 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, the result is a change of net position. The factors that contribute to the change in net position will be discussed in the "Financial Highlights" section below.

The Statement of Activities reflects changes in FGU's net position during the fiscal year. All revenues and expenses are reported 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 describe 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, 2018 and 2017, 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.

Management's Discussion and Analysis
(Continued)

Net Position

	<u>FY 2018</u>	<u>FY 2017</u>	<u>% Change</u>
Current assets, including restricted	\$ 22,714,128	\$ 20,885,285	8.8%
Property and equipment, net	417,207	402,825	3.6%
Total assets	<u>23,131,335</u>	<u>21,288,110</u>	<u>8.7%</u>
Current liabilities, including restricted	21,620,748	19,331,682	11.8%
Total liabilities	<u>21,620,748</u>	<u>19,331,682</u>	<u>11.8%</u>
Net Position invested in capital assets, net of related debt	417,207	402,825	3.6%
Net Position, Unrestricted	1,093,380	1,553,603	-29.6%
Total Net Position	<u>\$ 1,510,587</u>	<u>\$ 1,956,428</u>	<u>-22.8%</u>

Revenues, Expenses, and Changes in Accumulated Net Position

	<u>FY 2018</u>	<u>FY 2017</u>	<u>% Change</u>
Revenues - gas operations	\$ 169,990,981	\$ 179,262,250	-5.2%
Revenues - member special services	1,229,469	383,264	220.8%
Revenues - service charge and other	1,848,300	1,741,044	6.2%
Total operating revenues	<u>173,068,750</u>	<u>181,386,558</u>	<u>-4.6%</u>
Expenses - gas operations	169,990,981	179,262,250	-5.2%
Expenses - administrative and general	1,818,487	1,740,321	4.5%
Expenses - member special services	1,229,469	381,597	222.2%
Depreciation and amortization	33,993	31,594	7.6%
Total operating expenses	<u>173,072,930</u>	<u>181,415,762</u>	<u>-4.6%</u>
Operating income	<u>(4,180)</u>	<u>(29,204)</u>	<u>85.7%</u>
Interest and finance charge income	17,822	3,876	359.8%
Other income and other expense, net	(459,603)	0	0.0%
Gain (loss) on disposal of assets	120	(26)	-561.5%
Change in Net Position	<u>\$ (445,841)</u>	<u>\$ (25,354)</u>	<u>1658.5%</u>

Management's Discussion and Analysis *(Concluded)*

Financial Highlights

- In fiscal year 2018, current assets increased by approximately \$1,829,000 primarily due to the increase in accounts receivable of approximately \$2,590,000 and offset by a decrease in cash of approximately \$550,000 and a decrease in storage inventory of approximately \$234,000. Current liabilities increased by approximately \$2,289,000 primarily due to the increase in accounts payable of approximately \$2,502,000 with offsetting decreases in Inventory Held for Members of approximately \$234,000.
- Gas operating revenues and gas operating expenses both decreased by approximately \$9,271,000, primarily due to decreases in natural gas commodity prices.
- In fiscal year 2017, FGU received a check in the amount of \$524,776 for settlement in a class action lawsuit regarding the sale of municipal derivatives by several parties, including UBS, to governmental entities from January 1992 through August 2011. In December 2017, FGU's Executive Committee allocated these funds back to members, net of legal fees for a total return of \$519,776.
- 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, 2018, FGU was managing special projects for members with fiscal year 2018 revenues of approximately \$1,229,000 and expenses of approximately \$1,229,000.
- FGU's total change in accumulated net position in fiscal year 2018 was a decrease of \$445,841 as compared to a decrease of \$25,354 in fiscal year 2017. FGU returned \$459,603 in Net Position to members in 2018. 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 ARP. All FGU's administrative expenses are paid out of the Operating fund and allocated to the ARP fund. The Operating fund is FGU's only fund that accumulates net position. Refer to the discussion of accumulated net position above.

The ARP fund accounts for the operations beneficial to those members that participate in ARP. This project began in March 2002. At the end of fiscal year 2018, this project consisted of 12 members. The ARP fund has no accumulated net revenues. 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, 2018

Assets	<u>Operating</u>	<u>All Requirements Project</u>	<u>Total</u>
Current Assets			
Cash and Cash Equivalents	\$ 1,509,297	\$ 183	\$ 1,509,480
Accounts Receivable:			
Members	16,011,378	0	16,011,378
Project Participants	0	1,194,853	1,194,853
Customers	2,119,580	0	2,119,580
Other	41,849	0	41,849
Notes Receivable	134,394	0	134,394
Inventory	1,263,719	0	1,263,719
Prepaid Expenses	31,075	0	31,075
Due from ARP Fund	38,434	0	38,434
Total Current Assets	<u>21,149,726</u>	<u>1,195,036</u>	<u>22,344,762</u>
Restricted Assets			
Cash and Cash Equivalents	369,366	0	369,366
Total Restricted Assets	<u>369,366</u>	<u>0</u>	<u>369,366</u>
Property and Equipment, Net of Accumulated Depreciation of \$361,801			
	<u>417,207</u>	<u>0</u>	<u>417,207</u>
Total Assets	<u>21,936,299</u>	<u>1,195,036</u>	<u>23,131,335</u>
Liabilities and Net Position			
Current Liabilities			
Trade	16,557,759	1,149,823	17,707,582
Other	2,033,948	6,779	2,040,727
Due to Operating Fund	0	38,434	38,434
Accrued Expenses	69,262	0	69,262
Inventory Held for Members	1,263,719	0	1,263,719
Short-term Obligations	131,658	0	131,658
Total Current Liabilities	<u>20,056,346</u>	<u>1,195,036</u>	<u>21,251,382</u>
Liabilities Payable from Restricted Assets			
Deposits Held	369,366	0	369,366
Total Liabilities Payable from Restricted Assets	<u>369,366</u>	<u>0</u>	<u>369,366</u>
Total Liabilities	<u>20,425,712</u>	<u>1,195,036</u>	<u>21,620,748</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	417,207	0	417,207
Unrestricted	1,093,380	0	1,093,380
Total Net Position	<u>\$ 1,510,587</u>	<u>\$ 0</u>	<u>\$ 1,510,587</u>

See accompanying notes.

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2018

	<u>Operating</u>	<u>All Requirements Project</u>	<u>Total</u>
Operating Revenues			
Gas Operations	\$ 152,531,734	\$ 17,459,247	\$ 169,990,981
Member Special Services	1,229,469	0	1,229,469
Service Fees and Other	1,221,565	626,735	1,848,300
Total Operating Revenues	<u>154,982,768</u>	<u>18,085,982</u>	<u>173,068,750</u>
Operating Expenses			
Gas Operations	152,531,734	17,459,247	169,990,981
Administrative and General	1,200,036	618,451	1,818,487
Member Special Services	1,229,469	0	1,229,469
Depreciation and Amortization	33,993	0	33,993
Total Operating Expenses	<u>154,995,232</u>	<u>18,077,698</u>	<u>173,072,930</u>
Operating (Loss) Income	(12,464)	8,284	(4,180)
Nonoperating Revenues/(Expenses)			
Interest Income	15,648	2,174	17,822
Other Income - Municipal Derivatives Settlement	519,776	0	519,776
Other Expense - Municipal Derivatives Settlement	(519,776)	0	(519,776)
Other Expense - Return of Accumulated Net Revenues	(459,603)	0	(459,603)
Gain on Disposal of Assets	120	0	120
Income Before Operating Transfers	(456,299)	10,458	(445,841)
Operating Transfers	<u>10,458</u>	<u>(10,458)</u>	<u>0</u>
Change in Net Position	(445,841)	0	(445,841)
Total Net Position, Beginning of Year	<u>1,956,428</u>	<u>0</u>	<u>1,956,428</u>
Total Net Position, End of Year	<u>\$ 1,510,587</u>	<u>\$ 0</u>	<u>\$ 1,510,587</u>

See accompanying notes.

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2018

	Operating	All Requirements Project	Total
Cash Flows from Operating Activities			
Receipts from (Credits to) Members and Customers	\$ 152,532,149	\$ 18,101,525	\$ 170,633,674
Payments to or for the Benefit of Employees	(1,350,901)	0	(1,350,901)
Payments to Suppliers	(151,793,978)	(17,569,414)	(169,363,392)
Internal Activity Between Funds	539,849	(539,849)	0
Net Cash Provided by (Used in) Operating Activities	(72,881)	(7,738)	(80,619)
Cash Flows from Noncapital Financing Activities			
Interfund Transfers	10,458	(10,458)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	10,458	(10,458)	0
Cash Flows from Capital and Related Financing Activities			
Proceeds from Short-term Obligations	1,260,000	0	1,260,000
Principal Payments - Short-term Obligations	(1,229,079)	0	(1,229,079)
Return of Accumulated Net Revenues	(459,603)	0	(459,603)
Purchase of Property and Equipment	(48,375)	0	(48,375)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(477,057)	0	(477,057)
Cash Flows from Investing Activities			
Interest Income Received	15,648	2,174	17,822
Other Income	120	0	120
Net Cash Provided by (Used in) Investing Activities	15,768	2,174	17,942
Net Increase (Decrease) in Cash and Cash Equivalents	(523,712)	(16,022)	(539,734)
Cash and Cash Equivalents, Beginning of Year	2,402,375	16,205	2,418,580
Cash and Cash Equivalents, End of Year	\$ 1,878,663	\$ 183	\$ 1,878,846
Consisting of:			
Unrestricted Funds	\$ 1,509,297	\$ 183	\$ 1,509,480
Restricted Funds	369,366	0	369,366
	\$ 1,878,663	\$ 183	\$ 1,878,846
<u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</u>			
Operating (Loss) Income	\$ (12,464)	\$ 8,284	\$ (4,180)
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	33,993	0	33,993
Accounts Receivable	(2,628,924)	8,459	(2,620,465)
Inventory	233,728	0	233,728
Prepaid Expenses	(1,023)	7,083	6,060
Accounts Payable and Other Current and Restricted Liabilities	2,289,710	(19,465)	2,270,245
Due to/Due from	12,099	(12,099)	0
Net Cash Provided by (Used in) Operating Activities	\$ (72,881)	\$ (7,738)	\$ (80,619)

See accompanying notes.

**Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018**

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 has been amended several times, the most recent being 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 to participate in any specified project.

FGU has the authority to 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, 2018, FGU has 23 members.

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 occasionally results in regulatory changes which impact FGU, its members, and customers.

Basis of Accounting

FGU financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles applicable to proprietary funds and other governmental entities that use proprietary fund accounting as prescribed by the Governmental Accounting Standards Board (GASB). 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 reflects general operations beneficial to all members except those members in the All Requirements Project (ARP). The ARP fund reflects 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.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018

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, 2018, FGU had inventory of \$1,263,719.

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. Costs associated with receipt imbalances are recovered under provisions in FGU's supply contracts.

FGU is also subject to over and/or undertakes as compared to volumes nominated at delivery points. Delivery 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.

Property and Equipment

Any asset costing greater than \$1,000 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
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.

**Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018**

1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

Gas costs and related transportation expenses incurred for 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, upon written directive by a member, to 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 2018, \$118,984 was received under natural gas price risk management transactions.

In June 2017, the Board of Directors gave FGU's General Manager the authority to use certain derivative products without a directive from members or affiliates. The use of such derivative products is allowed in order to bring greater value to members from lower priced purchase alternatives. Use of these products are to be short-term, defined as one year or less. During fiscal year 2018, there were no transactions performed under system-wide natural gas price risk management..

Credit Policy

Members

The Board of Directors, as part of the budget process, approved the new credit enhancement levels for members to become effective October 1, 2017. The following table reflects the breakdown of each member's credit requirement through September 30, 2018, and their requirements beginning October 1, 2018. The policy was revised in 2016 to provide an additional alternative through an O & M Covenant (in lieu of a letter of credit or cash deposit) for members to provide FGU with an acceptable credit vehicle. Certain criteria must be met by the member to qualify for the O & M Covenant credit option. To date, only the Florida Municipal Power Agency (FMPA) has satisfied the criteria under the revised policy. At the time that these financial statements are issued, all members are in compliance with the Credit Policy.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018

1. *Summary of Significant Accounting Policies (Concluded)*

Member Credit Enhancement Requirements

	Approved Level Fiscal Year 2018	Approved Level Fiscal Year 2019
Non-Project Members		
Blountstown	\$ 19,000	\$ 16,000
FMPA Group*	18,033,000	15,530,000
Homestead	53,000	58,000
Jay	7,000	7,000
Lake Worth	0	0
Leesburg	198,000	186,000
Marianna	93,000	83,000
OUC	0	0
Starke LDC	19,000	15,000
Total Non-Project Members	\$ 18,422,000	\$ 15,895,000
ARP Members		
Chipley	\$ 16,000	\$ 14,000
Clearwater	940,000	922,000
Crescent City	13,000	12,000
DeFuniak Springs	23,000	19,000
Ft. Pierce LDC	165,000	167,000
Lake City	156,000	158,000
Lakeland	0	0
Live Oak	38,000	39,000
Palatka	63,000	56,000
Perry	34,000	29,000
Sunrise	210,000	218,000
Williston	14,000	15,000
Total ARP Members	\$ 1,672,000	\$ 1,649,000
Total Credit Enhancement	\$ 20,094,000	\$ 17,544,000

*Met O&M requirement, credit not posted

Counterparties

The current Credit Policy establishes the following objectives for 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. Each year, the Credit Committee reviews and approves the level of credit to be extended by FGU for each Counterparty.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018

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 (FDIC). At September 30, 2018, FGU had cash account balances in excess of FDIC limits. Management does not believe that this is a significant risk. None of FGU's deposits are exposed to foreign currency risk.
- Investments made from the Operating fund and ARP fund are subject to FGU's Investment Policy and to Florida state law. As of September 30, 2018, FGU had no investments.

Restricted Assets

FGU's restricted assets are the amounts held in the FGU Member 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, 2018, FGU held \$369,366 in these accounts.

Note Receivable

On June 5, 2015, the Board of Directors approved Resolution 2015-02, approving short-term advances to the City of Crescent City ("Crescent City") to fund the relocation costs of its gas transmission line relating to a road widening project conducted by Florida Department of Transportation (FDOT) until such time as the FDOT reimburses Crescent City. All funds related to this now-completed project were repaid in February of 2017.

On May 1, 2017, the Board of Directors approved Resolution 2017-01, approving short-term advances to Crescent City to fund the second phase of the relocation and road widening project. At September 30, 2018, the note receivable was \$134,394.

Due from/Due to Balances

As of September 30, 2018, there was a net amount of \$38,434 due from the ARP fund to the Operating fund. Approximately \$37,265 was due to the Operating fund for ARP fund's service charges. The balance is primarily the amount of supply costs that were paid out of the Operating fund but not reimbursed by ARP as of September 30, 2018.

Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

**Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018**

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

Capital Assets (Concluded)

	Balance at			Balance at
	9/30/2017	Additions	Disposals	9/30/2018
Assets Not Being Depreciated:				
Land	\$ 129,500	\$ 0	\$ 0	\$ 129,500
Assets Subject to Depreciation:				
Office Building	405,293	5,364	0	410,657
Office Furniture	24,474	15,135	(2,036)	37,573
Office Equipment	32,605	0	(5,497)	27,108
Computer Equipment	63,626	26,001	(9,119)	80,508
Computer Software	44,600	0	0	44,600
Telephone Equipment	24,138	0	0	24,138
Appliance	2,213	0	0	2,213
Other Miscellaneous Property	262	0	(262)	0
Construction in Progress	15,473	48,375	(41,137)	22,711
Total	<u>742,184</u>	<u>94,875</u>	<u>(58,051)</u>	<u>779,008</u>
Accumulated Depreciation	<u>(339,359)</u>	<u>(33,993)</u>	<u>11,551</u>	<u>(361,801)</u>
Net Book Value of Fixed Assets	<u>\$ 402,825</u>			<u>\$ 417,207</u>

Accumulated Net Revenues

At the June 8, 2018, meeting, the Board of Directors approved processes for the level, timing and methodology of the distribution for excess Accumulated Net Revenues (“ANR”). FGU will maintain ANR within a +/- 5% range of the total necessary to cover liquidity requirements for the Line of Credit plus two months of the Annual A & G Budget. Refunds will be made to members based on the service charges. In 2018, \$459,603 was returned to the members from the ANR. As a result of this revised process, it was determined that the appropriate level of ANR has been reached, and therefore, eliminated the need to collect service charges for office building amortization. The Board of Directors eliminated this process as a part of the approval of the budget package. The unrestricted ANR balance at the end of FY 2018 was \$1,093,380.

Lines of Credit

On September 14, 2018, the Board of Directors approved Resolution No. 2018-01, authorizing Revolving Credit Taxable Certificate of Indebtedness, Series 2018 in the maximum principal amount of \$7,500,000 with J.P. Morgan Chase Bank with an effective date of October 1, 2018. As of October 1, 2018, \$1,649,000 of the \$7,500,000 bank line of credit is allocated to fulfill the credit enhancement requirements of the All Requirements Project participants.

**Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2018**

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

Lines of Credit (Concluded)

On September 11, 2015, the Board of Directors adopted Resolution 2015-03 authorizing the use of Revolving Credit Taxable Certificate of Indebtedness to fund certain working capital loans to members. As of September 30, 2018, the outstanding balance advanced for members was \$131,658.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2018 was for \$10,458 from the ARP fund to the Operating fund. This amount represents all interest earned, finance charges, and other income billed in the ARP fund during the fiscal year.

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 \$53,000 per year. FGU's contributions 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 \$49,864 for the year ended September 30, 2018.

4. *Major Customers*

Five of FGU's members are part of the FMPA's ARP. Revenues from this group make up approximately 81% of FGU's fiscal year 2018 operating revenues.

5. *Commitments and Contingencies*

Transportation

FGU maintains two aggregated firm transportation agreements with FGT that enables FGU to efficiently direct the operational administration of its members gas supply, scheduling, and capacity management needs. Each FGU Member that aggregates its FGT transportation service agreements with FGU retains their individual service agreement(s) with FGT.

FGU also holds firm transportation capacity rights on Transcontinental Gas Pipe Line, LLC. On May 1, 2011, FGU acquired these capacity rights through a release from one of its members. Such capacity has been released to FGU through April 30, 2026, at a zero-reservation rate, which makes the releasing member responsible for payment of the reservation charges but provides FGU the rights needed to manage the 50,000 MMBtu per day of pipeline capacity.

5. *Commitments and Contingencies (Concluded)*

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 December 31, 2021. 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 holds firm gas storage capacity with SG Resources Mississippi, LLC through an acquisition from one of its members under terms that coincide with the original terms of the underlying member's agreement. The capacity was released to FGU through March 31, 2021, at a zero-reservation rate, which makes the releasing member responsible for payment of the reservation charges. This release provides FGU the rights to manage the 500,000 MMBtu per month of storage capacity.

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

Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida Gas Utility (FGU), as of September 30, 2018, and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FGU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FGU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FGU's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FGU's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FGU's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Purvis, Gray and Company, LLP

December 7, 2018
Gainesville, Florida

MANAGEMENT LETTER

Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

Report on the Financial Statements

We have audited the financial statements of Florida Gas Utility (FGU), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated December 7, 2018.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants' Report on the examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated December 7, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the preceding report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 to the financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determinations as to whether or not FGU has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that FGU did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition and Management (Concluded)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor FGU's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

Purvis, Gray and Company, LLP

December 7, 2018
Gainesville, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON
COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES**

Board of Directors and Members
of Florida Gas Utility
Gainesville, Florida

We have examined Florida Gas Utility's (FGU) compliance with the requirements of Section 218.415, Florida Statutes, with regards to FGU's investments during the year ended September 30, 2018. Management is responsible for FGU's compliance with those requirements. Our responsibility is to express an opinion on FGU's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about FGU's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of FGU's compliance with specified requirements.

In our opinion, FGU complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

This report is intended solely for the information and use of management, and the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General and other granting agencies, and is not intended to be and should not be used by anyone other than the specified parties.

Purvis, Gray and Company, LLP

December 7, 2018
Gainesville, Florida

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