

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FLORIDA GAS UTILITY
GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S 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, 2019, 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.

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

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

Certified Public Accountants

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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 AUDITOR'S REPORT

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, 2019, 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.

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 6, 2019 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.



December 6, 2019
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, 2019. This information should be utilized in conjunction with the auditor's 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, 2019 and 2018, 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

Net Position

	FY 2019	FY 2018	% Change
Current assets, including restricted	\$ 19,726,568	\$ 22,714,128	-13.2%
Property and equipment, net	466,258	417,207	11.8%
Total assets	20,192,826	23,131,335	-12.7%
Current liabilities, including restricted	18,459,129	21,620,748	-14.6%
Total liabilities	18,459,129	21,620,748	-14.6%
Deferred Inflows of Resources	74,795	0	100.0%
Accumulated net revenues invested in capital net of related debt	466,258	417,207	11.8%
Accumulated net revenues - unrestricted	1,192,644	1,093,380	9.1%
Total accumulated net revenues	\$ 1,658,902	\$ 1,510,587	9.8%

Revenues, Expenses, and Changes in Accumulated Net Revenues

	FY 2019	FY 2018	% Change
Revenues - gas operations	\$ 176,772,994	\$ 169,990,981	4.0%
Revenues - member special services	103,828	1,229,469	-91.6%
Revenues - service charge and other	2,246,278	1,848,300	21.5%
Total operating revenues	179,123,100	173,068,750	3.5%
Expenses - gas operations	176,772,994	169,990,981	4.0%
Expenses - administrative and general	2,148,857	1,818,487	18.2%
Expenses - member special services	103,828	1,229,469	-91.6%
Depreciation and amortization	31,513	33,993	-7.3%
Total operating expenses	179,057,192	173,072,930	3.5%
Operating income	65,908	(4,180)	1676.7%
Interest and finance charge income	86,085	17,822	383.0%
Other income and other expense, net	822	(459,603)	-100.2%
Gain (loss) on disposal of assets	(4,500)	120	-3850.0%
Change in accumulated net revenues	\$ 148,315	\$ (445,841)	-133.3%

Management's Discussion and Analysis

Financial Highlights

- In fiscal year 2019, current assets decreased by approximately \$2,988,000 primarily due to decreases in accounts receivable of approximately \$3,597,000 and a decrease in storage inventory of approximately \$282,000, offset by an increase in cash of approximately \$824,000. Current liabilities decreased by approximately \$3,162,000 primarily due to the decrease in accounts payable of approximately \$2,926,000 with additional decreases in Inventory Held for Members of approximately \$282,000.
- Gas operating revenues and gas operating expenses both increased by approximately \$6,782,000, primarily due to increases in natural gas volumes. These increases were partially offset by decreases in natural gas commodity prices.
- 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, 2019, FGU was managing special projects for members with fiscal year 2019 revenues of approximately \$104,000 and expenses of approximately \$104,000.
- FGU's total change in net position in fiscal year 2019 was an increase of \$148,315 as compared to a decrease of \$445,841 in fiscal year 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 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 2019, this project consisted of 12 members. The ARP fund has no accumulated net position. 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, 2019

Assets	Operating	All Requirements Project	Total
Current Assets			
Cash and Cash Equivalents	\$ 2,333,056	\$ 0	\$ 2,333,056
Accounts Receivable:			
Members	12,086,187	0	12,086,187
Project Participants	0	1,144,603	1,144,603
Customers	2,522,438	0	2,522,438
Other	17,512	0	17,512
Notes Receivable	145,537	0	145,537
Inventory	982,056	0	982,056
Prepaid Expenses	45,881	0	45,881
Due from ARP Fund	71,178	0	71,178
Total Current Assets	18,203,845	1,144,603	19,348,448
Restricted Assets			
Cash and Cash Equivalents	378,120	0	378,120
Total Restricted Assets	378,120	0	378,120
Property and Equipment, Net of Accumulated Depreciation of \$312,937	466,258	0	466,258
Total Assets	19,048,223	1,144,603	20,192,826
Liabilities and Net Position			
Current Liabilities			
Trade	13,373,581	1,069,525	14,443,106
Other	2,375,120	3,900	2,379,020
Due to Operating Fund	0	71,178	71,178
Accrued Expenses	78,671	0	78,671
Inventory Held for Members	982,056	0	982,056
Short-Term Obligations	126,978	0	126,978
Total Current Liabilities	16,936,406	1,144,603	18,081,009
Liabilities Payable from Restricted Assets			
Deposits Held	378,120	0	378,120
Total Liabilities Payable from Restricted Assets	378,120	0	378,120
Total Liabilities	17,314,526	1,144,603	18,459,129
Deferred Inflow of Resources			
Unrecognized Gain on Hedging	74,795	0	74,795
Net Position			
Invested in Capital Assets, Net of Related Debt	466,258	0	466,258
Unrestricted	1,192,644	0	1,192,644
Total Net Position	\$ 1,658,902	\$ 0	\$ 1,658,902

See accompanying notes.

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2019

	Operating	All Requirements Project	Total
Operating Revenues			
Gas Operations	\$ 159,606,176	\$ 17,166,818	\$ 176,772,994
Member Special Services	103,828	0	103,828
Service Fees and Other	1,525,968	720,310	2,246,278
Total Operating Revenues	161,235,972	17,887,128	179,123,100
Operating Expenses			
Gas Operations	159,606,176	17,166,818	176,772,994
Administrative and General	1,434,647	714,210	2,148,857
Member Special Services	103,828	0	103,828
Depreciation and Amortization	31,513	0	31,513
Total Operating Expenses	161,176,164	17,881,028	179,057,192
Operating Income (Loss)	59,808	6,100	65,908
Non-Operating Revenues/(Expenses)			
Interest Income	86,085	0	86,085
Other Income	37	0	37
Finance Charge Income	714	71	785
Gain (Loss) on Disposal of Assets	(4,500)	0	(4,500)
Income Before Operating Transfers	142,144	6,171	148,315
Operating Transfers	6,171	(6,171)	0
Change in Net Position	148,315	0	148,315
Total Net Position, Beginning of Year	1,510,587	0	1,510,587
Total Net Position, End of Year	\$ 1,658,902	\$ 0	\$ 1,658,902

See accompanying notes.

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2019

		All Requirements	
	Operating	Project	Total
Cash Flows from Operating Activities			
Receipts from Members and Customers	\$ 164,967,451	\$ 17,937,377	\$ 182,904,828
Payments to or for the Benefit of Employees	(1,467,455)	0	(1,467,455)
Payments to Suppliers	(163,250,003)	(17,352,204)	(180,602,207)
Internal Activity Between Funds	579,256	(579,256)	0
Net Cash Provided by (Used in) Operating Activities	829,249	5,917	835,166
Cash Flows from Noncapital Financing Activities			
Inter-Fund Transfers	6,171	(6,171)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	6,171	(6,171)	0
Cash Flows from Capital and Related Financing Activities			
Proceeds from Short-Term Obligations	97,564	0	97,564
Principal Payments - Short-Term Obligations	(102,242)	0	(102,242)
Purchase of Property and Equipment	(85,105)	0	(85,105)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(89,783)	0	(89,783)
Cash Flows from Investing Activities			
Interest Income Received	86,799	71	86,870
Other Income	77	0	77
Net Cash Provided by (Used in) Investing Activities	86,876	71	86,947
Net Increase (Decrease) in Cash and Cash Equivalents	832,513	(183)	832,330
Cash and Cash Equivalents, Beginning of Year	1,878,663	183	1,878,846
Cash and Cash Equivalents, End of Year	\$ 2,711,176	\$ 0	\$ 2,711,176
Consisting of:			
Unrestricted Funds	\$ 2,333,056	\$ 0	\$ 2,333,056
Restricted Funds	378,120	0	378,120
	\$ 2,711,176	\$ 0	\$ 2,711,176
<u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</u>			
Operating (Loss) Income	\$ 59,808	\$ 6,100	\$ 65,908
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	31,513	0	31,513
Accounts Receivable	3,535,527	50,250	3,585,777
Inventory	281,663	0	281,663
Prepaid Expenses	(14,806)	0	(14,806)
Accounts Payable and Other Current and Restricted Liabilities	(3,106,507)	(83,177)	(3,189,684)
Due to/Due from	(32,744)	32,744	0
Unrealized Gains	74,795	0	74,795
Net Cash Provided by (Used in) Operating Activities	\$ 829,249	\$ 5,917	\$ 835,166

See accompanying notes.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2019

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, 2019, 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 non-discriminatory 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, 2019

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, 2019, FGU had inventory of \$982,056.

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.

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.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2019

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 2019, \$446,477 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 2019, 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, 2019. The following table reflects the breakdown of each member's credit requirement through September 30, 2019, and their requirements beginning October 1, 2019. 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, 2019

Member Credit Enhancement Requirements

	Approved Level Fiscal Year 2019	Approved Level Fiscal Year 2020
Non-Project Members		
Blountstown	\$ 16,000	\$ 14,000
FMPA Group*	15,530,000	13,648,000
Homestead	58,000	52,000
Jay	7,000	8,000
Lake Worth Beach	0	30,000
Leesburg	186,000	185,000
Marianna	83,000	65,000
OUC	0	0
Starke LDC	15,000	16,000
Total Non-Project Members	\$ 15,895,000	\$ 14,018,000
ARP Members		
Chipley	\$ 14,000	\$ 12,000
Clearwater	922,000	860,000
Crescent City	12,000	12,000
DeFuniak Springs	19,000	16,000
Ft. Pierce LDC	167,000	154,000
Lake City	158,000	145,000
Lakeland	0	0
Live Oak	39,000	34,000
Palatka	56,000	52,000
Perry	29,000	27,000
Sunrise	218,000	196,000
Williston	15,000	14,000
Total ARP Members	\$ 1,649,000	\$ 1,522,000
Total Credit Enhancement	\$ 17,544,000	\$ 15,540,000

*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, 2019

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 insured by the Federal Deposit Insurance Corporation ("FDIC") in the amount of \$250,000. Remaining balances are collateralized pursuant to Chapter 280 of the Florida State Statutes. Under this chapter all depositories holding public funds collateralize deposits in excess of FDIC insurance with the State Treasurer. In the event of default by a participating financial institution, all participating institutions are obligated to reimburse the governmental entity for the loss. 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, 2019, 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, 2019, FGU held \$378,120 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, 2019, the note receivable was \$145,537.

Due from/Due to Balances

As of September 30, 2019, there was a net amount of \$71,178 due from the ARP fund to the Operating fund. This 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, 2019.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2019

Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Balance at 9/30/2018	Additions	Disposals	Balance at 9/30/2019
Assets Not Being Depreciated:				
Land	\$ 129,500	\$ 0	\$ 0	\$ 129,500
Assets Subject to Depreciation:				
Office Building	410,657	15,839	(730)	425,766
Office Furniture	37,573	31,770	(12,565)	56,778
Office Equipment	27,108	0	(19,839)	7,269
Computer Equipment	80,508	5,478	(19,608)	66,378
Computer Software	44,600	0	(5,825)	38,775
Telephone Equipment	24,138	0	(24,138)	0
Appliance	2,213	0	(2,213)	0
Construction in Progress	22,711	85,105	(53,087)	54,729
Total	<u>779,008</u>	<u>138,192</u>	<u>(138,005)</u>	<u>779,195</u>
Accumulated Depreciation	<u>(361,801)</u>	<u>(31,513)</u>	<u>80,377</u>	<u>(312,937)</u>
Net Book Value of Fixed Assets	<u><u>\$ 417,207</u></u>			<u><u>\$ 466,258</u></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. The unrestricted ANR balance at the end of FY 2019 was \$1,192,644.

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, 2019, \$1,522,000 of the \$7,500,000 bank line of credit is allocated to fulfill the credit enhancement requirements of the All Requirements Project participants.

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, 2019, the outstanding balance advanced for members was \$126,978.

Inter-Fund Transfers

FGU's inter-fund transfers in fiscal year 2019 were for \$6,171 from the ARP fund to the Operating fund. This amount represents 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 \$63,316 for the year ended September 30, 2019.

4. *Major Customers*

Five of FGU's members are part of the FMPA's ARP. Revenues from this group make up approximately 80% of FGU's fiscal year 2019 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.

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.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2019

In fiscal year 2019, FGU entered into four long-term, firm, discounted natural gas supply agreements. A summary table of these deals is as follows:

Contract Name	Natural Gas Flow Start Date	Natural Gas Flow End Date	Daily Contract Quantity (Average in Dth)	Price per Dth
Municipal Gas Authority of Georgia – RBC Series 2018A GSA	April 1, 2019	February 29, 2048	4,210	Index price, plus or minus an index premium, less a discount
Municipal Gas Authority of Georgia – MQ GSA	April 1, 2019	March 31, 2049	3,608	Index price, plus or minus an index premium, less a discount
Municipal Gas Authority of Georgia – TD Series 2019B GSA	July 1, 2019	June 30, 2049	8,000	Index price, plus or minus an index premium, less a discount
The Blackbelt Energy Gas District*	November 1, 2019	October 31, 2049	12,275	Index price, less a discount

*Gas flow does not start until fiscal year 2020.

The total quantity of gas to be purchased in these agreements represents less than 35% of FGU's total annual average gas consumption.

Some of these agreements are periodically repriced by the seller. The Municipal Gas Authority of Georgia ("The Gas Authority") MQ GSA contract does not reprice. For the Gas Authority RBC and TD contracts, if after a repricing period, the discount amount for a contract falls below a minimum amount, FGU has the choice to opt out of the contract for the remainder of the term. Under the Blackbelt Energy contract, should there be a repricing where the discount falls below a minimum amount, FGU has the choice to opt out of the contract until such time that the discount amount is again above the minimum discount. FGU may also reduce the quantity on any of these contracts if one or more participating FGU members has a permanent loss of natural gas load.

FGU is projected to make purchases of approximately \$22,382,000 in fiscal year 2020 from these transactions.

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.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2019

6. Derivative Instruments – Hedging

FGU utilizes derivative instruments – cash flow hedges (commodity swaps) to hedge financial exposure related to natural gas supply held in storage. Both storage and the related hedges are executed under a directive from a Member. These commodity derivatives are used to reduce risk related to price changes in the market value of storage inventory between the time of gas injection and its withdrawal.

Derivative transactions are recorded at fair value on the Statement of Net Position as either an asset or liability, depending on their value. The related unrealized gains or losses for effective hedges are deferred. Realized gains and losses on these transactions are recognized as the instruments are settled. The settled amount is then billed or credited to FGU’s Member on the following month’s invoice. During fiscal year 2019, settlements totaled \$446,477 and were recognized as gas revenues with an offsetting amount in gas expense.

The key terms of FGU’s derivative instruments are as follows:

<u>September 30, 2019</u>	<u>Effective Dates</u>	<u>Notional Amount</u>	<u>Average Spot Price</u>
Hedging Derivatives			
Short Futures	October 2019 – February 2020	380,000 MMBTUs	\$2.48

Risks Associated with Derivative Instruments

Basis Risk—The NYMEX-based commodity hedging transactions are subject to locational basis risk. NYMEX – based derivative instruments are based on pricing at the Henry Hub delivery point. However, FGU delivers gas to members at various delivery points in Florida. For the hedged volumes, FGU enters into commodity derivatives based on pricing at certain points to mitigate basis risk. Changes in NYMEX-based natural gas prices have been, and are anticipated to be, highly correlated with gas prices at the FGU delivery and sales points.

Rollover Risk—FGU is exposed to rollover risk on hedging derivative instruments that mature or may be terminated. When these derivative instruments terminate, FGU will be re-exposed to the risks being hedged by the derivative instrument.

The following is the classification and fair value of the derivatives, which have been deemed effective and are recorded as deferred inflows:

<u>Classification</u>	<u>September 30, 2018</u>	<u>Change in Fair Value</u>	<u>September 30, 2019</u>	<u>Notional Amount</u>
Deferred Inflows	\$ 0	\$ 74,759	\$ 74,759	380,000 MMBTUs

**INDEPENDENT AUDITOR'S 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, 2019, and have issued our report thereon dated December 6, 2019.

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.

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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 AUDITOR'S 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***

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, non-compliance 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 non-compliance 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.



December 6, 2019
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, 2019, and have issued our report thereon dated December 6, 2019.

Auditor's 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 Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on 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 6, 2019, 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.

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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

MANAGEMENT LETTER

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.

Pursuant to Sections 10.554(1)(i)5.b. 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 us to communicate non-compliance 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.



December 6, 2019
Gainesville, Florida

**INDEPENDENT ACCOUNTANT'S 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, 2019. 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, 2019.

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 6, 2019
Gainesville, Florida

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