

# 2021

Florida Gas Utility

Financial Statements  
and Independent Auditor's Report

September 30, 2021

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

**FLORIDA GAS UTILITY  
GAINESVILLE, FLORIDA**

**SEPTEMBER 30, 2021**

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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, 2021, 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 from 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.

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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, 2021, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that 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 *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2021 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, 2021  
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, 2021. This information should be utilized in conjunction with the auditors' report and basic financial statements with 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 difference 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 result in cash flows in future fiscal periods.

The Statement of Cash Flows was presented using the direct method and describes 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, 2021, and 2020, 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

### Statement of Net Position

	FY 2021	FY 2020	% Change
Current Assets, Including Restricted	\$ 33,547,459	\$ 22,387,165	49.9%
Property and Equipment, Net	540,886	495,719	9.1%
Other assets	-	-	0.0%
Total Assets	<u>34,088,345</u>	<u>22,882,884</u>	49.0%
Deferred Outflows of Resources	<u>-</u>	<u>476,645</u>	-100.0%
Current Liabilities, Including Restricted	<u>31,052,598</u>	<u>21,544,350</u>	44.1%
Total Liabilities	<u>31,052,598</u>	<u>21,544,350</u>	44.1%
Deferred Inflows of Resources	<u>899,130</u>	<u>161,025</u>	458.4%
Net Position Invested in Capital Assets	540,886	495,719	9.1%
Net Position - Unrestricted	<u>1,595,731</u>	<u>1,158,435</u>	37.7%
Total Net Assets	<u>\$ 2,136,617</u>	<u>\$ 1,654,154</u>	29.2%

### Statement of Revenues, Expenses, and Changes in Net Position

	FY 2021	FY 2020	% Change
Revenues - Gas Operations	\$ 219,517,360	\$ 150,184,739	46.2%
Revenues - Member Special Services	67,251	4,190	1505.0%
Revenues - Service Charge and Other	<u>2,570,670</u>	<u>2,112,536</u>	21.7%
Total Operating Revenues	<u>222,155,281</u>	<u>152,301,465</u>	45.9%
Expenses - Gas Operations	219,517,360	150,184,739	46.2%
Expenses - Administrative and General	2,300,904	2,105,670	9.3%
Expenses - Member Special Services	67,251	4,190	1505.0%
Depreciation and Amortization	<u>32,411</u>	<u>35,882</u>	-9.7%
Total Operating Expenses	<u>221,917,926</u>	<u>152,330,481</u>	45.7%
Operating Income	<u>237,355</u>	<u>(29,016)</u>	918.0%
Interest and Finance Charge Income	3,535	25,033	-85.9%
Other Income and Other Expense, Net	-	640	-100.0%
Gain on Hedging Activities	241,573	-	0.0%
Loss on Disposal of Assets	-	(1,405)	-100.0%
Change in Net Position	<u>\$ 482,463</u>	<u>\$ (4,748)</u>	-10261.4%

## Management's Discussion and Analysis

### Financial Highlights

- In fiscal year 2021, current assets increased by approximately \$11,160,000 primarily due to increases in accounts receivable of approximately \$13,522,000 and interfund receivables of approximately \$1,231,000. This amount is offset by decreases in cash of approximately \$408,000, and storage inventory of approximately \$3,192,000. Current liabilities increased by approximately \$9,400,000, primarily due to increases in accounts payable of approximately \$10,565,000, and interfund payables of approximately \$1,231. This amount is offset by decreases in deposits held for members of approximately \$1,373,000, and inventory held for members of approximately \$1,022,000.
- Gas operating revenues and gas operating expenses both increased by approximately \$69,333,000, primarily due to increases in natural gas commodity prices and increases in quantities sold to both Members and Customers.
- 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, 2021, FGU was managing special projects for members with fiscal year 2021 revenues of approximately \$67,000 and expenses of approximately \$67,000.
- FGU's total change in net position in fiscal year 2021 was an increase of \$482,463 as compared to a decrease of \$4,748 in fiscal year 2020. In fiscal year 2021, FGU enjoyed a significant gain as a result of storage arbitrage transactions that were conducted throughout fiscal year 2020 and 2021. The total return on these transactions was approximately \$451,000; approximately \$241,000 in derivative hedging gains and approximately \$210,000 from market price increases realized while the gas was in storage. 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 and equity 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. 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 2021, 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. 53<sup>rd</sup> Avenue, Gainesville, Florida 32653.

**Florida Gas Utility**  
**Statement of Net Position**  
**As of September 30, 2021**

Assets	Operating	All Requirements Project	Total
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 2,602,409	\$ -	\$ 2,602,409
Accounts Receivable:			
Members	19,449,668	-	19,449,668
Project Participants	-	2,681,762	2,681,762
Customers	4,524,429	-	4,524,429
Other	3,325	63	3,388
Inventory	193,963	-	193,963
Prepaid Expenses	65,063	-	65,063
Due from ARP Fund	2,679,350	-	2,679,350
Derivative Asset	899,130	-	899,130
<b>Total Current Assets</b>	<b>30,417,337</b>	<b>2,681,825</b>	<b>33,099,162</b>
<b>Restricted Assets</b>			
Cash and Cash Equivalents	448,297	-	448,297
<b>Total Restricted Assets</b>	<b>448,297</b>	<b>-</b>	<b>448,297</b>
<b>Property and Equipment, Net of Accumulated Depreciation of \$362,447</b>			
	540,886	-	540,886
<b>Total Assets</b>	<b>31,406,520</b>	<b>2,681,825</b>	<b>34,088,345</b>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
Trade	24,613,567	-	24,613,567
Other	2,859,361	-	2,859,361
Due to Operating Fund	-	2,679,350	2,679,350
Accrued Expenses	255,585	2,475	258,060
Inventory Held for Members	193,963	-	193,963
<b>Total Current Liabilities</b>	<b>27,922,476</b>	<b>2,681,825</b>	<b>30,604,301</b>
<b>Liabilities Payable from Restricted Assets</b>			
Deposits Held	448,297	-	448,297
<b>Total Liabilities Payable from Restricted Assets</b>	<b>448,297</b>	<b>-</b>	<b>448,297</b>
<b>Total Liabilities</b>	<b>28,370,773</b>	<b>2,681,825</b>	<b>31,052,598</b>
<b>Deferred Inflow of Resources</b>	<b>899,130</b>	<b>-</b>	<b>899,130</b>
<b>Net Position</b>			
Invested in Capital Assets	540,886	-	540,886
Unrestricted	1,595,731	-	1,595,731
<b>Total Net Position</b>	<b>\$ 2,136,617</b>	<b>\$ -</b>	<b>\$ 2,136,617</b>

See accompanying notes.

**Florida Gas Utility**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended September 30, 2021**

	<u>Operating</u>	<u>All Requirements Project</u>	<u>Total</u>
<b>Operating Revenues</b>			
Gas Operations	\$ 194,793,204	\$ 24,724,156	\$ 219,517,360
Member Special Services	67,251	-	67,251
Service Fees and Other	1,852,797	717,873	2,570,670
<b>Total Operating Revenues</b>	<u>196,713,252</u>	<u>25,442,029</u>	<u>222,155,281</u>
<b>Operating Expenses</b>			
Gas Operations	194,793,204	24,724,156	219,517,360
Administrative and General	1,586,214	714,690	2,300,904
Member Special Services	67,251	-	67,251
Depreciation and Amortization	32,411	-	32,411
<b>Total Operating Expenses</b>	<u>196,479,080</u>	<u>25,438,846</u>	<u>221,917,926</u>
<b>Operating Income</b>	234,172	3,183	237,355
<b>Non-Operating Revenues</b>			
Interest Income	3,535	-	3,535
Gain on Hedging Activities	241,573	-	241,573
<b>Total Non-Operating Revenues</b>	<u>245,108</u>	<u>-</u>	<u>245,108</u>
<b>Income Before Operating Transfers</b>	479,280	3,183	482,463
<b>Operating Transfers</b>	<u>3,183</u>	<u>(3,183)</u>	<u>-</u>
<b>Change in Net Position</b>	482,463	-	482,463
<b>Total Net Position, Beginning of Year</b>	<u>1,654,154</u>	<u>-</u>	<u>1,654,154</u>
<b>Total Net Position, End of Year</b>	<u>\$ 2,136,617</u>	<u>\$ -</u>	<u>\$ 2,136,617</u>

See accompanying notes.

**Florida Gas Utility**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2021**

	Operating	All Requirements Project	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from Members and Customers	\$ 188,229,721	\$ 24,212,555	\$ 212,442,276
Payments to or for the Benefit of Employees	(1,664,259)	-	(1,664,259)
Payments to Suppliers	(187,631,542)	(24,810,142)	(212,441,684)
Internal Activity Between Funds	(600,770)	600,770	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(1,666,850)</b>	<b>3,183</b>	<b>(1,663,667)</b>
<b>Cash Flows from Non-Capital Financing Activities</b>			
Interfund Transfers	3,183	(3,183)	-
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>3,183</b>	<b>(3,183)</b>	<b>-</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from Short-Term Obligations	90,000	-	90,000
Principal Payments - Short-term Obligations	(216,978)	-	(216,978)
Purchase of Property and Equipment	(77,577)	-	(77,577)
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>(204,555)</b>	<b>-</b>	<b>(204,555)</b>
<b>Cash Flows from Investing Activities</b>			
Interest Income Received	3,535	-	3,535
Other Income - Gain on Hedging Activities	241,573	-	241,573
<b>Net Cash Provided by Investing Activities</b>	<b>245,108</b>	<b>-</b>	<b>245,108</b>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(1,623,114)</b>	<b>-</b>	<b>(1,623,114)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,673,820</b>	<b>-</b>	<b>4,673,820</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,050,706</b>	<b>\$ -</b>	<b>\$ 3,050,706</b>
<b>Consisting of:</b>			
Unrestricted Funds	\$ 2,602,409	\$ -	\$ 2,602,409
Restricted Funds	448,297	-	448,297
	<b>\$ 3,050,706</b>	<b>\$ -</b>	<b>\$ 3,050,706</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income	\$ 234,172	\$ 3,183	\$ 237,355
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	32,411	-	32,411
Accounts Receivable	(12,292,078)	(1,229,473)	(13,521,551)
Inventory	3,192,391	-	3,192,391
Prepaid Expenses	(8,536)	-	(8,536)
Accounts Payable and Other Current and Restricted Liabilities:	8,405,751	(1,488)	8,404,263
Due to/Due from	(1,230,961)	1,230,961	-
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (1,666,850)</b>	<b>\$ 3,183</b>	<b>\$ (1,663,667)</b>

See accompanying notes.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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**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, 2021, FGU has 25 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, 2021**

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**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 any inventory belonging directly to Members, through a directive. As of September 30, 2021, FGU had inventory of \$193,963.

**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 quantities 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 quantities 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 having a useful life greater than one year and costing greater than \$5,000 is capitalized at cost when purchased. Additionally, attractive items with a value less than \$5,000 are also capitalized (laptops and other electronics). 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, 2021**

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**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.

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent consumption on net position that is applicable to a future reporting period. Deferred outflows have a positive effect on net position, similar to assets. Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities. FGU reports deferred outflows and inflows of resources related to hedging activities, described in Note 6.

**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.

**Derivative Hedges**

FGU may utilize derivative instruments – cash flow hedges (commodity swaps) to hedge financial exposure related to natural gas supply held in storage. 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.

Additionally, FGU may utilize derivative instruments – fair value hedges (commodity swaps) to hedge financial exposure and mitigate risk related to the daily price changes in the natural gas supply market for its Member's need.

**Credit Policy**

**Members**

Members are required to post a credit enhancement based on their yearly estimated throughput of natural gas. As a part of the budget process, The Board of Directors approved credit enhancement levels for members, effective October 1, 2021. Members must post cash, present a letter of credit, complete the requirements for an O & M Covenant agreement, or become an ARP Member in order to fulfill the credit policy requirements. The following table reflects the breakdown of each member's credit requirement through September 30, 2021, and their requirement beginning October 1, 2021. At the time of financial statements issuance, all members are in compliance with the Credit Policy requirements.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

	Approved Level <u>Fiscal Year 2021</u>	Approved Level <u>Fiscal Year 2022</u>
<b>Non-Project Members</b>		
Blountstown	\$ 13,000	\$ 17,000
FMPA-ARP*	13,459,000	17,095,000
Homestead	50,000	66,000
Jacksonville Beach	-	-
Jay	6,000	7,000
Lake Worth Beach	29,000	50,000
Leesburg	165,000	227,000
Marianna	74,000	88,000
OUC	-	-
Starke	17,000	21,000
Tallahassee	-	-
<b>Total Non-Project Members</b>	<u>\$ 13,813,000</u>	<u>\$ 17,571,000</u>
<b>ARP Members</b>		
Chipley	\$ 11,000	\$ 13,000
Clearwater	760,000	1,068,000
Crescent City	11,000	13,000
DeFuniak Springs	16,000	23,000
Ft. Pierce	155,000	220,000
Lake City	138,000	191,000
Lakeland	-	-
Live Oak	33,000	40,000
Palatka	52,000	64,000
Perry	46,000	82,000
Sunrise	187,000	265,000
Williston	18,000	19,000
<b>Total ARP Members</b>	<u>\$ 1,427,000</u>	<u>\$ 1,998,000</u>
<b>Total Credit Enhancement</b>	<u>\$ 15,240,000</u>	<u>\$ 19,569,000</u>

\*Met O&M requirement, credit not posted

## Member Credit Enhancement Requirements

### 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.

## 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 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.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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- FGU has a trading account with a financial institution in order to facilitate hedging transactions. At September 30, 2021, the account had a net liquidating balance of \$137,182. The balance is included in the cash and cash equivalents on the Statement of Net Position. These funds are not insured by the FDIC program and are, therefore, not collateralized. FGU believes any credit or custodial risk is minimal.
- 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, 2021, 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 enhancement in the form of a cash deposit. At September 30, 2021, FGU held \$448,297 in these accounts.

**Note Receivable**

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, 2021, the note receivable was \$0.

**Due from/Due to Balances**

As of September 30, 2021, there was a net amount of \$2,679,350 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, 2021. The balance due from ARP was reimbursed to the Operating fund in October 2021.

**Capital Assets**

Capital asset activity for the year ended September 30, 2021, was as follows:

	<b>Balance at 9/30/2020</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 9/30/2021</b>
Assets Not Being Depreciated:				
Land	\$ 129,500	\$ -	\$ -	\$ 129,500
Assets Subject to Depreciation:				
Office Building	425,766	17,906	-	443,672
Office Furniture	60,504	-	-	60,504
Office Equipment	7,266	-	(5,994)	1,272
Computer Equipment	70,956	15,572	(5,016)	81,512
Computer Software	41,627	-	-	41,627
Telephone Equipment	-	-	-	-
Appliance	-	-	-	-
Construction in Progress	101,146	66,518	(22,418)	145,246
<b>Total</b>	<b>836,765</b>	<b>99,996</b>	<b>(33,428)</b>	<b>903,333</b>
<b>Accumulated Depreciation</b>	<b>(341,046)</b>	<b>(32,411)</b>	<b>11,010</b>	<b>(362,447)</b>
<b>Net Book Value of Fixed Assets</b>	<b>\$ 495,719</b>			<b>\$ 540,886</b>

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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**Accumulated Net Revenues**

At the June 8, 2018 meeting, the Board of Directors approved processes for the level, timing and methodology for the distribution of 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 fiscal year 2021 was \$1,595,731.

**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, 2021, \$1,998,000 of the \$7,500,000 bank line of credit is allocated to fulfill the credit enhancement requirements of the ARP 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. The member is charged an interest rate of LIBOR plus 2.25%, which is an effective rate of 2.33% as of September 30, 2021. As of September 30, 2021, there was no outstanding balance advanced for members.

**Interfund Transfers**

FGU's interfund transfers in fiscal year 2021 were for \$3,183 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. 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 \$83,300 for the year ended September 30, 2021.

**4. Major Customers**

Florida Municipal Power Agency-All Requirements Project (FMPA-ARP) is FGU's largest Member. Revenues from FMPA-ARP made up approximately 60% of FGU's fiscal year 2021 operating revenues.

**5. Commitments and Contingencies**

**Transportation**

FGU maintains two aggregated firm transportation agreements with FGT that enable 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.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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FGU also holds firm transportation capacity rights on Transcontinental Gas Pipeline, 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 purchase and/or sale agreements at fixed and floating prices. The terms and quantities of such agreements vary. The longest term currently in place is through July 31, 2022. 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.

FGU has entered eight long-term, firm, discounted natural gas supply agreements. A summary of these agreements is as follows:

<b>Contract Name</b>	<b>Natural Gas Flow Start Date</b>	<b>Natural Gas Flow End Date</b>	<b>Daily Contract Quantity (average in Dth)</b>	<b>Price per Dth</b>
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
PEAK Energy	November 1, 2020	April 30, 2026	3,000	Index price, less a discount
Tennessee Energy Acquisition Corporation (TEAC)*	April 1, 2022	March 31, 2052	5,000	Index price, less a discount
Municipal Gas Authority of Georgia – CPE Series 2021C GSA*	April 1, 2022	March 31, 2052	4,500	Index price, plus or minus an index premium, less a discount
The Blackbelt Energy Gas District - 2021B*	April 1, 2022	August 31, 2052	4,200	Index price, less a discount

\*Gas flow does not start until fiscal year 2022.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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

Some of these agreements are periodically repriced by the seller. 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 either the remainder of the pricing period or the remainder of the term, depending on the contract. 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 \$59,298,000 in fiscal year 2022 through these long-term transactions.

**Storage**

FGU holds firm gas storage capacity with SG Resources Mississippi, LLC (SG Resources) 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, 2024, 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 125,000 MMBtu of storage capacity.

**6. *Derivative Instruments – Hedging***

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 2021, losses of \$59,652 were realized through natural gas price risk management transactions from directives and recorded in Gas Operations in the accompanying Statement of Revenues, Expenses, and Changes in Net Position as a reduction in gas revenues with an offsetting amount to gas expense.

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 2021, there were no transactions completed utilizing system-wide natural gas price risk management.

On May 14, 2020, FGU entered financial long positions for the purchase of 1,000,000 Dth of natural gas. Concurrently, FGU entered financial short positions of 1,000,000 Dth, expiring by February 2021. By the end of July 2020, all financial long positions were replaced with physical positions and the natural gas inventory was placed into storage. These transactions were structured to capture the advantage of the NYMEX price differences between seasons. All transactions were settled by the end of February 2021, resulting in savings of \$241,573, recorded as Gain on Hedging Activities on the Statement of Revenues, Expenses, and Changes in Net Position. At September 30, 2021 there were no open positions for these storage hedges.

**Florida Gas Utility**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

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Derivative transactions are recorded at fair value on the Statement of Net Position as either an asset or liability, depending on their value. For 2021 all of FGU’s hedges have been determined to be effective under one or more acceptable methods in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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. These derivative instruments are classified as Level 2 of the fair value hierarchy using the market approach of valuation. Derivative instruments classified as Level 2 receive clearinghouse prices, which are based on models that reflect the contractual terms of the derivatives.

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

<u>September 30, 2021</u>	<u>Effective Dates</u>	<u>Notional Amount</u> <u>(MMBTUs)</u>	<u>Average Spot</u> <u>Price</u>
<i>Hedging Derivatives</i>			
Long Futures	Oct 2021-Dec 2027	870,000	\$3.58
Short Futures	None	None	None

**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 outflows and inflows:

<u>Classification</u>	<u>September 30, 2020</u>	<u>Change in Fair Value</u>	<u>September 30, 2021</u>	<u>Notional Amount</u> <u>(MMBTUs)</u>
Deferred Inflows	\$ 161,025	\$ 738,105	\$ 899,130	870,000
Deferred Outflows	476,645	(476,645)	-	0

**7. Subsequent Events**

**Resolution 2021-05**

October 15, 2021, the Board of Directors approved Resolution 2021-05. This resolution will allow FGU to make short-term advances to Crescent City to fund phase three of the City’s relocation and road widening project, up to \$2,000,000.

**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, 2021, and have issued our report thereon dated December 6, 2021.

**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) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of FGU's internal control.

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

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

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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 from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of 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 on 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, 2021  
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, 2021, and have issued our report thereon dated December 6, 2021.

### 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, 2021, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial 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

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, 2021  
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, 2021. Management is responsible for FGU's compliance with the specified requirements. Our responsibility is to express an opinion on FGU's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether FGU complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether FGU complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material non-compliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination of FGU's compliance with specified requirements.

In our opinion, FGU complied, in all material respects, with the requirements contained in Section 218.415, Florida Statutes, for the year ended September 30, 2021.

This report is intended solely to comply with Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.



December 6, 2021  
Gainesville, Florida

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