2009 Annual Report

florida gas utility

Celebrating 20 years

Dear Members,

On this, the twentieth anniversary of FGU's formation, it seems appropriate to provide a brief history of FGU. We hope this provides valuable insight and perspective.

The Beginning

Florida Gas Utility (FGU) was created through interlocal agreement among its members to take advantage of expected benefits of combined natural gas purchasing and scheduling made possible through open access to transportation rights on Florida Gas Transmission (FGT). The Interlocal Agreement, which became effective September 1, 1989, and created FGU, was entered into initially by five municipal utilities: Gainesville Regional Utilities (GRU), the City of Homestead, the Sebring Utilities Commission (SUC), the City of Starke and the Kissimmee Utility Authority (KUA).

The Interlocal Agreement provided the framework, which included a Board of Directors made up of one representative from each member utility and the basic parameters under which FGU would operate. Bylaws were adopted by the Board which provided further specific guidelines for the organization. The Board of Directors adopted a plan which provided for two of the founding members to provide staff support services to FGU through contractual arrangement. In August of 1990, FGU began providing acquisition and scheduling of natural gas for its five members.

The Benefits

Overall cost for natural gas purchased on the open market and transported by the pipeline was significantly less than that which was still purchased under sales contracts from the pipeline. In addition, the ability to utilize the excess of capacity of one member by another member that needed additional capacity, proved to result in additional substantial savings. The third benefit, and perhaps most significant for the smaller municipal utilities, was that of more efficient administration. FGU provided staffing and expertise at a much reduced cost than had each utility staffed for natural gas acquisition and scheduling on their own.

Growth and Development

As the benefits of open access and joint action were proven, FGU expanded its membership. During 1991 and 1992, six members were added. Of significance was the addition of municipal local distribution utilities (LDCs). Over the next several years, additional electric generating and gas distribution utilities joined FGU, bringing its total membership in 2009 to twenty-four.

Early in 1992, FGU's Board of Directors adopted a Business Plan and Mission Statement that incorporated several significant changes. The FGU Board of Directors created an Executive Committee structure that would play a strong role in the governance of FGU. The Executive Committee would be elected by the Board from its members in such a way to assure fair representation of all of FGU's members.

In addition, the Business Plan also called for the creation of a General Manager's position that would be responsible for the day to day operations of FGU.

As FGU began to fulfill its business plan and mission statement, changes were needed to allow FGU to move forward. In March 1992, FGU elected its first Executive Committee and appointed its first General Manager. In July 1993, FGU terminated member-provided service contracts and fully transitioned to an independently staffed organization, establishing its office space in Gainesville.

The transition was fully accomplished in time for FGU to begin full-scale transportation-only service for all of its members as FGT implemented FERC Order 636, which required complete unbundling of its system in November 1993.

1989

John D. (Don) Hambrick, Director of Fuels (former), Gainesville Regional Utilities FGU Chairman (1989-1992)

2000

General Manager and CEO, Katrina Vaughan presents service plaque to A.K. (Ben) Sharma, outgoing Chair (1996 - 2000)

Significant Events

Annual Meetings

Recognizing that successful joint-action depends on good communication and cooperation among the participants, FGU's Board authorized staff to arrange a multi-day meeting wherein representative from the pipeline and suppliers would be asked to provide the Board with information and opinions about developments in the industry. About 45 attended the meeting in 1994, including Board Members, Staff, advisors, and other employees of the Members. The meeting was believed to be so informative and useful in furthering FGU's mission, that the Board decided to make it an annual event. Attendance has increased over the years to a current attendance of well over 100.

Gas Supply Acquisition Projects

Making use of its authority to issue tax-exempt municipal bonds, FGU developed projects that purchased supplies of gas under prepayment contracts. These arrangements provided long-term reliability of supply at discounts below market price. GSAP#1 was executed in 1998 for a 10-year term and GSAP#2 was executed in 2006 for a 20-year term.

Leadership

From its inception in 1989 through 2009, FGU has prospered under the informed leadership of its Board of Directors and those who were willing and able to provide additional leadership through the Executive Committee. The contributions of all of the individuals who have served over time have been significant, but of particular importance to FGU has been the leadership of those who have served as Chairman. Each of the individuals has brought his own unique contribution to FGU and its success.

Summary

FGU's history has been a demonstration of the benefits of joint action, a demonstration of how communication, understanding and cooperation can overcome challenges, and a demonstration of how the dedication of a few can result in significant value for many. FGU's staff under the leadership of its Chair, Executive Committee, Board or Directors and General Manager, is pleased to provide natural gas management services on two natural gas pipelines for its 24 members. FGU has developed and grown in the face of its own challenges and in the face of challenges besetting the industry and the country as a whole. FGU's successful 20 years is a testament to those who have dedicated time, effort, and perseverance to the furtherance of the goals of FGU.

Sincerely,

Katrina Vaughan Warren

Katrina V. Warren
General Manager

Larry Mattern

Larry Mattern
Chair

FGU Organization, Management, and Services

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

Headquartered in Gainesville, Florida, FGU employs a staff of full time professional employees dedicated to the natural gas supply and transportation management of its members' natural gas requirements. In addition to gas scheduling, supply acquisition, and transportation management services provided on a daily basis, FGU's staff and advisors offer a wide array of expertise and assistance in other areas related to natural gas. FGU is an active participant in all pipeline and regulatory issues impacting the member utilities. FGU closely monitors all notices and correspondence generated by transporting pipelines and federal and state regulators and proactively works to provide concise summaries and initiate appropriate responses to ensure the members' interests are served. FGU also provides rate structuring,

LEADERSHIP FROM 1989-2009

John D. (Don) Hambrick
Director of Fuels (former), Gainesville Regional Utilities
FGU Chairman (1989-1992)

John F. (Fred) Hancock
Assistant General Manager (former),
Gainesville Regional Utilities
FGU Chairman (1992-1996)

A.K. (Ben) Sharma
Vice President of Power Supply,
Kissimmee Utility Authority
FGU Chairman (1996-2000)

Thomas W. Richards
Director of Operations, Ft. Pierce Utilities Authority
FGU Chairman (2000-2004)

Joseph L. Cone
City Manager, City of Lake City
FGU Chairman (2004-2006)

Michael Taran
Asset Manager, Florida Municipal Power Agency
FGU Chairman (2006-2008)

Thomas W. Richards
Director of Electric and Gas Systems,
Ft. Pierce Utilities Authority
FGU Chairman (2008-2009)

Larry Mattern
Vice President of Power Supply,
Kissimmee Utility Authority
FGU Chairman (2009 – present)

2004

Thomas W. Richards (2000 - 2004) passes the gavel to incoming Chair Joseph L. Cone (2004 - 2006)

contract development and contract negotiation assistance to its members. The provision of these types of services is generally included in the FGU service fee.

Gas Supply

FGU's natural gas acquisition strategy, based on analysis of factors such as member-specific pricing objectives, long-term market opportunities, supply and receipt point availability, and pricing forecasts, has historically resulted in competitively priced gas for its members. To secure the most economically priced reliable gas deliveries possible, FGU utilizes a combination of long-term, monthly, and daily swing purchases through agreements with numerous suppliers of natural gas.

In addition to the cost of member-specific purchases of baseload gas, members are allocated their proportionate share of FGU's aggregated monthly purchases. These aggregated purchases, which typically blend some amount of monthly and daily acquisitions, comprise the FGU "system supply". FGU's weighted average cost for system supply during Fiscal Year 2009 was $3.97 per Dth – an average of $.03 per Dth below relevant market benchmarks. This is $4.96 below the previous fiscal year's system supply weighted average cost of $8.93 per Dth. **See figure 1. FGU Weighted Average System Supply Cost vs. Benchmark**

1997

Lance Arrington, The Arrington Group, presentation at 1997 Annual Meeting General Session.

FGU MISSION STATEMENT

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

Special Supply Projects

From time to time, natural gas supply projects have been created to secure long-term supply at terms and conditions that assure security of the supply at prices that are below market prices. Under the laws of the State of Florida, and under Federal regulations and laws, FGU is permitted to issue tax-exempt revenue bonds for certain lawful purposes, including the prepayment for natural gas.

In 1998, FGU issued tax-exempt revenue bonds in the amount of $115,590,000 to finance the prepayment of a ten-year supply of natural gas on a firm basis, the Gas Supply Acquisition Project #1

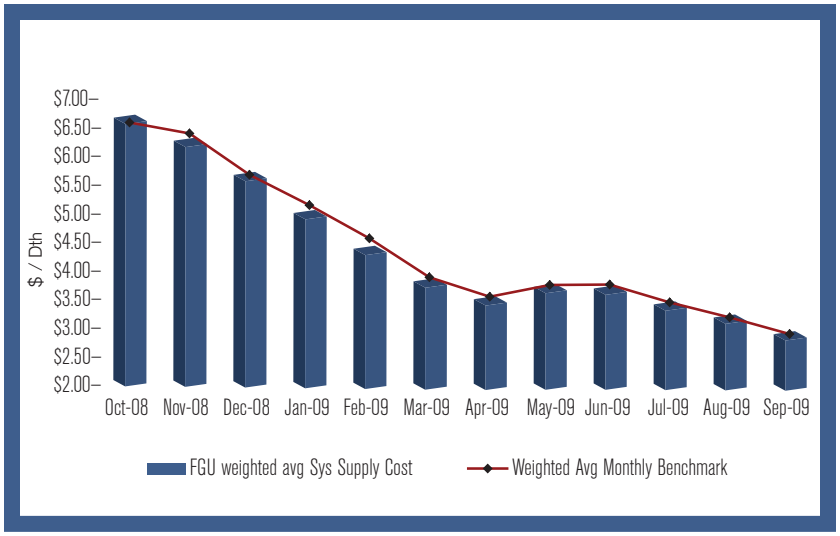


Figure 1. FGU Weighted Average System Supply Cost vs. Benchmark

("GSAP #1"). FGU's GSAP #1 contract, under which participants began taking deliveries in December 1998, assures firm supplies of gas at a below-market price. Participants in the ten-year project have contracted for delivery of over 5.9 million Dth of GSAP #1 gas per year at a discount of about $0.19 compared to a standard Florida first of the month price index, resulting in cumulative cost savings to project participants in excess of $11 million compared to market prices. The gas supply from the GSAP #1 project provided approximately 27% of the natural gas requirements of the GSAP #1 project participants. The final deliveries of gas under the GSAP#1 project were made on November 30, 2008, which terminated the project.

Late in FY 2006, FGU completed Gas Supply Acquisition Project # 2 (GSAP#2), the second tax-exempt revenue bond financed prepayment for natural gas. Similar to the GSAP#1 transaction completed in 1998, GSAP#2 provided for a 20 year supply of natural gas on a firm basis at a total cost that is below market prices. Participants in the GSAP#2 project contracted for an average of 21,039 Dth per day for 20 years and expected to receive the gas priced at approximately $.57 below a Florida first of the month price index. FGU issued $694,175,000 in tax-exempt revenue bonds to finance the prepayment to UBS AG. UBS was obligated to deliver gas to FGU's participants over the next 20 years. Participants expected to save on average $ 4.4 million each year when compared to the market price. GSAP#2 was expected to provide approximately 15% of the total natural gas requirements of the project participants. In May, 2009, FGU entered into an Unwind Agreement with UBS to early terminate the transaction in consideration of settlement payments by UBS to FGU and its participants. As of the termination of the project, Participants realized a cumulative savings below market price of $7.5 million. Total savings for the Project, including the early termination settlement, were over $42 million. Further details of the Unwind are discussed in the Notes to the Financial Statements, included herein.

Pipeline Capacity

The cost of pipeline capacity for transportation of natural gas

2006

Katrina Vaughan and Michael Taran, Chair, (2006-2008) sign GSAP#2 closing documents.

supplies is a major cost component of natural gas to FGU's members. Efficient utilization of transportation entitlements achieved through aggregation of the entitlements is a major cost-saving benefit that FGU brings to its members. FGU considers historical gas usage, current and forecast weather conditions, accumulated monthly imbalances, and member-provided anticipated changes in fuel requirements on a daily basis to forecast consumption and make appropriate nominations to minimize pipeline imbalances and non-compliance penalties on transporting pipelines. Due to proactive management of gas supply to meet daily requirements, FGU's members were subjected to no pipeline penalties during FY 2009.

Pipeline capacity is utilized, first, to meet the requirements of FGU's members. After such requirements are satisfied, FGU actively pursues daily, monthly, and long-term opportunities to use or relinquish any remaining excess capacity to third parties. Approximately 86 percent of 47,151,781 Dth of firm entitlements on Florida Gas Transmission managed by FGU for its members and customers was utilized in Fiscal Year 2009. Of FGU's total entitlements, nearly 57 percent (26,725,833 Dth) was used by the primary capacity holder, with an additional 29 percent (13,678,716 Dth) being used by other members or third parties. **See figure 2. FGU Use of Firm Transportation Capacity on FGT**

FGU also manages firm transportation entitlements on Gulfstream Natural Gas System for one of its members. Approximately 90 percent of 3,662,755 Dth of firm entitlements on Gulfstream Natural Gas System managed by FGU was utilized in Fiscal Year 2009. Of FGU's total Gulfstream entitlements, just over 60 percent (2,215,307 Dth) was used by the primary capacity holder, with an additional 30 percent (1,082,155 Dth) being used by other members or third parties. **See figure 3. FGU Use of Firm Transportation Capacity on GNGS**

Total cost savings to the FGU members due to recoveries gained on sales or releases of

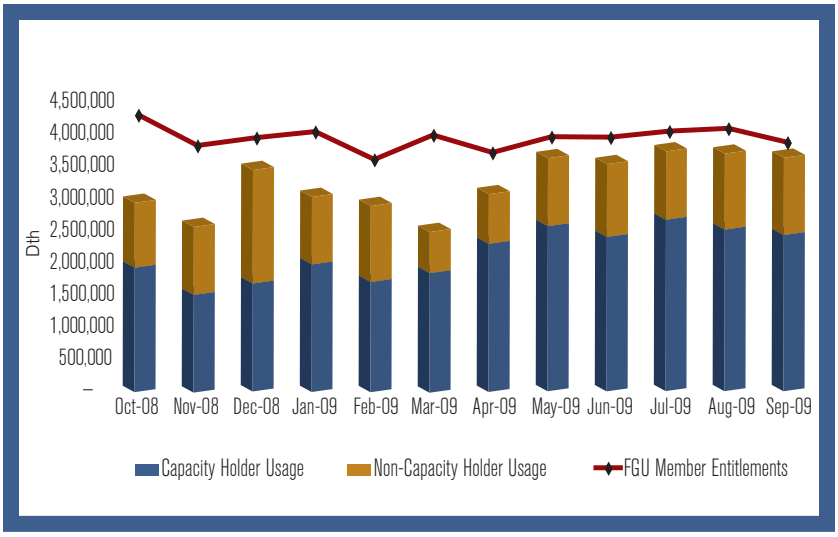


Figure 2. FGU Use of Firm Transportation Capacity on FGT

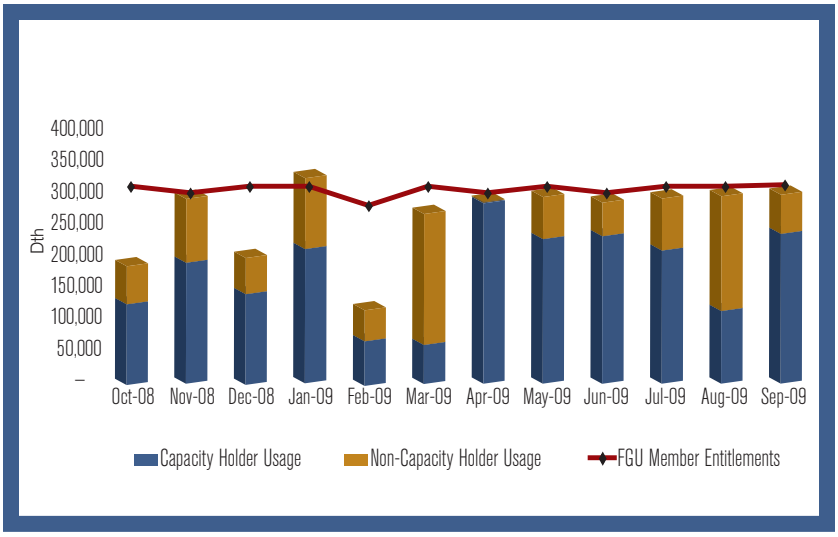
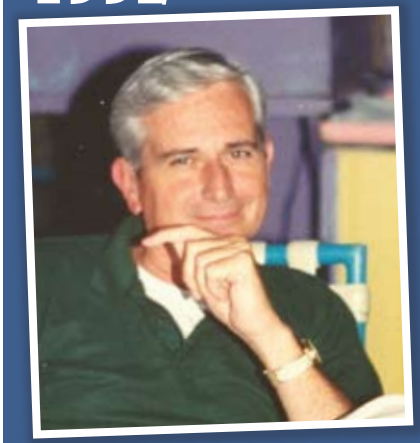


Figure 3. FGU Use of Firm Transportation Capacity on GNGS

1992



John F. Hancock (Fred), Assistant General Manager (former), Gainesville Regional Utilities, FGU Chair 1992 - 1996.

excess transportation capacity on FGT was $5,547,183 for Fiscal Year 2009 – an average per Dth recovery of $0.41. Total cost savings to the FGU members due to recoveries gained on sales or releases of excess transportation capacity on GNGS was $411,628 for Fiscal Year 2009 – an average per Dth recovery of $0.38. **See figure 4. FGU Recovery on Excess Capacity.**

Investments

The investment objectives of FGU in investing funds in excess of those required to meet the short-term expenses of FGU are the (i) preservation of the safety of the capital of FGU, (ii) liquidity of funds for the operation of FGU and (iii) realization of investment income. The following performance measures are utilized in evaluating the compliance with the investment objectives.

Preservation of Capital – FGU did not realize any loss of capital as a result of investment activities.

Exposure of Market Fluctuation Risk – Maturities of all investments have corresponded with the cash flow requirements of FGU eliminating any exposure of market price fluctuations.

Investment of Idle Funds – All available funds have been invested at a positive return throughout the fiscal year.

Usage

Deliveries of gas to the FGU gas distribution systems totaled 4,607,497 Dth in Fiscal Year 2009 – a slight increase from the previous fiscal year's 4,513,944 Dth. Gas usage by FGU power generation members creased by over 16 percent compared to Fiscal Year 2008. The total gas throughput for power generation was 26,167,555 Dth compared to Fiscal Year 2008's throughput of 22,519,928 Dth. FGU delivered 8,461,169 Dth to non-members, generally associated with sales which utilized excess member pipeline capacity. FGU's total combined throughput for Fiscal Year 2009 was 39,236,221 Dth. **See figure 5. FGU Total Throughput**

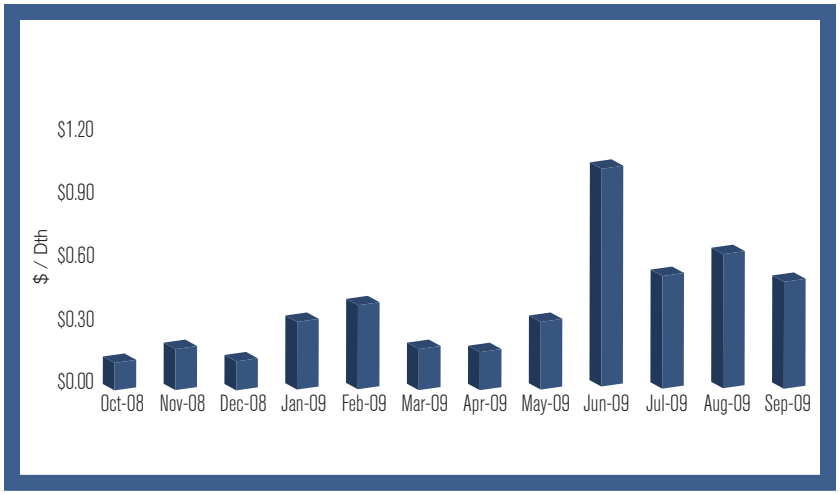


Figure 4. FGU Recovery on Excess Capacity

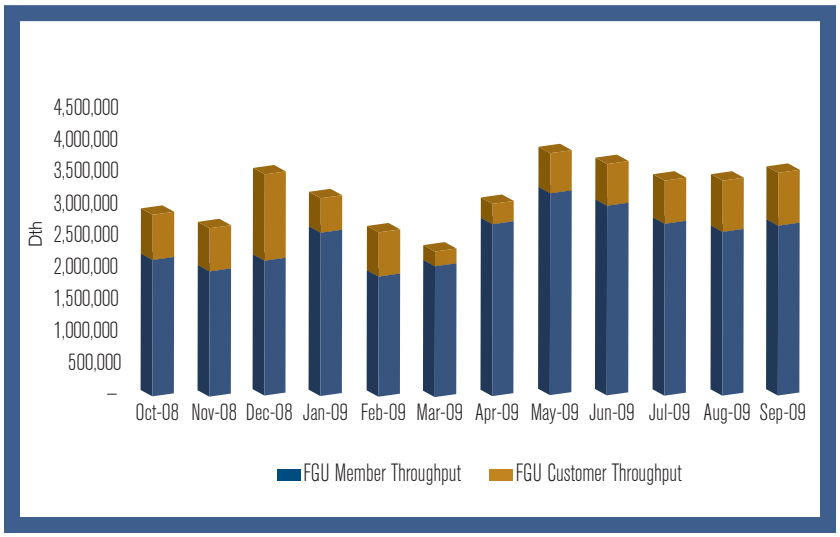


Figure 5. FGU Total Throughput

1998

Nancy Holloway, Chief Financial Officer, networking at 1998 Annual Meeting.

1998

Directors Claude L'Engle and Darrell DuBose attend 1998 Annual Board of Directors meeting.

2000

Doug John, FGU's FERC counsel, presents regulatory update at 2000 Annual Meeting.

Annual Meeting

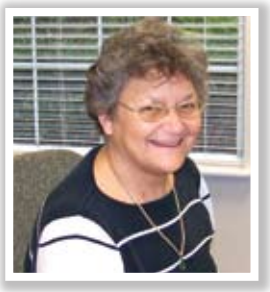
Florida Gas Utility held its 2009 Annual Meeting at the Four Seasons Resort in Palm Beach, Florida. Over 120 representatives from FGU's members, other gas and electric utilities in the State, gas producers and marketers, pipeline representatives, and industry consultants, attended the meeting. The meeting provides an excellent opportunity for FGU's members to meet and to exchange ideas and information with fellow Florida market participants. Presenters at the meeting provided their views on a wide range of relevant topics.

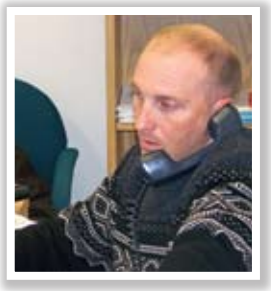
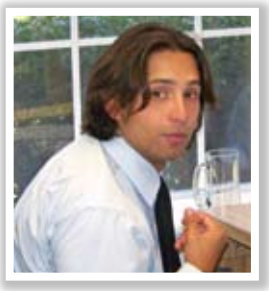
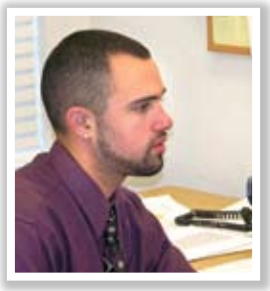
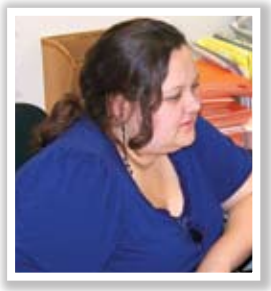
Value of Joint Action

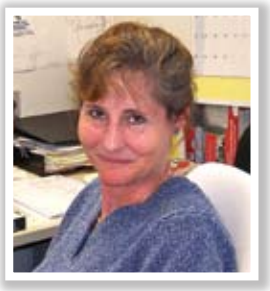
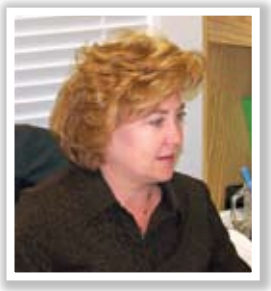
Membership in FGU provides benefits and cost savings through a variety of ways. Members benefit from a dedicated full-time staff, the costs of which are spread out over multiple members at a significant cost reduction compared to staffing by each member for the services provided by FGU. The magnitude and diversity of the natural gas requirements of FGU's members provide an opportunity, through the consistent application of effective purchasing strategies, and transportation optimization, for significant cost savings. FGU's members receive cost savings through cost-reducing gas supply projects, effective pipeline capacity management, and efficiencies from balancing across multiple receipt and delivery points, valued for FY 2009 at over $11 million, excluding the final distribution of the GSAP#2 settlement. The combined value to FGU's members of $11 million is substantial when compared to FGU's annual service charge assessed its member of $1.2 million.

2003

General Session 2003 Annual Meeting




Florida Gas Utility Members

Purvis Gray & Company

Independent Auditors' Report

We have audited the accompanying financial statements of Florida Gas Utility (FGU) and each of its major projects, as of and for the year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of FGU's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 7, 2009, on our consideration of FGU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of FGU and its major projects taken as a whole. The accompanying Schedules of Changes in Financial Condition—Gas Projects No. 1 and No. 2 are presented for purposes of additional analysis and are not a required part of the financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. Similarly, management's discussion and analysis on pages three through six is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Purvis, Gray and Company, LLP

December 7, 2009

Gainesville, Florida

Management's Discussion and Analysis

The management of Florida Gas Utility (FGU) offers readers of FGU's financial statements this narrative overview and analysis of the financial activities of FGU for the fiscal year ended September 30, 2009. Readers should consider the information here in conjunction with the auditors' report, basic financial statements and the notes and supplemental schedule.

Overview of the Financial Statements

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

The Statement of Net Assets reports on all of FGU's assets and liabilities, with the differences between the two reported as net assets. Due to the nature of FGU, its net assets will not accumulate significantly over time. FGU passes on operational expenses to its members, customers and project participants as incurred with no built-in profit. FGU funds its administrative costs through a service charge. In the last several years, when FGU has not spent all of its budgeted administrative costs, those "profits" have been factored into decreasing the subsequent year's budgeted service charge and thereby decreasing net assets in the following year. The factors that contribute to the change in net assets will be discussed in the "Financial Highlights" section below.

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

Current Year vs. Prior Year Comparison

The following combined, condensed financial information compares, in summary, the financial condition and operations of FGU for the years ended September 30, 2009 and 2008, respectively. The reader should use this combined information cautiously when evaluating FGU's financial position due to the legal separation that must be maintained between each fund. It should be noted that in fiscal year 2009, Gas Project No. 1 bonds were paid off on December 1, 2008. Also, on June 1, 2009, Gas Project No. 2 bonds were redeemed in full due to the early termination of the project. For more information about the termination of Gas Project No. 1 and No. 2, see Note 5 and Note 6, respectively.

Net Assets	FY 2009	FY 2008	% Change
Current assets, including restricted	$ 27,300,382	$ 151,320,735	-81.96%
Property and equipment, net	443,599	495,321	-10.44%
Other assets	0	627,561,015	-100.00%
Total assets	27,743,981	779,377,071	-96.44%
Current liabilities, including restricted	25,595,878	86,163,836	-70.29%
Long-term liabilities	0	691,223,645	-100.00%
Total liabilities	25,595,878	777,387,481	-96.71%
Net assets invested in capital assets, net of related debt	443,599	495,321	-10.44%
Net assets - unrestricted	1,704,504	1,494,269	14.07%
Total net assets	**$ 2,148,103**	**$ 1,989,590**	**7.97%**

Revenues, Expenses and Changes in Net Assets	FY 2009	FY 2008	% Change
Revenues - gas operations	$ 300,631,032	$ 440,909,281	-31.8%
Revenues - service charge & other	722,511	1,764,974	-59.1%
Total operating revenues	301,353,543	442,674,255	-31.9%
Expenses - gas operations	297,562,682	437,177,654	-31.9%
Expenses - general & administrative	2,768,386	3,290,985	-15.9%
Depreciation & amortization	277,758	624,454	-55.5%
Total operating expenses	300,608,826	441,093,093	-31.8%
Operating income	744,717	1,581,162	-52.9%
Net costs recoverable from future participant billings	(24,596,781)	14,543,271	-269.1%
Interest & finance charge income	1,000,290	2,215,056	-54.8%
GIC Termination Fee	4,948,000	0	100.0%
Operating Reserve Replenishment	3,500,000	0	100.0%
Restructuring & Unwind Revenue (net)	23,864,400	0	100.0%
Gain (loss) on disposal of assets	1,640	103	1492.2%
Interest & other expenses	(9,303,753)	(18,410,025)	-49.5%
Change in net assets	**$ 158,513**	**$ (70,433)**	325.1%

Financial Highlights

- In fiscal year 2009, current assets decreased by $124 million due to the decrease in accounts receivable, investments, and current portion of prepaid gas supply from the termination of both Gas Project No. 1 and Gas Project No.2 projects. Current liabilities decreased by $60.5 million due mainly to the decrease in accounts payable and current portion of revenue bonds payable due to the terminations of Gas Project No. 1 and Gas Project No.2.
- Other assets decreased by $627.5 million due to the termination of both Gas Project No. 1 and Gas Project No. 2.
- Long-term liabilities decreased by $691 million due to the termination of both Gas Project No. 1 and Gas Project No. 2.
- Gas operating revenues and gas operating expenses both decreased by $140.2 million and $139.6 million, respectively. The termination of both Gas Project No. 1 and Gas Project No. 2 as well as changes in gas prices are the major contributors to the differences in these accounts.
- FGU's interest income was $1.2 million lower in fiscal year 2009 than in fiscal year 2008. This change is due mainly to a decrease in interest rates as well as the termination of Gas Projects No. 1 and No. 2.
- The Net Costs Recoverable from Future Participant Billings account on the Statement of Revenues, Expenses, and Changes in Net Assets is used in accordance with the Statement of Financial Accounting Standards No. 71 for the Gas Supply Project No.1 and Gas Supply Project No. 2 funds. Refer to Note No. 2 of the attached financial statements for further information.
- FGU's total change in net assets in fiscal year 2009 was a positive $158,513. As discussed in the Overview section above, FGU does not generally accumulate or expend significant amounts of net assets. However, there are several factors at play that make up this total as follows:
  - In December 2001, FGU used $465,721 of the working capital reserve funds to purchase an office building. This amount is being replenished over 15 years at which time the working capital reserve will be fully replenished for the cost of the office acquisition. $41,600 was used to replenish this year in excess of depreciation on the office building.
  - The remaining change in net assets was due to $257,800 of additional revenues from non-specific member delivered sales net with $57,000 of Delivery Point Operator revenue shortfall and additional expenses.

Individual Funds

The Operating fund accounts for general operations beneficial to all member and customer systems. All of FGU's administrative expenses are paid from of the Operating fund and allocated to the other funds. This is FGU's only fund that accumulates net assets. Refer to the discussion of net assets above.

The Gas Project No. 1 fund accounts for operations beneficial to the project participants of the Gas Project No. 1 revenue bonds. These bonds were issued in November 1998 for the prepayment of 10 years of natural gas from the Williams Companies. All assets of Gas Project No. 1 are restricted as to use by bond covenants. The Gas Project No. 1's gas billings are designed to fully recover all project costs over the life of the bonds. Therefore, there are no net assets in the Gas Project No. 1 fund. Any differences between revenues and expenses in this fund are merely timing differences and are recorded as changes in the net costs recoverable from future participant billings.

The All Requirements Project fund accounts for the operations beneficial to those members that have entered into FGU's All Requirements contract. This project began in March 2002. At the end of fiscal year 2009, this project consisted of 10 members. The All Requirements Project has no accumulated net assets since any excess revenues have been transferred to the Operating fund to offset future service charges.

The Gas Project No. 2 fund accounts for operations beneficial to the project participants of the Gas Project No. 2 revenue bonds. These bonds were issued in September 2006 for the prepayment of 20 years of natural gas from the UBS AG. All assets of Gas Project No. 2 are restricted as to use by bond covenants. The Gas Project No. 2's gas billings are designed to fully recover all project costs over the life of the bonds. Therefore, there are no net assets in the Gas Project No. 2 fund. Any differences between revenues and expenses in this fund are merely timing differences and are recorded as changes in the net costs recoverable from future participant billings.

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 Assets
As of ;September 30, 2009

Assets	Operating	Gas Project No. 1*	All Requirements Project	Gas Project No. 2*	Total
Current Assets					
Cash and Cash Equivalents	$ 1,662,389	$ 0	$ 8,919	$ 0	$ 1,671,308
Accounts Receivable:					
Members	17,712,119	0	0	0	17,712,119
Project Participants	0	0	1,202,846	0	1,202,846
Customers	4,121,535	0	0	0	4,121,535
Other	105,132	0	0	0	105,132
Inventory	2,383,700	0	0	0	2,383,700
Prepaid Expenses	21,344	0	0	0	21,344
Due from ARP	29,010	0	0	0	29,010
Total Current Assets	26,035,229	0	1,211,765	0	27,246,994
Restricted Assets					
Cash and Cash Equivalents	53,388	0	0	0	53,388
Total Restricted Assets	53,388	0	0	0	53,388
Property and Equipment, Net of Accumulated Depreciation of $316,347	443,599	0	0	0	443,599
Total Assets	26,532,216	0	1,211,765	0	27,743,981
Liabilities and Net Assets					
Current Liabilities					
Trade	18,929,468	0	1,179,423	0	20,108,891
Other	2,903,256	0	82	0	2,903,338
Due to Gas Operating Fund	0	0	29,010	0	29,010
Accrued Expenses	105,805	0	0	0	105,805
Deferred Revenue	2,392,200	0	3,250	0	2,395,450
Total Current Liabilities	24,330,729	0	1,211,765	0	25,542,494
Liabilities Payable from Restricted Assets					
Deposits Held	53,384	0	0	0	53,384
Total Liabilities Payable from Restricted Assets	53,384	0	0	0	53,384
Total Liabilities	24,384,113	0	1,211,765	0	25,595,878
Net Assets					
Invested in Capital Assets, Net of Related Debt	443,599				443,599
Unrestricted	1,704,504	0	0	0	1,704,504
Total Net Assets	$ 2,148,103	$ 0	$ 0	$ 0	$ 2,148,103

* All assets and liabilities of Gas Projects No. 1 and No. 2 are restricted to use.

See accompanying notes.

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended September 30, 2009

	Operating	Gas Project No. 1	All Requirements Project	Gas Project No. 2	Total
Operating Revenues					
Gas Operations	$ 229,786,527	$ 6,628,910	$ 21,325,271	$ 42,890,324	$ 300,631,032
Service Fees and Other	1,041,179	(934,230)	413,840	201,722	722,511
Total Operating Revenues	230,827,706	5,694,680	21,739,111	43,092,046	301,353,543
Operating Expenses					
Gas Operations	229,786,527	6,285,492	21,325,271	40,165,392	297,562,682
General and Administrative	1,166,463	4,893	413,840	1,183,190	2,768,386
Depreciation and Amortization	65,010	65,092	0	147,656	277,758
Total Operating Expenses	231,018,000	6,355,477	21,739,111	41,496,238	300,608,826
Operating (Loss) Income	(190,294)	(660,797)	0	1,595,808	744,717
Routine Nonoperating Revenues/(Expenses)					
Interest Expense	0	(152,450)	0	(9,151,303)	(9,303,753)
Interest Income	342,854	126,606	4,187	526,105	999,752
Finance Charge Income	119	10	7	402	538
Gain on Disposal of Assets	1,640	0	0	0	1,640
GIC Termination Fee	0	0	0	4,948,000	4,948,000
Net Costs Recoverable from Future Participant Billings	0	686,631	0	(25,283,412)	(24,596,781)
Total Routine Nonoperating Revenues/(Expenses)	344,613	660,797	4,194	(28,960,208)	(27,950,604)
Restructuring and Unwind Revenues/(Expenses)					
Operating Reserve Replenishment	0	0	0	3,500,000	3,500,000
Restructuring and Unwind Revenues (Net)	0	0	0	23,864,400	23,864,400
Total Restructuring and Unwind Revenues/(Expenses)	0	0	0	27,364,400	27,364,400
Income Before Operating Transfers	154,319	0	4,194	0	158,513
Operating Transfers	4,194	0	(4,194)	0	0
Change in Net Assets	158,513	0	0	0	158,513
Total Net Assets, Beginning of Year	1,989,590	0	0	0	1,989,590
Total Net Assets, End of Year	$ 2,148,103	$ 0	$ 0	$ 0	$ 2,148,103

See accompanying notes.

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2009

	Operating	Gas Project No. 1	All Requirements Project	Gas Project No. 2	Total
Cash Flows from Operating Activities					
Receipts from (Credits to) Members and Customers	$ 249,300,556	$ 10,135,223	$ 21,787,241	$ 46,598,871	$ 327,821,891
Payments to or for the Benefit of Employees	(1,128,257)	0	0	0	(1,128,257)
Payments to Suppliers	(248,920,277)	(7,582,938)	(21,649,442)	(26,070,312)	(304,222,969)
Internal Activity Between Funds	224,078	(15,125)	(139,783)	(43,387)	25,783
Net Cash Provided by (Used in) Operating Activities	(523,900)	2,537,160	(1,984)	20,485,172	22,496,448
Cash Flows from Noncapital Financing Activities					
Interfund Transfers	4,194	0	(4,194)	0	0
Net Cash Provided by (Used in) Noncapital Financing Activities	4,194	0	(4,194)	0	0
Cash Flows from Capital and Related Financing Activities					
Revenue Bond Redemption	0	(28,030,000)	0	(471,765,000)	(499,795,000)
Interest Paid on Long-term Debt	0	(700,750)	0	(11,118,473)	(11,819,223)
Collateral Received for Revenue Bond Redemption	0	0	0	430,272,860	430,272,860
GIC Termination Fee	0	0	0	4,948,000	4,948,000
Operating Reserve Replenishment	0	0	0	3,500,000	3,500,000
Termination Settlement Receipt	0	0	0	24,167,250	24,167,250
Project Participant Refund	0	0	0	(34,962,301)	(34,962,301)
Purchase of Property and Equipment	(11,648)	0	0	0	(11,648)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(11,648)	(28,730,750)	0	(54,957,664)	(83,700,062)
Cash Flows from Investing Activities					
Proceeds from Sales of Investments	0	22,258,096	0	27,159,660	49,417,756
Interest Income Received	379,361	173,022	5,084	666,834	1,224,301
Arbitrage Rebate Paid	0	(592,436)	0	(602,751)	(1,195,187)
Finance Charge Income	119	10	7	402	538
Net Cash Provided by (Used in) Investing Activities	379,480	21,838,692	5,091	27,224,145	49,447,408
Net Increase (Decrease) in Cash and Cash Equivalents	(151,874)	(4,354,898)	(1,087)	(7,248,347)	(11,756,206)
Cash and Cash Equivalents, Beginning of Year	1,867,651	4,354,898	10,006	7,248,347	13,480,902
Cash and Cash Equivalents, End of Year	$ 1,715,777	$ 0	$ 8,919	$ 0	$ 1,724,696
Consisting of:					
Unrestricted Funds	$ 1,662,389	$ 0	$ 8,919	$ 0	$ 1,671,308
Restricted Funds	53,388	0	0	0	53,388
	$ 1,715,777	$ 0	$ 8,919	$ 0	$ 1,724,696

See accompanying notes.

Florida Gas Utility
Statement of Cash Flows *(Concluded)*
For the Year Ended September 30, 2009

	Operating	Gas Project No. 1	All Requirements Projects	Gass Project No. 2	Total
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities					
Operating (Loss) Income	$ (190,294)	$ (660,797)	$ 0	$ 1,595,808	$ 744,717
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:					
Depreciation and Amortization	65,010	65,092	0	147,656	277,758
Amortization of Prepaid Gas Supply	0	2,038,512	0	19,177,952	21,216,464
Increase (Decrease):					
Accounts Receivable	18,472,849	4,440,542	48,130	3,554,176	26,515,697
Inventory	(877,896)	0	0	0	(877,896)
Prepaid Expenses	50,694	0	0	51,501	102,195
Accounts Payable and Other Current and Restricted Liabilities	(17,928,730)	(3,331,064)	(224,159)	(3,998,534)	(25,482,487)
Due to/Due from	(115,533)	(15,125)	174,045	(43,387)	0
Net Cash Provided by (Used in) Operating Activities	$ (523,900)	$ 2,537,160	$ (1,984)	$ 20,485,172	$ 22,496,448
Noncash Financing and Investing Activities					
Calyon Hedge Receipt	$ 0	$ 0	$ 0	$ 2,689,468	$ 2,689,468
Write-off of Prepaid Gas	0	0	0	602,381,036	602,381,036
Write-off of Unamortized Bond Issuance Costs	0	0	0	4,637,887	4,637,887
Bond-related Costs Paid Directly by UBS	0	0	0	210,011	210,011
Cancellation of Revenue Bonds	0	0	0	222,410,000	222,410,000
Cancellation of Interest on Revenue Bonds	0	0	0	136,066	136,066
Retention of Working Capital Account	0	0	0	4,159,026	4,159,026

See accompanying notes.

Note 1: Summary of Significant Accounting Policies

Reporting Entity

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

FGU has the authority to, among other things, plan, finance, acquire, construct, manage, operate, deliver, service, utilize, own, broker, exchange and distribute natural gas, or other energy and energy services pursuant to the Interlocal Agreement. As of September 30, 2009, FGU has 23 members. FGU added another member effective October 1, 2009, bringing total membership to 24.

The accounting and reporting policies of FGU conform with the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). FGU has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Regulatory Matters

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

Basis of Accounting

FGU maintains its accounts on the accrual basis in accordance with generally accepted accounting principles applicable to proprietary funds and other governmental entities that use proprietary fund accounting. The accounts are substantially in conformity with accounting principles and methods prescribed by the FERC and other regulatory authorities. Under the provisions of Statement of Financial Accounting Standards (SFAS) Statement No. 71, Accounting for the Effects of Certain Types of Regulation, FGU's Board of Directors prescribes rate making recovery for certain transactions.

Fund Accounting

FGU maintains its accounts on a fund basis in compliance with the Indenture of Trust dated as of August 1, 1996, as supplemented and amended by the First Supplemental Indenture dated as of November 1, 1998, and the Indenture of Trust dated as of September 1, 2006 (Indentures). The Operating fund accounts for general operations beneficial to all member systems. The Gas Project No. 1 fund accounts for operations beneficial to the project participants of Gas Project No. 1. The Gas Project No. 2 fund accounts for operations beneficial to the project participants of Gas Project No. 2. The All Requirements Project (ARP) fund accounts for operations beneficial to the project participants of the ARP. Interproject transactions, revenues and expenses are not eliminated. Gas Project No. 1 terminated on December 1, 2008 and Gas Project No. 2 terminated on June 1, 2009. For more information, see Note 5 and Note 6, respectively.

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 the Indentures. The budget is submitted by the General Manager and approved by the Board of Directors.

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.

Investments

Investments are recorded at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting of Certain Investments and External Investment Pools.* Fair value is determined based on quoted market prices.

Inventory

Inventory consists of natural gas in storage and is recorded using the first-in, first-out method (FIFO) basis method. An offsetting deferral has been recorded for inventory.

Net Costs Recoverable from Future Participant Billings

The rates for gas billings for Gas Projects No. 1 and No. 2 are designed to provide, over the life of the project, full recovery of project costs as defined by the respective bond resolutions, project contracts and as prescribed by the Board of Directors. Rates are structured to systematically provide for the current debt service requirements,

Note 1: Summary of Significant Accounting Policies (continued)

Net Costs Recoverable from Future Participant Billings (continued)

operating costs, and reserves. The current costs to be recovered from future revenues consist primarily of the difference between the amortization of the prepaid gas supply and debt principal requirements included in rates. In accordance with SFAS Statement No. 71, certain income and expense amounts which would be recognized during the current time period are deferred and not included in determination of net income until such costs are recoverable through participant billings.

Compensated Absences

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

Gas Imbalances

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

Property and Equipment

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

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

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

Operating Revenues and Expenses

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

Operating revenues in the Gas Project No. 1 fund are comprised of (i) all revenues, income, rent, user fees or charges associated with the ownership and operation of Gas Project No. 1, and (ii) all payments received by FGU under a Swap Agreement, described below.

Operating expenses in the Gas Project No. 1 fund include (i) all costs of acquiring and transporting gas under the Firm Gas Purchase Agreement, (ii) swap payments required to be made by FGU under the Swap Agreement, (iii) any other expenses properly allocable to Gas Project No. 1 or in connection with FGU's obligations under the Gas Supply contracts and the Project Support contracts.

Revenues in the Gas Project No. 2 fund include (i) all revenues, income, rents, user fees or charges, and receipts derived from the project participants pursuant to the Gas Supply Agreements, including all revenues derived from the sale and/or transportation of Gas Project No. 2 gas, (ii) all payments received under the UBS Gas contracts, (iii) Calyon Hedge Receipts, and (iv) interest income on certain funds and accounts pursuant to the Indenture.

Operating expenses in the Gas Project No. 2 fund include (i) all costs and expenses payable by FGU under the UBS Gas contracts in connection with the acquisition, production, management and transportation or remarketing of gas under the UBS contracts and payments in reserves in the Operating fund, (ii) Calyon Hedge Payments, (iii) any other expense or obligation required to be incurred in connection with the performance of FGU's obligations under the UBS Gas contracts or the Gas Supply Agreements, and (iv) the fees and expenses of Credit Facility Providers, Liquidity Facility Providers, remarketing agent and other fiduciary fees.

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

Amortization

Costs associated with the prepaid gas supply are being amortized over the term of the Gas Supply Agreements based on FGU's cost of gas delivered. Deferred bond issuance costs of FGU Projects No. 1 and No. 2 Revenue Bonds, Series 1998 and Series 2006, and related bond premium are being amortized utilizing a method that approximates the effective interest method over the life of the bonds.

Note 1: Summary of Significant Accounting Policies (continued)

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.

Swap Agreement

Gas Project No. 1

Concurrent with the execution and delivery of the Gas Project No. 1 Revenue Bonds, FGU entered into a Swap Agreement with NationsBank (now Bank of America, NA), effective November 5, 1998, which converted the fixed price of the natural gas under the Firm Gas Purchase Agreement to a floating price which is based on a discount from the first of the month Florida Gas Transmission Zone 2 Index, as published by Inside FERC. The differences were settled monthly and continued throughout the length of the agreement which terminated in December 2008. Savings are achieved since the fixed price at the time of the swap purchase is greater than FGU's all-in cost (the debt service to repay the bonds). The difference between the fixed price and FGU's all-in cost was the discount and remained constant for the life of the project.

Under the terms of the Indenture, swap payments received by FGU are recorded as gas operations revenues of the Gas Project No. 1 fund. Amounts payable by FGU under the Swap Agreement are recorded as gas operations expenses of the Gas Project No. 1 fund. At the time of the bond issuance, the original amount subject to the swap was approximately $141,500,000. In fiscal year 2009, FGU received $0 and paid approximately $4,228,000 under the terms of the Swap Agreement. The Swap Agreement was terminated in December 2008 concurrently with the termination of the project. The fair value of the swap at September 30, 2009, is $0.

Gas Project No. 2

In order to achieve floating rate pricing of gas (less a discount) for the project participants and in order to hedge its interest rate risk on the Series 2006 Bonds, FGU entered into an ISDA Master Agreement and a related schedule, credit support annex and confirmation (collectively, the "Calyon Hedge Agreement") with Calyon. The Calyon Hedge Agreement is structured so that Calyon Hedge Receipts, together with other available funds, are expected to be sufficient to make all scheduled debt service payments with respect to the Series 2006 Bonds. The Calyon Hedge Agreement has a scheduled term equal to the scheduled maturity date of the Series 2006 Bonds and the scheduled term of the UBS Gas Purchase Agreement, but the Calyon Hedge Agreement is subject to early termination upon the occurrence of certain events discussed below. Under the Calyon Hedge Agreement, Calyon will make monthly payments to FGU (collectively, the "Calyon Hedge Receipts") of (i) a fixed amount that, in each bond year in the aggregate, will provide sufficient funds to make the principal portion of the next mandatory redemption from Sinking Fund Installments on the Series 2006 Bonds and (ii) a floating amount computed by multiplying (A) the SIFMA Municipal Swap Index, plus a spread to cover support costs; (B) a notional amount equal to the outstanding principal amount of the Series 2006 Bonds; and (C) the day count fraction applicable for the relevant calculation period. FGU will make monthly payments to Calyon based on the corresponding first of the month index price of Gas (less a discount) and notional gas quantities equal to that month's scheduled deliveries of the Gas Requirement (the "Calyon Hedge Payments").

The Calyon Hedge Agreement is subject to early termination for a variety of reasons including, without limitation, the following: (1) failure of a party to make, when due, any payment after notice of such failure and lapse of a cure period; (2) failure of a party to comply with any obligation (other than payment) after notice of such failure and lapse of a cure period; (3) failure of a party to comply with any obligation under any credit support document (i.e., the Indenture with respect to FGU and the credit support annex with respect to Calyon) after notice and lapse of any cure period; (4) a representation by a party proves incorrect or misleading in any material respect; (5) a party is dissolved or any specified insolvency or bankruptcy event occurs with respect to such party; (6) a party merges or consolidates, or sells all or substantially all of its assets to another entity and such entity fails to assume all the obligations of such party under the Calyon Hedge Agreement, or any credit support document; (7) there is any change in law, or any order of any court or governmental authority, which prevents payment or performance of any material obligation by a party under the Calyon Hedge Agreement or any credit support document; (8) certain tax events occur causing, or that are substantially likely to cause, a withholding on the payments of a party to the other party; (9) Calyon's long-term senior unsecured unsubordinated debt rating falls below "Aa3" from Moody's and "AA-" from S&P and Calyon fails to either comply with the collateral requirements set forth in the credit support annex or implement an alternative credit enhancement arrangement acceptable to Moody's and S&P (in order to avert a downgrade or withdrawal of rating on the Series 2006 Bonds) and reasonably acceptable to FGU within the permitted time frame; (10) Calyon's long-term senior unsecured unsubordinated debt rating falls below "A3" from Moody's or "A-" from S&P; or (11) the early termination of the UBS Gas Purchase Agreement occurs for any reason (collectively, items (1) through (11) above, the "Early Termination Events"). In general, upon the occurrence of an Early Termination Event, the Calyon Hedge Agreement could be terminated by the party (whether FGU or Calyon) that is not the "defaulting party" or the "affected party" in connection with the Early Termination Event. However, with respect to the Early Termination Event described in item (11) above, either FGU or Calyon may terminate the Calyon Hedge Agreement, and FGU would be deemed the "affected party" with respect to such Early Termination Event.

Upon any early termination of the Calyon Hedge Agreement, either FGU or Calyon will owe a termination payment to the other, depending upon market conditions then existing, and such termination payment will be calculated in accordance with the terms of the Calyon Hedge Agreement, provided that, in certain circumstances relating to certain defaults by UBS under the UBS Gas Purchase Agreement, the parties have agreed that neither party will owe the other any termination payment under the Calyon Hedge Agreement. Any termination payment payable by FGU upon early termination of the Calyon Hedge Agreement will be payable from the Derivative Non-Scheduled Payment Account within the Subordinated Debt fund, and such termination payment is to be made solely from any UBS Swap Termination Payment actually paid by UBS to the Trustee pursuant to the terms of the UBS Gas Purchase Agreement for deposit to the Derivative Non-Scheduled Payment Account.

Note 1: Summary of Significant Accounting Policies (continued)

Swap Agreement (continued)

Under the terms of the Gas Project No. 2 Indenture, swap payments received by FGU are recorded as gas operations revenues of the Gas Project No. 2 fund. Amounts payable by FGU under the Calyon Hedge Agreement are recorded as gas operations expenses of the Gas Project No. 2 fund. At the time of the bond issuance, the original amount subject to the swap was $665,905,000 principal notional face and 153,688,517 MMBtu notional. In fiscal year 2009, FGU received $19,778,774 and paid $20,978,962 under the terms of the Swap Agreement. The Swap Agreement was terminated on June 1, 2009 concurrently with the early termination of the project. The fair value of the swap at September 30, 2009, is $0.

Price Risk Management

In November 2001, the Board of Directors gave FGU's General Manager the authority to, upon written directive by a member, execute Price Risk Management Financial Products, such as futures contracts, commodity swaps and hedging arrangements related to the pricing or supply of gas. During fiscal year 2009, FGU paid $0 and received $0 under natural gas hedges.

Credit Policy

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

Per the methodology adopted by the Credit Committee, the Board of Directors, as part of the budget process, approved new credit enhancement levels to become effective October 1, 2009. The following table reflects the breakdown of each member's credit requirement through September 30, 2009, and their requirements beginning October 1, 2009. At the time these financial statements are issued, all members are in compliance with these requirements.

Credit Enhancement Requirements

	Approved Level Fiscal Year 2009	Amount Beginning October 1, 2009
Blountstown	$ 48,000	$ 47,000
Chipley	54,000	34,000
Clearwater	1,632,000	1,505,000
Crescent City	0	35,000
FMPA Group	21,981,000	18,988,000
Ft. Meade	24,000	25,000
Ft. Pierce LDC	325,000	353,000
Homestead	0	310,000
Jay	28,000	14,000
Lake City	283,000	275,000
Lakeland	1,000,000	1,000,000
Leesburg	782,000	441,000
Live Oak	65,000	89,000
Marianna	146,000	147,000
Palatka	265,000	134,000
Perry	60,000	69,000
Starke LDC	70,000	58,000
Sunrise	728,000	385,000
Williston	43,000	22,000
Total	$ 27,534,000	$ 23,931,000

Note 2: Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments

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

- FGU's deposits are covered by the Federal Deposit Insurance Corporation or collateralized pursuant to the Public Depository Security Act of the State of Florida. All of FGU's investments are classified as insured or registered, with securities held by FGU or its agent in FGU's name. None of FGU's deposits or investments are exposed to foreign currency risk.
- Investments made in the Gas Operating fund and ARP fund are subject to FGU's Investment Policy and to Florida state law. Investments made in the Gas Projects No. 1 and No. 2 funds are pursuant to the Indentures.

As of September 30, 2009, FGU had no investments.

Collateral Accounts

Gas Project No. 1

The obligations of Williams Energy Marketing & Trading Company under the Gas Purchase Agreement are guaranteed under an Unconditional Guaranty (Guaranty) of The Williams Companies, Inc. The Guaranty requires The Williams Companies, Inc. to maintain certain minimum credit ratings. The credit ratings of The Williams Companies, Inc. were downgraded in July 2002 to levels below those required by the Guaranty. Pursuant to the Guaranty, FGU requested that The Williams Companies, Inc. deliver additional collateral to secure its obligations to FGU. The Williams Companies, Inc. posted $11.25 million of cash collateral in September 2002, which is held by FGU in the Cash and Collateral account and is invested and applied as provided in a Cash Collateral and Security Agreement (Collateral Agreement) between FGU and The Williams Companies, Inc. Pursuant to the Collateral Agreement, The Williams Companies, Inc. increased the amount in the Cash and Collateral account as gas prices rose. The First Amendment to the Cash Collateral and Security Agreement (Amendment) became effective as of March 23, 2006. Pursuant to the Amendment, The Williams Companies, Inc. replaced the Cash Collateral with a letter of credit such that the sum of the then current Cash Collateral and the maximum amount available for drawings under the letter of credit is equal to the Margin Amount, as calculated monthly. Under the Amendment, The Williams Companies, Inc. is required to maintain a minimum of $1,000,000 of Cash Collateral in a deposit account held by FGU. At September 30, 2007, FGU held $1,026,644 in this account and a letter of credit in the amount of $22,900,000 for a total credit support amount of $23,926,644. The Margin Amount as of September 30, 2007, was $23,531,870. The Cash Collateral would be used by FGU to purchase replacement gas if Williams Energy Marketing & Trading Company or The Williams Companies, Inc. fail to meet their obligations under the Gas Purchase Agreement or the Guaranty. The Cash Collateral has not been pledged to secure the Series 1998 Bonds and is required to be returned to The Williams Companies, Inc. upon the completion of the Gas Purchase Agreement, the restoration of The Williams Companies, Inc.'s credit ratings to the required levels and other events specified in the Collateral Agreement.

Pursuant to the Guaranty, the letter of credit and $1,000,000 of the cash collateral was returned on December 12, 2007, following the upgrade of The Williams Companies Inc. by S&P and Moody's to the credit ratings at or above the required levels. The remainder of the cash collateral was returned on January 24, 2008.

Gas Project No. 2

Pursuant to the Prepaid Gas Purchase Agreement between FGU and UBS AG, dated as of September 1, 2006, FGU entered into such agreement with UBS AG based, in part, on UBS AG's credit ratings as of the date of closing. Upon the occurrence of a Downgrade Event with respect to UBS AG, UBS AG must post collateral under the Collateral & Security Agreement in an amount equal to 102% of the Termination Exposure. Termination Exposure is the sum of the Bond Related Exposure and the Swap Related Exposure. A Downgrade Event is defined as (i) the suspension or withdrawal by any of S&P, Fitch or Moody's of UBS AG's long-term senior unsecured debt rating; or (ii) the reduction of such debt ratings by any two or more of the following Rating Agencies: (a) from S&P below "AA" flat, (b) from Fitch below "AA" flat, and (c) from Moody's below "Aa3"; or (iii) the assignment of such debt rating (a) by S&P at or below "A" flat, or (b) by Fitch, at or below "A" flat, or (c) by Moody's at or below "A2".

As the result of a Downgrade Event, FGU made a formal demand for posting of Collateral on April 4, 2008, to UBS AG. UBS AG posted $933,165,916 in cash to the Collateral Account on April 7, 2008, which represented the initial amount required to be posted under the Collateral & Security Agreement. The Collateral Requirement is reset weekly for the marked to market value. The collateral was returned to UBS AG on June 1, 2009 concurrently with the early termination of Gas Project No. 2.

Restricted Assets

All assets of Gas Project No. 1 are restricted as to use by bond covenants and by the Collateral Agreement with The Williams Companies, Inc. Also, all assets of Gas Project No. 2 are restricted as to use by bond covenants. FGU's only other restricted assets are the amounts held in the FGU Deposit Account for those members and customers who choose to provide their required credit enhancements in the form of a cash deposit. At September 30, 2009, FGU held $53,384 in this account.

Due from/Due to Balances

As of September 30, 2009, there was a net amount of approximately $29,010 was due from the ARP fund to the Gas Operating fund, of which approximately $18,900 was for ARP fund's service charges transferred to the Gas Operating fund in October 2009. Approximately $5,900 of the amount due to the Gas Operating fund is supply costs that were paid out of the Gas Operating fund but not reimbursed by ARP as of September 30, 2009. Another $4,194 is the amount of the annual operating transfer from ARP to the Gas Operating fund. These amounts were transferred in October 2009.

Note 2: Summary Assets, Liabilities and Net Assets (continued)

Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Balance at 9/30/2008	Additions	Disposals	Depreciation Expense	Balance at 9/30/2009
Assets Not Being Depreciated:					
Land	$ 129,500	$ 0	$ 0	$ 0	$ 129,500
Assets Subject to Depreciation:					
Office Building	348,031	0	0	0	348,031
Office Furniture	36,431	0	454	0	35,977
Office Equipment	29,684	200	3,855	0	26,029
Computer Equipment	116,427	4,822	14,178	0	107,071
Computer Software	83,624	791	12,924	0	71,491
Automobile	18,000	0	18,000	0	0
Telephone Equipment	33,369	7,332	1,662	0	39,039
Appliance	2,026	0	0	0	2,026
Other Miscellaneous Property	552	230	0	0	782
Total	797,644	13,375	51,073	0	759,946
Accumulated Depreciation	(302,323)		50,986	(65,010)	(316,347)
Net Book Value of Fixed Assets	$ 495,321				$ 443,599

Net Costs Recoverable from Future Participant Billings

Gas billings to participants in the Gas Projects No. 1 and No. 2 are designed to provide, over the life of the project, full recovery of project costs as defined by the bond covenants and project contracts. The net costs to be recovered from future billings consist primarily of timing differences between amortization schedules and the debt service requirements. In accordance with SFAS Statement No. 71, certain income and expense amounts which would be recognized during the current time period are deferred and not included in the determination of net income until such costs are recoverable through participant billings. As a result of the termination of Gas Project No. 1 and Gas Project No. 2, previously recorded amounts recoverable from future participant billings were written off as of December 1, 2008 and June 1, 2009, respectively.

Working Capital Reserve Fund

The Board of Directors has approved the establishment of a working capital reserve fund in the Operating fund, which is financed through collections from members and customers. Each member or customer is obligated to reimburse FGU for all out-of-pocket gas supply and transportation costs incurred for the primary benefit of the member or customer. In addition, FGU is reimbursed for operating expenses and for the purchase of equipment through a service charge collected against sales volumes. The service charge is based on estimated annual operating expenses and anticipated sales volumes. As of September 30, 2009, FGU maintained a designated working capital fund balance of approximately $710,872. FGU used $465,721 of the working capital reserve funds to purchase an office building in December 2001. This amount is being amortized over 15 years and the working capital reserve fund will be completely replenished.

Long-term Debt

Gas Project No. 1

On November 25, 1998, FGU issued $115,590,000 Florida Gas Utility Gas Project No. 1 Revenue Bonds, Series 1998 (the Series 1998 Bonds). These bonds are fixed rate obligations maturing from December 1, 1999 through 2008, at interest rates ranging from 4.0% to 5.0%. Proceeds from the Series 1998 Bonds were used to fund prepayment of 59,282,167 Dth of gas from Williams Energy Marketing & Trading Company, a unit of Williams Energy Group, one of The Williams Companies, Inc. Daily gas deliveries (approximately 16,200 Dth per day) to FGU began December 1, 1998 and continue until November 30, 2008. The final debt service payment was made on December 1, 2008.

Activity under the bonds during fiscal year 2009 was as follows:

Revenue Bonds Payable at September 30, 2008	$ 28,030,000
Less Final Principal Payment Due December 1, 2008	(28,030,000)
Long-term Revenue Bonds Payable at September 30, 2009	$ 0

Arbitrage rebate payable on this bond issue was $592,436 and final rebate payment was made to the Internal Revenue Service on January 20, 2009.

Note 2: Summary Assets, Liabilities and Net Assets (continued)

Long-term Debt (continued)

Gas Project No. 2

On September 20, 2006, FGU issued $694,175,000 Florida Gas Utility Gas Project No. 2 Revenue Bonds, Series A-1 through A-4 (the Series 2006 Bonds). These bonds are variable rate obligations maturing from 2009 through 2026. Proceeds from the Series 2006 Bonds were used to fund prepayment of 153,668,574 Dth of gas from UBS AG. Daily gas deliveries to FGU began on October 1, 2006, and continued through May 31, 2009.

Activity under the bonds during fiscal year 2009 was as follows:

Long-term Revenue Bonds Payable at September 30, 2008	$ 694,175,000
Less Current Portion Due November 1, 2008	(3,525,000)
Less Bonds Redeemed & Cancelled June 1, 2009	(690,650,000)
Long-term Revenue Bonds Payable at September 30, 2009	$ 0

Arbitrage rebate payable on this bond issue was $602,752. The payment to the Internal Revenue Service was made on July 21, 2009.

Lines of Credit

In order to fulfill the credit enhancement requirements of FGU's All Requirements Project participants, FGU has a line of credit with SunTrust Bank with variable rate terms. From inception, there has been no activity on this line of credit. As of September 30, 2009, the available amount of the line was $4,196,000. On October 1, 2009, this amount decreased to $3,651,000.

On November 5, 2004, the Executive Committee authorized the execution of a Revolving Credit Taxable Certificate of Indebtedness, Series 2004, with SunTrust Bank in the maximum aggregate principal amount of $5,000,000 with variable rate terms. On September 4, 2008, the $5,000,000 Series 2004 was cancelled and replaced with a new Revolving Credit Taxable Certificate of Indebtedness, Series 2008, in the amount of $15,000,000. The Certificate of Indebtedness is secured by a pledge of unrestricted accounts receivable and is not a general obligation of FGU or any of its members. The covenants of the Certificate of Indebtedness require FGU to maintain unrestricted total net assets of at least $1,000,000 at September 30 of each year. The covenants also require that FGU must maintain, at all times, unrestricted accounts receivables equal to or exceeding 1.33 times the total principal outstanding on the Certificate of Indebtedness. There have been no draws on this line of credit.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2009 was for $4,194 from the All Requirements Project fund to the Gas Operating fund. This amount represents all interest earned and finance charges billed in the All Requirements Project fund during the fiscal year. These amounts are used to offset the members' and participants' service charge in future years.

Note 3: Retirement Benefits

FGU sponsors a defined contribution retirement plan that covers substantially all employees. FGU contributes a defined percentage of each qualified employee's salary, with maximum retirement contributions being the lesser of 25% of the employee's salary or $35,000 per year. FGU's contributions generally become fully vested to employees after three years of employment. Contribution expense, included in general and administrative expenses on the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets, was $74,149 for the year ended September 30, 2009.

Note 4: Major Customers

Six of FGU's electric members are part of the Florida Municipal Power Agency's (FMPA) All Requirements Project. Revenues from this group make up approximately 67.75% of FGU's fiscal year 2009 operating revenues.

Note 5: Gas Project No. 1 Termination

Gas Project No. 1 gas stopped flowing on November 30, 2008 and on December 1, 2008, the Gas Project No. 1 bonds (Series 1998) were paid in full. Pursuant to the Gas Supply Agreement between FGU and the Project Participants, the balance of all remaining funds in the Gas Project No. 1 fund of approximately $914,000 was distributed to the Project Participants in February 2009.

Note 6: Gas Project No. 2 Restructure, Termination and Unwind

On February 25, 2009, FGU entered into a series of agreements with UBS pursuant to which, among other things: (i) FGU consented to UBS's performance under the GPA through subcontractors, provided that the use of subcontractors would not, in any way, release UBS of its obligations under the GPA; (ii) FGU would accept Gas Project No. 2 Bonds as part of the qualified investments that UBS could post as collateral under the Collateral and Security Agreement; (iii) UBS would agree to purchase Gas Project No. 2. Bonds under the Standby Bond Purchase Agreement if and to the extent Dexia Credit Local failed in a timely manner to perform its purchase obligations thereunder (the Dexia Wrap). As part of the arrangement, UBS paid FGU $3.5 million to replenish the Gas Project No.2 working capital account that had been used to cover imbalances between interest received under the Calyon Hedge and interest paid on the Gas Project No. 2 Bonds.

On May 12, 2009, UBS and FGU entered into a GPA Unwind Agreement Related to Gas Project No. 2 (the "GPA Unwind Agreement") pursuant to which the parties agreed to unwind the GPA and related documents in consideration of settlement payments and certain other conditions. In consideration of the termination and release of the GPA, UBS agreed to pay or cause to be paid on June 1, 2009 (the "Closing Date"), through the use of funds in the Collateral Account, (a) the Modified Termination Payment as defined in the GPA to include (i) all payments due or to become due under or with respect to the Gas Project No. 2 Bonds as of the Closing Date, (ii) all expenses incurred by FGU as a result of the Gas Project No. 2 Unwind, minus (iii) any receivables due and paid to FGU under the Calyon Hedge Agreement that arise solely as a result of the termination of the agreement; (b) a negotiated settlement amount; (c) an amount equal to the balance remaining in the working capital account, but no less than $4,221,000; plus or minus (d) any amounts due under the GPA that remained unpaid as of the Closing Date. As of the Closing Date, the full redemption of FGU's Gas Project No. 2 Bonds was achieved through the payment caused by UBS from the Collateral Account along with the cancellation of Gas Project No. 2 Bonds held by UBS in the Collateral Account. In addition, the Calyon Hedge Agreement, Remarketing Agent Agreements, the Standby Bond Purchase Agreement, the Bank Bond Custody Agreement, the Collateral and Security Agreement, the Gas Purchase Agreement, the Gas Supply Agreements, the Indenture, and all other documents related to the Gas Project No. 2 transaction were terminated.

The termination and unwind of the Gas Project No. 2 transaction also resulted in the write off of net costs recoverable from participants, prepaid gas, and unamortized issuance costs.

Pursuant to the Gas Supply Agreement between FGU and the Project Participants, the balance of all remaining funds in the Gas Project No. 2 fund of approximately $34.9 million was distributed to the Project Participants on August 7, 2009.

Note 7: Commitments and Contingencies

Transportation

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

On June 1, 2005, FGU entered into agreements with eleven of its LDC members and Peoples Gas System (PGS) to convert the eleven members' entitlements from SFTS to FTS-1, relinquish that capacity to PGS and then buy the capacity back from PGS on an as needed basis for the eleven members. These agreements are for an initial term of three years. This agreement was extended for a term of two more years which ends May 31, 2011.

On May 29, 2008, FGU entered into an agreement with Infinite Energy, Inc. to release FGT capacity for an initial term of one year. This agreement was extended for a term of one year which ends May 30, 2010. FGU releases up to 10,000 MMBtu per day for each month of the agreement. FGU has the ability to recall any amount of the capacity released should this capacity be needed. Infinite Energy, Inc. remarkets this capacity and pays FGU for any volumes used by Infinite Energy, Inc. to make a delivery that is not on behalf of FGU.

Natural Gas Supply

On behalf of and at the specific direction of certain members, FGU has entered into firm gas supply agreements at fixed and floating prices. The terms and volumes of such agreements vary. The longest term currently in place is through July 31, 2014. 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 contract with FGU.

Storage

FGU holds firm storage capacity rights in Southern Pines Energy Center. This capacity was acquired via a release from one of FGU's members and these rights coincide with the original terms of the underlying member's contract. The capacity is 500,000 MMBtu per month at a cost of $0.23 per MMBtu through October 31, 2011.

Florida Gas Utility Members

Natural Gas Distribution

City of Blountstown
City of Chipley
City of Clearwater Gas System
City of Fort Meade
Town of Jay
City of Lake City
City of Leesburg
City of Live Oak
City of Marianna
Palatka Gas Authority
City of Perry
City of Starke
City of Sunrise
City of Williston

Electric Generation Systems

Florida Municipal Power Agency
City of Vero Beach
Kissimmee Utility Authority
City of Lakeland Electric
City of Lake Worth
City of Homestead
Orlando Utilities Commission

Combined Natural Gas Distribution and Electric Generation

Ft. Pierce Utilities Authority
City of Gainesville Regional Utilities

Florida Gas Utility Consultants

Holland & Knight LLP	Lakeland, FL	Bond Counsel
First Southwest Company	Orlando, FL	Financial Advisor
Holland & Knight LLP	Lakeland, FL	General Counsel
John & Hengerer	Washington, DC	Industry Counsel
Purvis Gray & Company	Gainesville, FL	Independent Auditors

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