2011 Annual Report

Letter to Members

Florida Gas Utility (FGU) is built upon a foundation of cooperation. The basis of joint action is to provide mutual benefits for those involved. FGU's Board of Directors, representing its members, recognizes the importance and value of joint action and supports FGU's management in maintaining a professional staff dedicated to working with its members, from its largest to its smallest, to accommodate their varied needs. The strength and power that comes from FGU's members working together enables the accomplishment of far more for its members than each member acting alone. In this unique dynamic lies the value of Florida Gas Utility. The economic value and cost savings realized by FGU's members can be measured using certain metrics. Based on such metrics for Fiscal Year 2011, the added value and cost savings to FGU's members totaled $5.99 million.

FGU's objective is to ensure that all of its members' gas supply needs are met and all related acquisition costs are minimized. FGU assures its members of competitively priced supply through its supply contracts with a substantial number of suppliers, including marketers, producers and other end users. Effective management of pipeline capacity is an essential part in minimizing costs.

Supply Cost and the Natural Gas Market

The major theme of the natural gas market during Fiscal Year 2011 was the continued softening of prices, with several factors contributing to a weak market. Mild weather for a majority of the 12-month period was a key component of softer than expected demand, while shale-based gas continued to penetrate the market, providing a more consistent and plentiful supply to Florida customers. The result was lower than projected gas prices in 10 of the 12 months, as compared to the forward curve of gas prices at the beginning of the fiscal year. Over this 12-month period, the average NYMEX contract closed at a price $0.23 cents per Dekatherm lower than projected for the year. As has come to be expected by its members, the average cost of FGU's system supply was, on average, lower than the market price.

Transportation Capacity Management

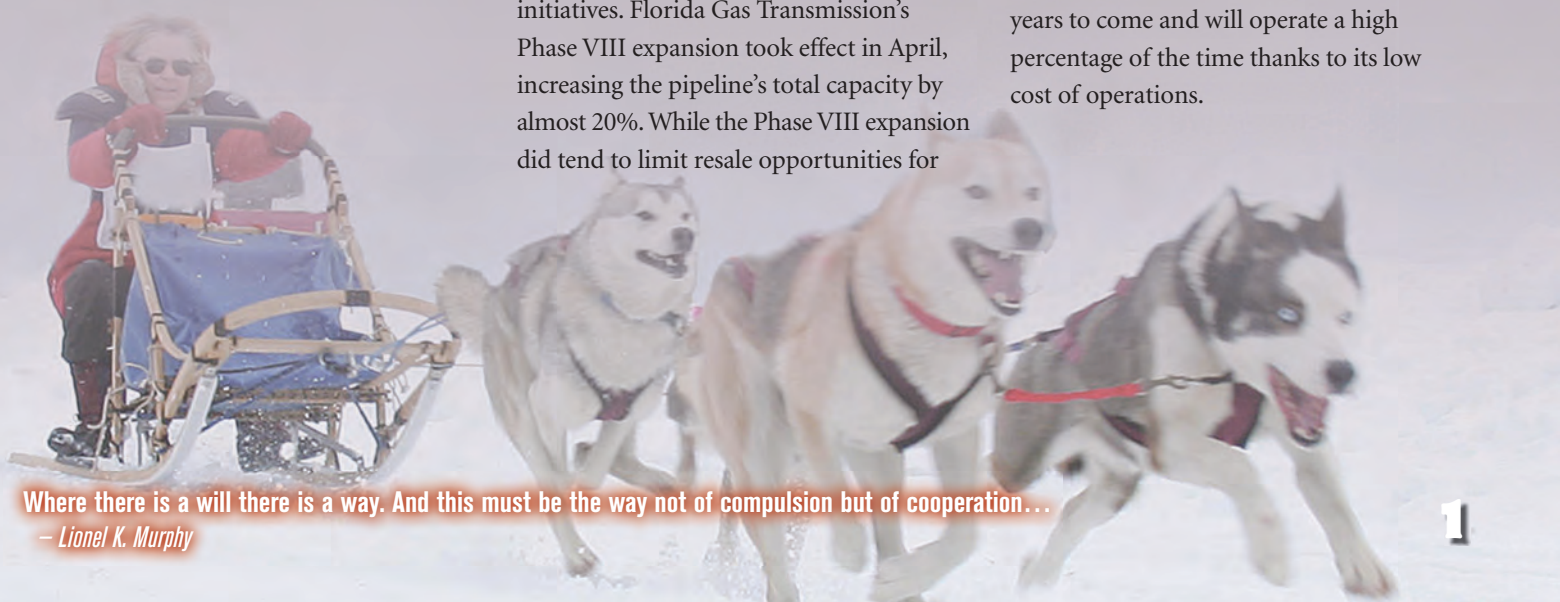
The basis of FGU's gas management operations lies within the pipeline entitlements of its members. Entitlements, the amount of contracted pipeline capacity that FGU members have reserved to transport gas, are evaluated on daily, monthly, and long-term bases to minimize member reservation costs through optimization initiatives. Florida Gas Transmission's Phase VIII expansion took effect in April, increasing the pipeline's total capacity by almost 20%. While the Phase VIII expansion did tend to limit resale opportunities for FGU members' excess capacity, the lower recoveries on excess capacity was offset by lower gas prices than expected for its membership throughout the year. The savings to the members resulting from transportation capacity management for Fiscal Year 2011 was over $4 million.

2011 Highlights

FGU and its members had several key accomplishments in Fiscal Year 2011. Among the highlights, a new electric generation plant began service, a natural gas filling station was completed, favorable settlement of a major pipeline rate case, and FGU Board of Directors and members adopted changes to certain aspects of FGU's governance.

Cane Island Unit 4

In August 2011, after two years of construction, FMPA and KUA put into service their $479 million Cane Island Unit 4. The new natural gas-fueled generating unit generates 300 megawatts and will power approximately 60,000 homes in 14 different cities throughout Florida. Highly efficient power generation technology and advanced environmental controls helped Cane Island Unit 4 earn the title of one of the cleanest and most efficient – 35% more efficient than older generators – plants of its kind. This plant will ensure a clean, affordable, reliable electric supply for many years to come and will operate a high percentage of the time thanks to its low cost of operations.



Where there is a will there is a way. And this must be the way not of compulsion but of cooperation…
– Lionel K. Murphy

Clearwater Fueling Station

Clearwater Gas System celebrated its grand opening of the Tampa Bay area's first public natural gas filling station on October 7, 2011. The filling station will provide fuel for vehicles used by the Clearwater Gas System as well as various other departments of the City of Clearwater. These vehicles will join approximately 100,000 vehicles around the United States and 11.2 million vehicles worldwide powered by natural gas. Domestic availability, widespread distribution infrastructure, lower cost, and clean-burning qualities make natural gas an impressive alternative fuel of the future. There are currently two other natural gas filling stations in Florida, and plans for additional filling stations are in the early stages.

Clearwater Gas System Natural Gas Filling Station Ribbon Cutting Ceremony. (Photo courtesy of Clearwater Gas System.)

Rate Case Settlement

On October 1, 2009, FGT filed revised tariff sheets proposing to increase its rates and make certain changes to terms and conditions of service contained in the tariff. The proposed rates became effective April 1, 2010, subject to refund. After extensive settlement negotiations, FGT, its customers and the FERC staff reached a settlement of the rates and other changes. The settlement was approved by the Administrative Law Judge and became effective April 1, 2011, with refunds retroactive to April 1, 2010 for FTS-1 rates and October 1, 2010 for FTS-2 rates. Through FGU's active involvement in the rate case negotiations, operational changes were effected which promise to have significant benefit to FGU's members.

Governance Changes

In March 2011, changes to FGU's governance structure were incorporated into changes in the Interlocal Agreement and FGU's Bylaws. The Third Amended and Restated Interlocal Agreement provides for three alternates of the Executive Committee, each of which can fill a temporary vacancy due to the absence of a regular Executive Committee member from a scheduled meeting. Also of significance was the process by which weighted voting is established in the Interlocal Agreement and the Bylaws. Changes to the weighted voting rights of the Board members reflected changes within FGU since its inception and recognized that certain criteria for establishing votes were outdated and no longer relevant. Incorporation of these changes to the Interlocal Agreement and Bylaws required approval by 70% of the weighted votes of FGU's membership and approval by each of FGU's members of the Amended Interlocal Agreement by their governing bodies. The changes became effective September 21, 2011.

Sincerely,

Katrina Vaylan Warren

Katrina V. Warren
General Manager

Larry Mattern

Larry Mattern
Chair

In business, there must be a co-operation, a pulling together for success. Without co-operation for the good of all there can be nothing but failure, Let us ever bear in mind that no man liveth unto himself. We are made dependent on one another.

FGU Organization, Management, and Services

FGU Governance

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 25 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 the Chair and Vice-Chair of the Board, 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. Additionally, there are three alternate directors able to fill any vacancy if a member is unable to serve at a particular meeting. 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.

FGU Services

Headquartered in Gainesville, Florida, FGU employs a staff of 11 full time professional employees dedicated to the natural gas supply and transportation management of its members' natural gas requirements. On a daily basis, FGU's Operations Group is responsible for gas scheduling, supply acquisition, transportation management, asset optimization, storage management, marketing of excess capacity, hedging strategies, and member services. FGU's Financial Services Group is responsible for accounts payable and receivable, managing FGU's investments, contract administration, human resources, information technology, financial accounting for routine operations and special projects, administration of all long-term debt, and credit risk management. Additionally, FGU's staff 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 monitors notices and correspondence generated by transporting pipelines and federal and state regulators. FGU initiates appropriate responses to ensure the members' interests are served. FGU also provides rate structuring, contract development and contract negotiation assistance to its members.

FGU Mission Statement

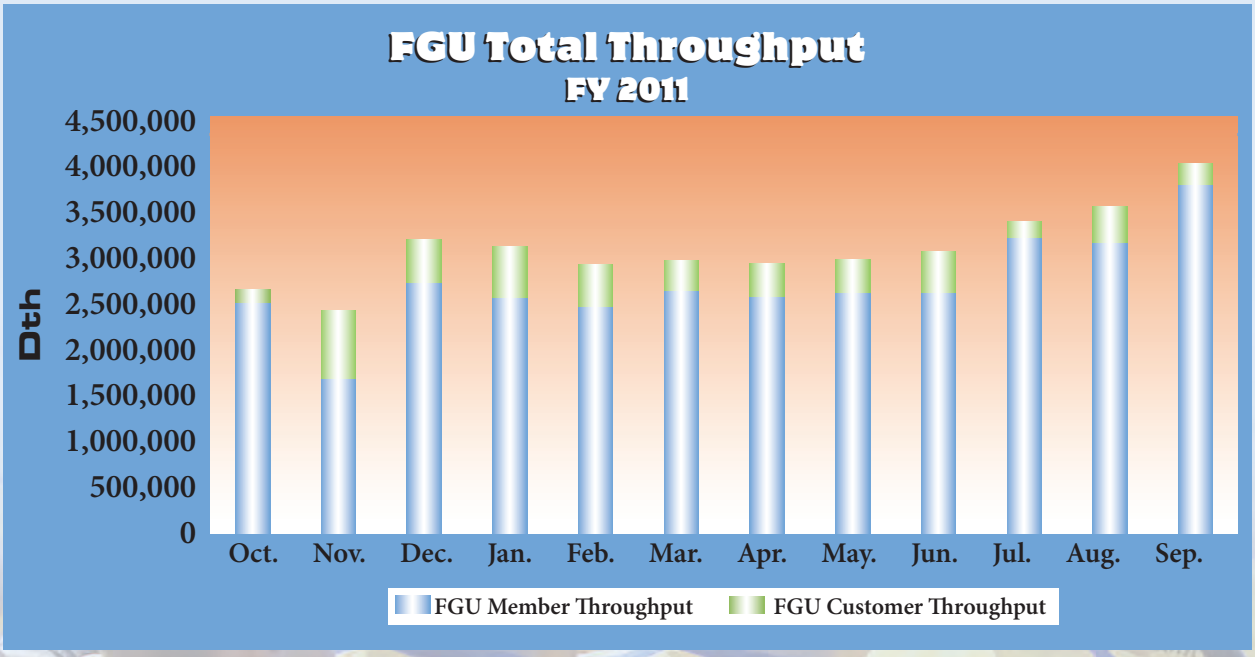
FGU was created as a non-profit **municipal organization for the sole purpose of reducing the costs of purchased natural gas for its members. This is achieved by providing cost effective gas purchasing and gas management services and by securing long-term stability in fuel costs and supplies. Since the 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.**

– Order of Bees Ritual of the Third Degree - Co-operation

Natural Gas Supply and Pipeline Capacity Management

Natural Gas Throughput

FGU's total member natural gas throughput for Fiscal Year 2011 was 32,464,420 Dth, an increase of 13.2% over FY 2010. Approximately 85% of this total was used by members with electric utilities for power generation while the remainder was used by members with natural gas distribution utilities. FGU delivered 4,501,259 Dth to non-members, generally associated with sales which utilized members' excess pipeline capacity. FGU's total combined throughput for FY 2011 was 36,965,679 Dth.

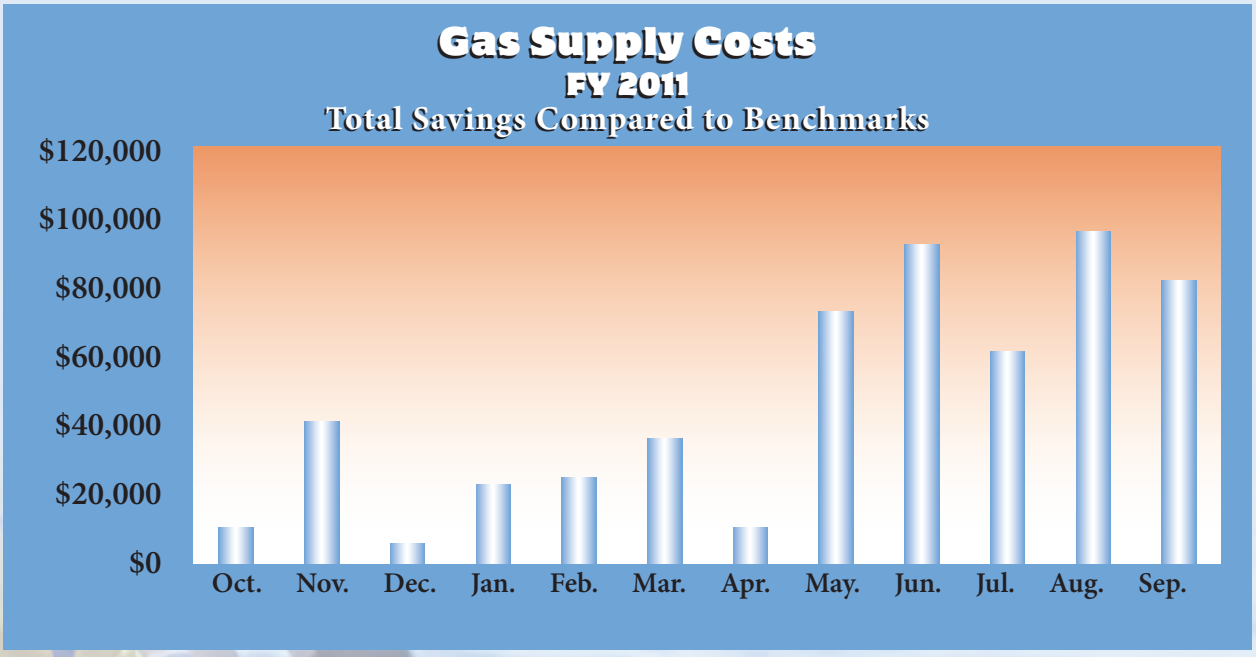


If you want to be incrementally better: Be competitive. If you want to be exponentially better: Be cooperative.

Natural Gas Cost

The cost of gas to each member is a combination of member-specific (direct) purchases and FGU's pooled purchases, purchased as base-load and supplemented with swing gas purchased on a daily basis. During Fiscal Year 2011, FGU purchased a total of 9,124,168 Dth of baseload gas at an average price of $4.09, $0.05 per Dth below FGU's benchmark, which is based on a commonly used index in the industry. FGU purchased 13,418,049 Dth of swing gas at a price of $4.10, $0.01 per Dth below the benchmark. The total savings to FGU members compared to benchmark pricing for Fiscal Year 2011 of system supply gas was $552,940. The combined WACOG for system supply for FY 2011 was $4.10, compared to $4.50 for FY 2010.

Cane Island Unit 4. (Photo credit to Sean Stowers courtesy of Florida Municipal Power Agency.)



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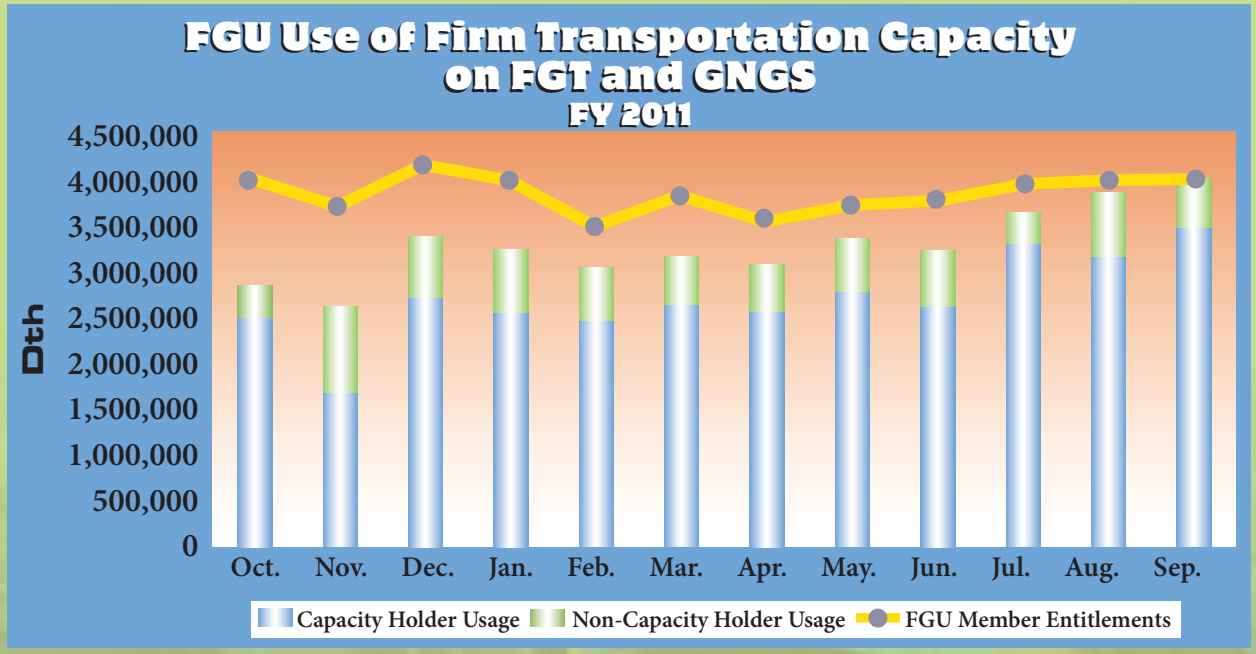
Pipeline Capacity Management

FGU members have firm delivery entitlements on both Florida Gas Transmission (FGT) and Gulfstream Natural Gas Services (GNGS) pipelines. Approximately 70% of the 45,926,920 Dth of firm entitlements on FGT and GNGS was used by the primary capacity holder. Through sales or releases of the excess capacity, FGU recovered a total of $3,948,790 for an average of $.56 per Dth.

One FGU member acquired a significant volume of firm receipt volume on the Transcontinental Gas Pipeline (Transco) during the 2011 Fiscal Year, with rights to flow into FGT, GNGS, or into Southern Pines Storage Facility. Approximately 19% of the 7,650,000 Dth of firm entitlements on Transco was used



The only thing that will redeem mankind is cooperation.

Board of Directors Meeting.

by the primary capacity holder, resulting in about 81% of the capacity available for remarketing. Of the available excess capacity, FGU remarketed 90% (5,559,832 Dth) and recovered a total of $343,820, or a $0.06 per Dth recovery.

Storage Management

FGU provides natural gas storage management services for one of its members. The member's primary objectives for storage capacity are security of supply in a stressed market and for operational balancing. Through various optimization strategies, FGU helps to offset the cost of the storage capacity.

Annual Meeting

Each year FGU hosts an Annual Meeting, which brings together FGU's members, Florida's local distribution systems, electric generators, natural gas suppliers, gas producers and marketers, pipeline representatives, industry consultants, and financial groups in an environment that facilitates networking, provides a forum for exchanging ideas and allows all who attend the opportunity to get to know all of the major participants in the Florida market. Over 120 natural gas industry representatives attended Florida Gas Utility's 2011 Annual Meeting held at the Casa Monica Hotel in St. Augustine, Florida. Represented at the event were FGU's members, other gas and electric utilities throughout Florida, gas producers and marketers, pipeline representatives, and industry consultants. Informative and insightful speakers discussed a wide range of industry topics, including leadership, changes in the natural gas market, unconventional gas supply and its future influence on Florida, outlook for energy fundamentals, economic forecast, and legislative and regulatory updates.

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 2011 at over $5.99 million.

2011 Annual Meeting.

– Bertrand Russell (1872-1970)

Florida Gas Utility Members

Natural Gas Distribution

City of Blountstown
City of Chipley
Clearwater Gas System
City of Crescent City
City of DeFuniak Springs
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 Homestead
Kissimmee Utility Authority
City of Lakeland Electric
City of Lake Worth
Orlando Utilities Commission
City of Vero Beach

Combined Natural Gas Distribution and Electric Generation

Ft. Pierce Utilities Authority
City of Gainesville Regional Utilities

Florida Gas Utility Consultant

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, LLP	Gainesville, FL	Independent Auditors

No employer today is independent of those about him. He cannot succeed alone, no matter how great his ability or capital. Business today is more than ever a question of cooperation.

Florida Gas Utility

Members

Back Row (L-R) *Tammy Wagoner, Jaye Godin, Katrina Warren, Nancy Holloway, Lisa Marousky, Jenni Hodge.*

Front Row: *Jorge Romero-Habeych, Justin Silvia, Seth Jacobs, Katie Hennemann.*

Not Pictured: *Renee Rollins.*

– Orison Swett Marden (1850-1924)

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, 2011, 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, 2011, 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 14, 2011, 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. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 5 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 Unites States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Purvis, Gray and Company, LLP

December 14, 2011

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, 2011. Readers should consider the information here in conjunction with the auditors' report, basic financial statements and the notes.

Overview of the Financial Statements

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

The Statement of Net 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, 2011 and 2010, 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.

Net Assets	FY 2011	FY 2010	% Change
Current assets, including restricted	$ 28,537,825	$ 23,239,257	22.80%
Property and equipment, net	406,316	411,328	-1.22%
Other assets	0	0	0.00%
Total assets	28,944,141	23,650,585	22.38%
Current liabilities, including restricted	26,847,732	21,515,998	24.78%
Long-term liabilities	0	0	0.00%
Total liabilities	26,847,732	21,515,998	24.78%
Net assets invested in capital assets, net of related debt	406,316	411,328	-1.22%
Net assets – unrestricted	1,690,093	1,723,259	-1.92%
Total net assets	**$ 2,096,409**	**$ 2,134,587**	**-1.79%**

Revenues, Expenses and Changes in Net Assets	FY 2011	FY 2010	% Change
Revenues – gas operations	$ 223,219,775	$ 218,926,903	1.96%
Revenues – service charge & other	1,560,036	1,517,411	2.81%
Total operating revenues	224,779,811	220,444,314	1.97%
Expenses - gas operations	223,219,775	218,926,903	1.96%
Expenses - general & administrative	1,603,003	1,583,784	1.21%
Depreciation & amortization	22,762	41,629	-45.32%
Total operating expenses	224,845,540	220,552,316	1.95%
Operating income	(65,729)	(108,002)	-39.14%
Interest & finance charge income	27,766	94,642	-70.66%
Gain (loss) on disposal of assets	(215)	(156)	37.82%
Change in net assets	**$ (38,178)**	**$ (13,516)**	**-182.47%**

Financial Highlights

- In fiscal year 2011, current assets increased by $5.3 million due to the increase in accounts receivable and storage inventory. Current liabilities increased by $5.33 million due mainly to the increase in accounts payable and deferred revenue related to storage inventory.
- Gas operating revenues and gas operating expenses both increased by $4.33 million and $4.29 million, respectively. Changes in gas prices are the major contributors to the differences in these accounts.
- FGU's interest income was $66 thousand lower in fiscal year 2011 than in fiscal year 2010. This change is due mainly to a decrease in interest rates.
- FGU's total change in net assets in fiscal year 2011 was a negative $38,178. As discussed in the Overview section above, FGU does not generally accumulate or expend significant amounts of net assets. FGU establishes its service charges based on revenue requirements.

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 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 2011, this project consisted of 12 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.

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
Statements of Net Assets
As of September 30, 2011

	Operating	All Requirements Project	Total
Assets			
Current Assets			
Cash and Cash Equivalents	$1,538,480	$2,697	$1,541,177
Accounts Receivable:			
Members	20,237,781	0	20,237,781
Project Participants	0	1,306,272	1,306,272
Customers	1,135,079	0	1,135,079
Other	206,344	0	206,344
Inventory	3,859,607	0	3,859,607
Prepaid Expenses	21,479	7,083	28,562
Due from Gas Operating Fund	0	47,955	47,955
Total Current Assets	26,998,770	1,364,007	28,362,777
Restricted Assets			
Cash and Cash Equivalents	175,048	0	175,048
Total Restricted Assets	175,048	0	175,048
Property and Equipment, Net of Accumulated Depreciation of $337,751	406,316	0	406,316
Total Assets	27,580,134	1,364,007	28,944,141
Liabilities and Net Assets			
Current Liabilities			
Trade	20,206,362	1,350,153	21,556,515
Other	1,080,896	6,771	1,087,667
Due to ARP Fund	47,955	0	47,955
Accrued Expenses	117,841	0	117,841
Deferred Revenue	3,859,607	7,083	3,866,690
Total Current Liabilities	25,312,661	1,364,007	26,676,668
Liabilities Payable from Restricted Assets			
Deposits Held	171,064	0	171,064
Total Liabilities Payable from Restricted Assets	171,064	0	171,064
Total Liabilities	25,483,725	1,364,007	26,847,732
Net Assets			
Invested in Capital Assets, Net of Related Debt	406,316	0	406,316
Unrestricted	1,690,093	0	1,690,093
Total Net Assets	$2,096,409	$0	$2,096,409

See accompanying notes

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended September 30, 2011

	Operating	All Requirements Project	Total
Operating Revenues			
Gas Operations	$202,259,974	$20,959,801	$223,219,775
Service Fees and Other	1,176,759	383,277	1,560,036
Total Operating Revenues	203,436,733	21,343,078	224,779,811
Operating Expenses			
Gas Operations	202,259,974	20,959,801	223,219,775
General and Administrative	1,219,726	383,277	1,603,003
Depreciation and Amortization	22,762	0	22,762
Total Operating Expenses	203,502,462	21,343,078	224,845,540
Operating (Loss) Income	(65,729)	0	(65,729)
Nonoperating Revenues/(Expenses)			
Interest Income	25,535	2,139	27,674
Finance Charge Income	70	22	92
Loss on Disposal of Assets	(215)	0	(215)
(Loss) Income Before Operating Transfers	(40,339)	2,161	(38,178)
Operating Transfers	2,161	(2,161)	0
Change in Net Assets	(38,178)	0	(38,178)
Total Net Assets, Beginning of Year	2,134,587	0	2,134,587
Total Net Assets, End of Year	$2,096,409	$0	$2,096,409

See accompanying notes

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2011

	Operating	All Requirements Project	Total
Cash Flows from Operating Activities			
Receipts from (Credits to) Members and Customers	$199,594,735	$21,340,634	$220,935,369
Payments to or for the Benefit of Employees	(1,197,782)	0	(1,197,782)
Payments to Suppliers	(199,137,291)	(20,984,262)	(220,121,553)
Internal Activity Between Funds	370,659	(370,659)	0
Net Cash Provided by (Used in) Operating Activities	(369,679)	(14,287)	(383,966)
Cash Flows from Noncapital Financing Activities			
Interfund Transfers	2,161	(2,161)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	2,161	(2,161)	0
Cash Flows from Capital and Related Financing Activities			
Purchase of Property and Equipment	(17,965)	0	(17,965)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(17,965)	0	(17,965)
Cash Flows from Investing Activities			
Interest Income Received	24,432	2,139	26,571
Finance Charge Income	70	22	92
Net Cash Provided by (Used in) Investing Activities	24,502	2,161	26,663
Net Increase (Decrease) in Cash and Cash Equivalents	(360,981)	(14,287)	(375,268)
Cash and Cash Equivalents, Beginning of Year	2,074,509	16,984	2,091,493
Cash and Cash Equivalents, End of Year	$1,713,528	$2,697	$1,716,225
Consisting of:			
Unrestricted Funds	$1,538,480	$2,697	$1,541,177
Restricted Funds	175,048	0	175,048
	$1,713,528	$2,697	$1,716,225

See accompanying notes

Florida Gas Utility
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2011

	Operating	All Requirements Project	Total
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating (Loss) Income	$ (65,729)	$ 0	$ (65,729)
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	22,762	0	22,762
Accounts Receivable	(3,841,997)	(2,444)	(3,844,441)
Inventory	(1,814,441)	0	(1,814,441)
Prepaid Expenses	1,345	(7,083)	(5,738)
Accounts Payable and Other Current and Restricted Liabilities	5,247,317	76,304	5,323,621
Due to/Due from	81,064	(81,064)	0
Net Cash Provided by (Used in) Operating Activities	$ (369,679)	$ (14,287)	$ (383,966)

See accompanying notes

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Florida Gas Utility (FGU) was created on September 1, 1989, to take advantage of opportunities made available by open access to natural gas transmission pipelines in the late 1980s. FGU is a public body corporate and politic pursuant to Section 163.01, Florida Statutes (the Florida Interlocal Cooperation Act), as amended, and the Interlocal Agreement, dated September 1, 1989, which was subsequently amended by the Amended Interlocal Agreement on June 1, 1992, amended and restated by the Amended and Restated Interlocal Agreement, dated July 1, 1996, which was subsequently amended and restated by the Second Amended and Restated Interlocal Agreement, dated July 27, 1999, and thereafter amended and restated by the Third Amended and Restated Interlocal Agreement, dated March 25, 2011, (the Interlocal Agreement), executed and delivered among FGU and its members, which include municipalities, municipal utilities, and an interlocal agreement agency consisting of such entities. Due to the diverse needs of municipal utility systems, FGU established itself as a project-oriented agency. Under this structure, each member has the option whether or not to participate in a project.

FGU has the authority to, among other things, plan, finance, acquire, construct, manage, operate, deliver, service, utilize, own, broker, exchange and distribute natural gas, or other energy and energy services pursuant to the Interlocal Agreement. As of September 30, 2011, FGU has 25 members.

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. The Operating fund accounts for general operations beneficial to all member systems except those members in the All Requirements Project. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 deferral has been recorded for inventory.

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 and a useful life greater than one year is capitalized at cost when purchased. Depreciation is recorded using the straight-line method. The estimated useful lives of the classes of depreciable assets are as follows:

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

Note 1. Summary of Significant Accounting Policies (Continued)

Property and Equipment (Concluded)

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.

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

Use of Estimates

In preparing FGU's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Price Risk Management

In November 2001, the Board of Directors gave FGU's General Manager the authority to, upon written directive by a member, execute Price Risk Management Financial Products, such as futures contracts, commodity swaps, and hedging arrangements related to the pricing or supply of gas. During fiscal year 2011, 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, 2011. The following table reflects the breakdown of each member's credit requirement through September 30, 2011, and their requirements beginning October 1, 2011. At the time these financial statements are issued, all members are in compliance with these requirements.

Note 1. Summary of Significant Accounting Policies (Concluded)

Credit Policy (Concluded)

Credit Enhancement Requirements

	Approved Level Fiscal Year 2011	Amount Beginning October 1, 2011
Blountstown	$ 39,000	$ 35,000
Chipley	31,000	31,000
Clearwater	1,514,000	1,399,000
Crescent City	27,000	26,000
DeFuniak Springs	76,000	67,000
FMPA Group	19,388,000	21,140,000
Ft. Meade	21,000	13,000
Ft. Pierce LDC	297,000	216,000
Homestead	356,000	335,000
Jay	14,000	12,000
Lake City	236,000	217,000
Lakeland	1,000,000	1,000,000
Leesburg	406,000	364,000
Live Oak	71,000	64,000
Marianna	130,000	116,000
Palatka	115,000	103,000
Perry	52,000	51,000
Starke LDC	49,000	40,000
Sunrise	331,000	298,000
Williston	20,000	21,000
Total	**$ 24,173,000**	**$ 25,548,000**

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.

As of September 30, 2011, FGU had no investments.

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

Restricted Assets

FGU's only 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, 2011, FGU held $175,048 in this account.

Due from/Due to Balances

As of September 30, 2011, there was a net amount of approximately $47,955 due to the ARP fund from the Gas Operating fund. Approximately $18,360 was due to the Gas Operating Fund for ARP fund's service charges. Approximately $68,500 of the amount due to the ARP fund are recovered gas costs that were collected in the Gas Operating fund but not transferred to ARP as of September 30, 2011. Another $2,161 is the amount of the annual operating transfer from ARP to the Gas Operating fund. The net amount was transferred in October 2011.

Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance at 9/30/2010	Additions	Disposals	Depreciation Expense	Balance at 9/30/2011
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	35,704	0	1,894	0	33,810
Office Equipment	26,042	0	2,868	0	23,174
Computer Equipment	110,494	3,837	3,142	0	111,189
Computer Software	71,970	1,081	0	0	73,051
Telephone Equipment	20,165	13,047	10,418	0	22,794
Appliance	2,026	0	0	0	2,026
Other Miscellaneous Property	782	0	290	0	492
Total	744,714	17,965	18,612	0	744,067
Accumulated Depreciation	(333,386)		18,397	(22,762)	(337,751)
Net Book Value of Fixed Assets	$ 411,328				$ 406,316

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, 2011, FGU maintained a designated working capital fund balance of approximately $498,024. FGU used $465,721 of the working capital reserve funds to purchase an office building in December 2001. This amount is being amortized over fifteen years and the working capital reserve fund will be completely replenished.

Note 2. Assets, Liabilities and Net Assets (Concluded)

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, 2011, the available amount of the line was $3,555,000. On October 1, 2011, this amount decreased to $3,289,000.

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 2011 was for $2,161 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 $49,000 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 Net Assets, was $85,406 for the year ended September 30, 2011.

Note 4. Major Customers

Five 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 79.3% of FGU's fiscal year 2011 operating revenues.

Note 5. Commitments and Contingencies

Transportation

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

Note 5. Commitments and Contingencies (Concluded)

Transportation (Concluded)

On October 1, 2009, FGT filed revised tariff sheets proposing to increase its rates and make certain changes to terms and conditions of service contained in the tariff. The proposed rates became effective April 1, 2010, subject to refund. After extensive settlement negotiations, FGT, its customers and the FERC staff reached a settlement of the rates and other changes. The settlement was approved by the Administrative Law Judge and became effective April 1, 2011, with refunds retroactive to April 1, 2010 for FTS-1 rates and October 1, 2010 for FTS-2 rates. The difference between the filed rates and the settlement rates was refunded by FGT. The refund for FTS-1 rates for April 1, 2010 through March 31, 2011, was $1,759,012. The refund for FTS-2 rates for October 1, 2010 through March 31, 2011 was $306,401. The refund was returned to FGU's members in June 2011 based on each member's pro rata share.

On June 1, 2005, FGU entered into agreements with eleven of its LDC members and Peoples Gas System (PGS) to convert the 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 members. These agreements were for an initial term of three years and have been extended for a term to coincide with the second successive FGT rate case.

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 in August 2011 and will expire on July 31, 2013. FGU releases up to 10,000 MMBtu per day for each month of the agreement. FGU has the ability to recall any amount of the capacity released should this capacity be needed. Infinite Energy, Inc. remarkets this capacity and pays FGU for any volumes used by Infinite Energy, Inc. to make a delivery that is not on behalf of FGU.

On May 1, 2011, FGU acquired capacity rights via a release from one of its members on Transcontinental Gas Pipe Line. Such capacity has been released through March 31, 2012 at a zero rate which makes the releasing member responsible for payment of the reservation charges but provides FGU the rights to manage the capacity. The capacity is 50,000 MMBtu per day.

Natural Gas Supply

On behalf of and at the specific direction of certain members, FGU has entered into firm gas supply agreements at fixed and floating prices. The terms and volumes of such agreements vary. The longest term currently in place is through July 31, 2015. Pursuant to FGU's policies and service agreements, each member or customer for whom a firm fixed or floating price contract was entered into is responsible for the cost of such gas under the terms of their gas services agreement with FGU.

Storage

FGU holds firm 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 has been released to FGU through March 31, 2012 at a zero rate which makes the releasing member responsible for payment of the reservation charges. This release provides FGU the rights to manage the capacity. The capacity was 500,000 MMBtu per month through April 2011, and increased to 1,000,000 MMBtu per month on May 1, 2011

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