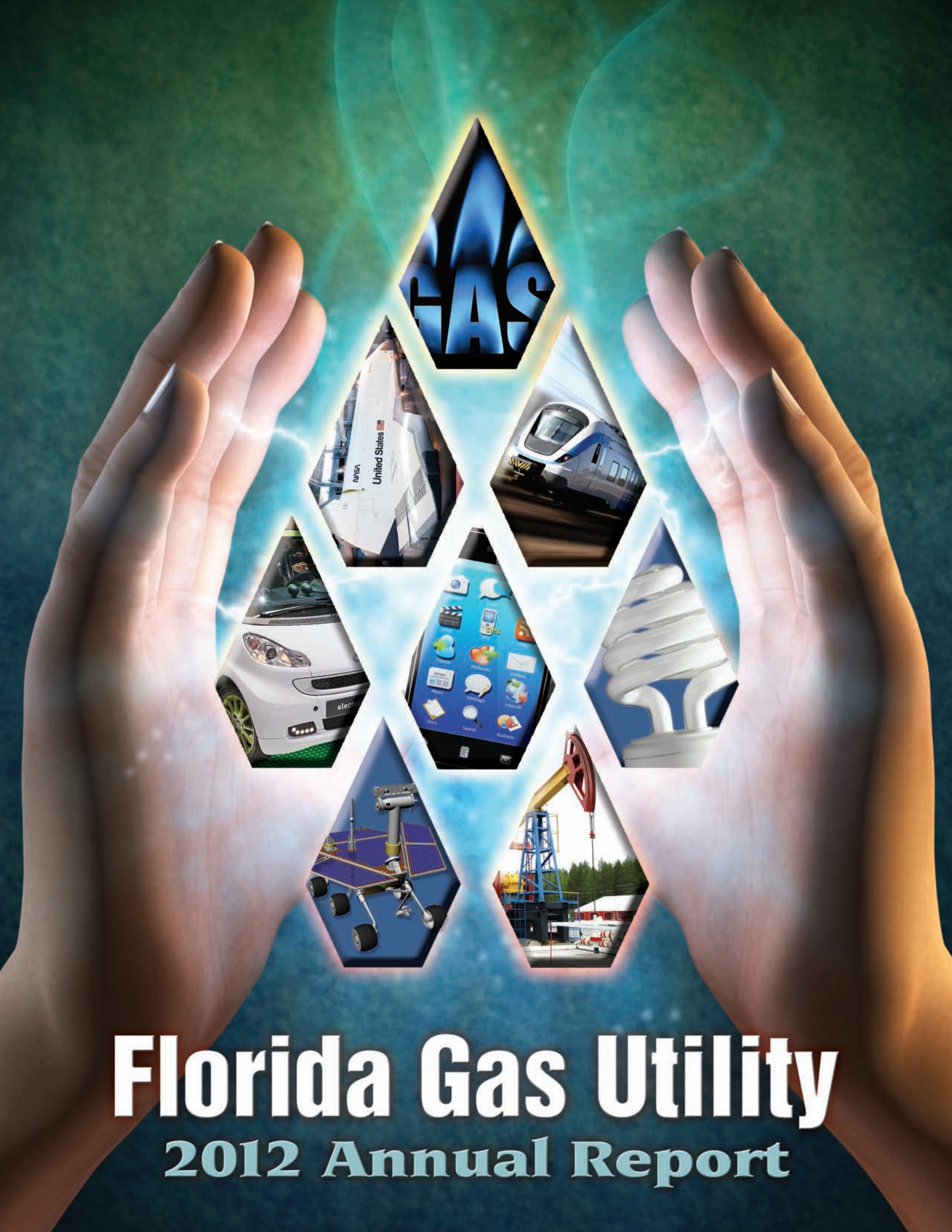


Florida Gas Utility

2012 Annual Report

Letter to Members

Evolutionary progressions give rise to diversity. These progressions can come from a dramatic overhaul due to a change in mechanisms or processes, or simply stem from a gradual directional change. Florida Gas Utility (FGU) has evolved since its inception to continue to meet the natural gas needs of its members throughout the state of Florida. FGU's adaptation to the ebb and flow of the Nation's natural gas supply has allowed it to capitalize on favorable markets and mitigate unfavorable ones. It has allowed FGU to be mutually beneficial to the smallest and largest members and accommodate their varied needs. FGU's progression has enabled it to attain economic value and cost savings to its members totaling $4.36 million for Fiscal Year 2012.

Although several facets of FGU have changed throughout its 23 years of existence, several goals will forever remain the same. FGU's main objective will always be to ensure that all of its members' gas supply needs are met and all related acquisition costs are minimized. FGU will continue to assure its members of competitively priced supply through its supply contracts with a substantial number of suppliers. And finally, costs will be minimized through effective management of pipeline capacity for and among its members.

Supply Cost and the Natural Gas Market

The most substantial landmark of Fiscal Year 2012 was that it brought the lowest natural gas price observed in over a decade. The boom in natural gas production along with another moderate winter triggered a steady decrease in price for seven straight months pushing prices below $2.00 per MMBtu in April. In the face of a moderate spring and summer as well as the lack of tropical storm activities, as gas-directed exploration and production fell and the large storage surplus flipped on gas-fired power demand, prices rebounded settling around $3.00 per MMBtu by the end of Fiscal Year 2012. The 12-month period saw a significantly lower than projected price in all months, as compared to the forward curve of gas prices at the beginning of the fiscal year. The average NYMEX monthly contracts closed at a price $1.46 per MMBtu lower than projections 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. The Phase VIII expansion as well as a 20% increase in members' own capacity usage limited resale opportunities for FGU members' excess capacity throughout Fiscal Year 2012. When market conditions presented opportunities, FGU was able to make significant recoveries on excess capacity along with benefitting from lower gas prices than expected for its membership throughout the year. The savings to the members resulting from transportation capacity management for Fiscal Year 2012 was approximately $3.5 million.

Notable Events

FGU and its members had some events worth mentioning in Fiscal Year 2012. A few of these events include the groundbreaking of the City of Marianna's Natural Gas Service Extension Project and the passing of the E-Meetings Bill.

Marianna Natural Gas Service Extension

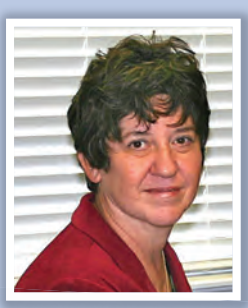
Marianna city officials gathered February 16, 2012 to break ground for the first phase of a major gas line extension project. The project will extend the existing service lines to potential customers along the SR 71/US 90/I-10 corridor. The three-phase project is expected to add 64,200 linear feet to the City's system. The first phase was completed August 2012 to serve Anderson Columbia. The natural gas services offered by the City of Marianna provide a cost-efficient energy alternative to citizens and businesses throughout the City.

E-Meetings Bill

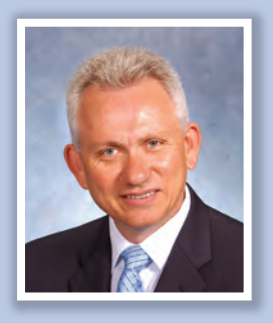
At FGU's initiative, a law was passed that will enable more governmental agencies to conduct public meetings using audio and video communication technology for enhanced efficiency and flexibility to meet citizens' needs. The Intergovernmental Cooperation law (CS/SB 396) enables governmental entities, such as FGU, that represent a geographically diverse membership to establish a quorum to conduct meetings using communications media technology. The ability to conduct public meetings using modern communication technology will enhance FGU's and other agencies' flexibility to conduct timely meetings on urgent matters. E-meeting technology also can reduce travel expenses and save time.

On a personal note, I'd like to take this opportunity to express my appreciation for the many years of loyal support from FGU's members. I have advised FGU's Board of Directors of my intent to retire next September, after serving 20 years as FGU's General Manager. It has been a most rewarding and fulfilling experience, and I am deeply grateful for the continued trust and confidence of FGU's members as shown through your loyalty to FGU. I am confident that FGU will continue to thrive under a new General Manager to be selected in the coming months, primarily because of the exceptional leadership of FGU's Board of Directors, representing its 25 members.

Sincerely,



Katrina V. Warren
General Manager



Larry Mattern
Chair

Marianna Groundbreaking Ceremony for their natural gas service extension along the SR 71 corridor.

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 10 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.

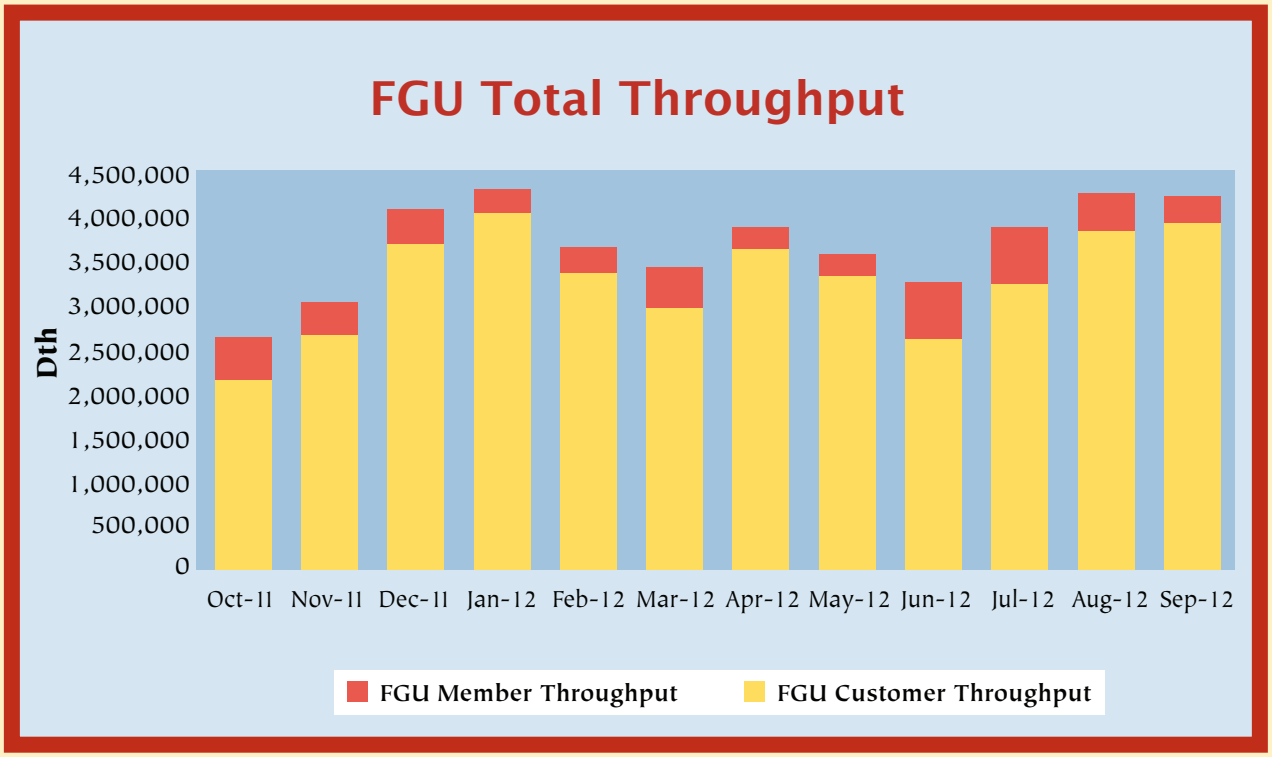
Natural Gas Supply and Pipeline Capacity

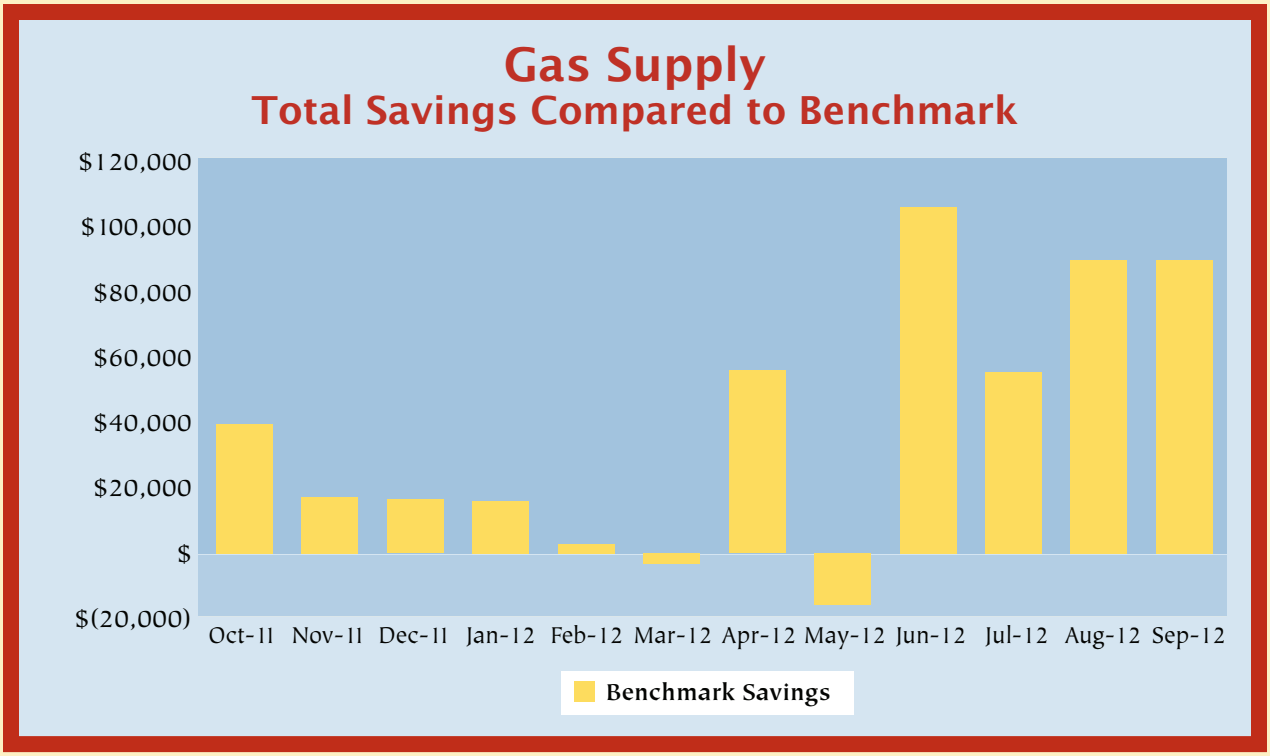
Natural Gas Throughput

FGU's total member natural gas throughput for FY 2012 was 39,162,349 Dths, an increase of 17.2% over FY 2011. Approximately 89% 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 4,646,508 Dth to non-members, generally associated with sales which utilized members' excess pipeline capacity. FGU's total combined throughput for FY 2012 was 43,803,857 Dth.

Natural Gas Cost

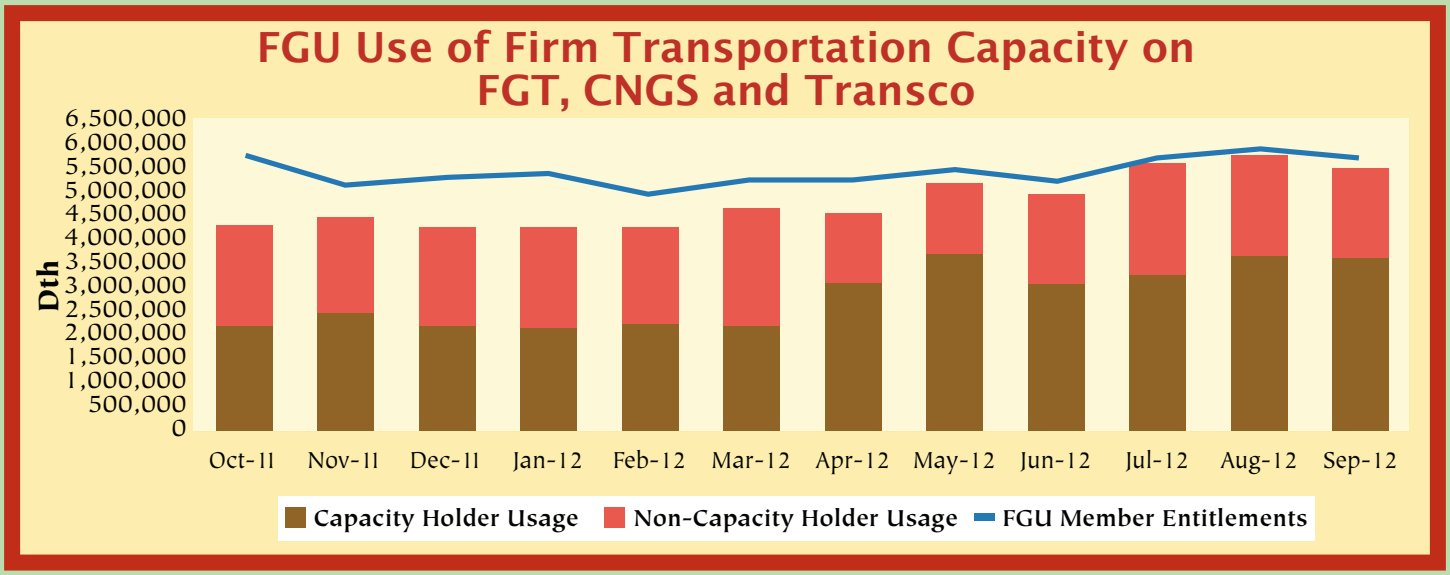
The cost of gas to each member is a combination of member-specific (direct) purchases and FGU's pooled purchases, purchased as base-load and supplemented with swing gas purchased on a daily basis. During Fiscal Year 2012, FGU purchased a total of 10,901,479 Dth of baseload gas at an average price that was $0.05 per Dth below FGU's benchmark, which is based on a commonly used index in the industry. FGU purchased 15,313,869 Dth of swing gas at a price that was $0.01 below FGU's benchmark. The total savings to FGU members compared to benchmark pricing for Fiscal Year 2012 of system supply gas was $770,177. The combined WACOG for system supply for FY 2012 was $2.72, which is $1.38 lower than FY 2011 and reflects a purchase of 26,215,348 Dth at a price of $0.0294 below FGU's benchmark.





Pipeline Capacity Management

The cost of pipeline capacity for transportation of natural gas 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.

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 85.8% of 45,860,890 Dth of firm entitlements on Florida Gas Transmission managed by FGU for its members and customers was utilized in Fiscal Year 2012. Of FGU's total entitlements, nearly 67.3% (30,874,141 Dth) was used by the primary capacity holder, with an additional 18.5% (8,499,938 Dth) being used by other members or third parties.

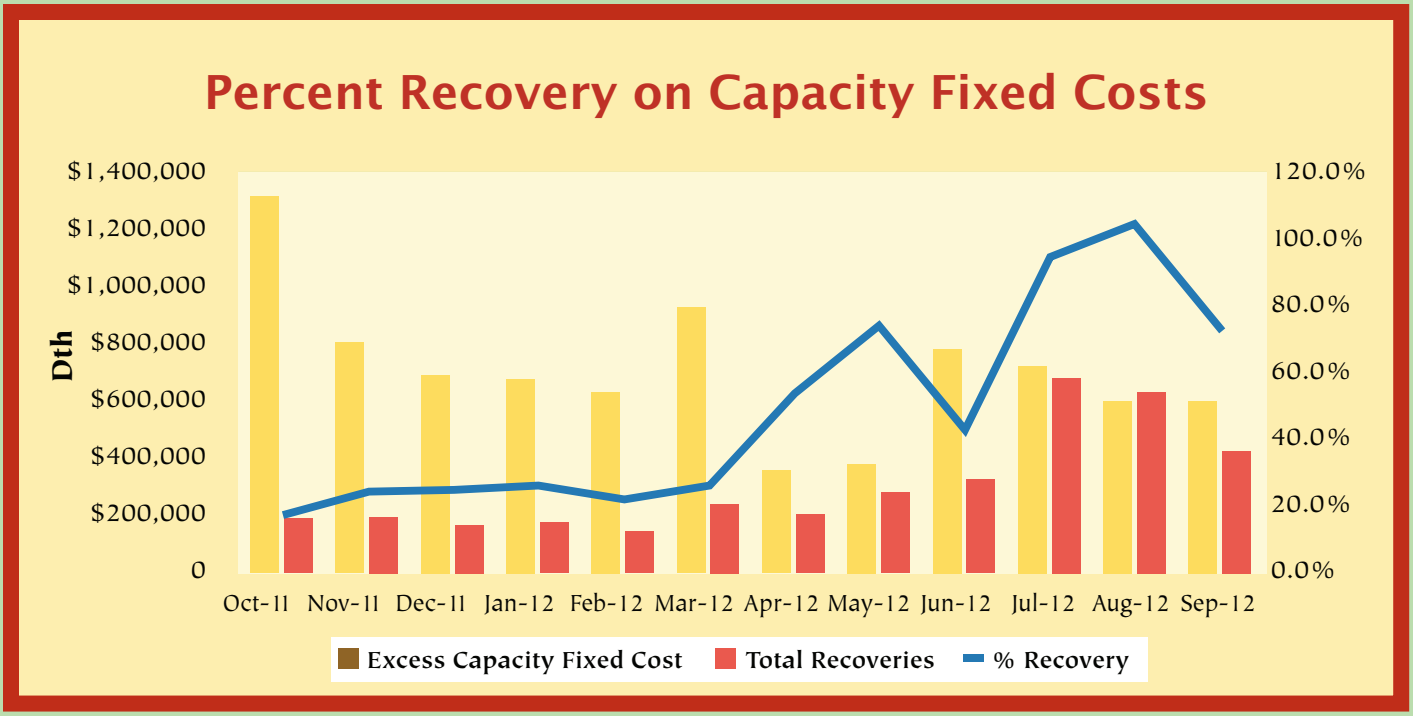
FGU also manages firm transportation entitlements on Transcontinental Gas Pipeline (Transco) for one of its members. Approximately 98% of 18,300,000 Dth of firm entitlements on Transco managed by FGU was utilized in Fiscal Year 2012. Of FGU's total Transco entitlements, just over 14% (2,536,919 Dth) was used by the primary capacity holder, with an additional 84% (15,338,673 Dth) being used by other members or third parties.

Total cost savings to the FGU members due to recoveries gained on sales or releases of excess transportation capacity on FGT was $2,110,376 for Fiscal Year 2012 – an average per Dth recovery of $0.25. Total cost savings to the FGU members due to recoveries gained on sales or releases of excess transportation capacity on Transco was $1,211,446 for Fiscal Year 2012 – an average per Dth recovery of $0.08. The Total Recovery of $3,321,822 represents 43.3% recovery of excess capacity sunk costs.

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.

Steve Letro, Meteorologist in Charge, National Weather Service.



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 2012 Annual Meeting held at the Don CeSar Hotel in St. Pete Beach, Florida. Informative and insightful speakers discussed a wide range of industry topics, including developments in the debate over the pros and cons of use of the fracking technology, regulatory and legislative updates, weather predictions, economic forecasts, and general natural gas industry 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 2012 at over $4.36 million.

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 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, LLP	Gainesville, FL	Independent Auditors

Florida Gas Utility

Members

L to R, Back row: Tammy Turnbull, Melanie Scott, Seth Jacobs, Lisa Marousky, Aaron Harris, Jenni Hodge.

Front Row: Katie Hennemann, Katrina Warren, Nancy Holloway, Renee Rollins.

INDEPENDENT AUDITORS' REPORT
Board of Directors and
Members of Florida Gas Utility
Gainesville, Florida

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, 2012, 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. 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, 2012, 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 November 28, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Purvis, Gray and Company, LLP

November 28, 2012

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, 2012. 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 reflects 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, 2012 and 2011, 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 2012	FY 2011	% Change
Current assets, including restricted	$ 21,961,627	$ 28,537,825	-23.04%
Property and equipment, net	411,500	406,316	1.28%
Other assets	0	0	0.00%
Total assets	22,373,127	28,944,141	-22.70%
Current liabilities, including restricted	20,355,501	26,847,732	-24.18%
Long-term liabilities	0	0	0.00%
Total liabilities	20,355,501	26,847,732	-24.18%
Net assets invested in capital assets, net of related debt	411,500	406,316	1.28%
Net assets – unrestricted	1,606,126	1,690,093	-4.97%
Total net assets	**2,017,626**	**$ 2,096,409**	-3.76%

Revenues, Expenses and Changes in Net Assets	FY 2012	FY 2011	% Change
Revenues – gas operations	$ 194,545,543	$ 223,219,775	-12.58%
Revenues – service charge & other	1,535,237	1,560,036	-1.59%
Total operating revenues	196,080,780	224,779,811	-12.77%
Expenses - gas operations	194,545,543	223,219,775	-12.85%
Expenses - general & administrative	1,634,319	1,603,003	1.95%
Depreciation & amortization	26,537	22,762	16.58%
Total operating expenses	196,206,399	224,845,540	-12.74%
Operating income (loss)	(125,619)	(65,729)	91.12%
Interest & finance charge income	46,486	27,766	67.42%
Gain (loss) on disposal of assets	350	(215)	37.82%
Change in net assets	**$ (78,783)**	**$ (38,178)**	**-106.36%**

Financial Highlights

- In fiscal year 2012, current assets decreased by $6.55 million due to the decrease in accounts receivable and storage inventory. Current liabilities decreased by $6.47 million due mainly to the decrease in accounts payable and deferred revenue related to storage inventory.
- Gas operating revenues and gas operating expenses both decreased by $28.70 million and $28.63 million, respectively. Changes in gas prices are the major contributors to the differences in these accounts.
- FGU's interest income was $18 thousand higher in fiscal year 2012 than in fiscal year 2011. This change is due mainly to a slight increase in interest rates.
- FGU's Other Income and Other Expense increased by $50,013. This amount represents FGU's share of a settlement between Bank of America Corporation (BAC) and the Attorneys General of 28 states related to alleged violations of state and federal antitrust and other laws by BAC during the period of 1997-2007. FGU was determined to be eligible to share in the settlement because of its investment of Reserve Funds associated with Gas Supply Acquisition Project #1 (GSAP#1). FGU refunded this amount to each of the GSAP#1 participants on a pro-rata basis of their GSAP#1 entitlement share.
- FGU's total change in net assets in fiscal year 2012 was a negative $78,783. 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 2012, 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
Statement of Net Assets
As of September 30, 2012

	Operating	All Requirements Project	Total
Assets			
Current Assets			
Cash and Cash Equivalents	$ 1,343,318	$ 902	$ 1,344,220
Accounts Receivable:			
Members	14,077,924	0	14,077,924
Project Participants	0	1,181,592	1,181,592
Customers	2,271,264	0	2,271,264
Other	241,078	254	241,332
Inventory	2,637,100	0	2,637,100
Prepaid Expenses	23,210	7,083	30,293
Due from ARP Fund	20,710	0	20,710
Total Current Assets	20,614,604	1,189,831	21,804,435
Restricted Assets			
Cash and Cash Equivalents	157,192	0	157,192
Total Restricted Assets	157,192	0	157,192
Property and Equipment, Net of Accumulated Depreciation of $354,478	411,500	0	411,500
Total Assets	21,183,296	1,189,831	22,373,127
Liabilities and Net Assets			
Current Liabilities			
Trade	15,454,218	1,162,038	16,616,256
Other	811,294	0	811,294
Due to Gas Operating Fund	0	20,710	20,710
Accrued Expenses	105,866	0	105,866
Deferred Revenue	2,637,100	7,083	2,644,183
Total Current Liabilities	19,008,478	1,189,831	20,198,309
Liabilities Payable from Restricted Assets			
Deposits Held	157,192	0	157,192
Total Liabilities Payable from Restricted Assets	157,192	0	157,192
Total Liabilities	19,165,670	1,189,831	20,355,501
Net Assets			
Invested in Capital Assets, Net of Related Debt	411,500	0	411,500
Unrestricted	1,606,126	0	1,606,126
Total Net Assets	$ 2,017,626	$ 0	$ 2,017,626

See accompanying notes

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended September 30, 2012

	Operating	All Requirements Project	Total
Operating Revenues			
Gas Operations	$ 177,747,261	$ 16,798,282	$ 194,545,543
Service Fees and Other	1,163,858	371,379	1,535,237
Total Operating Revenues	178,911,119	17,169,661	196,080,780
Operating Expenses			
Gas Operations	177,747,261	16,798,282	194,545,543
General and Administrative	1,262,940	371,379	1,634,319
Depreciation and Amortization	26,537	0	26,537
Total Operating Expenses	179,036,738	17,169,661	196,206,399
Operating (Loss) Income	(125,619)	0	(125,619)
Nonoperating Revenues/(Expenses)			
Interest Income	45,109	950	46,059
Other Income	50,013	0	50,013
Finance Charge Income	382	45	427
Other Expense	(50,013)	0	(50,013)
Gain on Disposal of Assets	350	0	350
(Loss) Income Before Operating Transfers	(79,778)	995	(78,783)
Operating Transfers	995	(995)	0
Change in Net Assets	(78,783)	0	(78,783)
Total Net Assets, Beginning of Year	2,096,409	0	2,096,409
Total Net Assets, End of Year	$ 2,017,626	$ 0	$ 2,017,626

See accompanying notes

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2012

	Operating	All Requirements Project	Total
Cash Flows from Operating Activities			
Receipts from (Credits to) Members and Customers	$ 183,900,057	$ 17,294,088	$ 201,194,145
Payments to or for the Benefit of Employees	(1,219,015)	0	(1,219,015)
Payments to Suppliers	(183,125,369)	(17,079,688)	(200,205,057)
Internal Activity Between Funds	216,195	(216,195)	0
Net Cash Provided by (Used in) Operating Activities	(228,132)	(1,795)	(229,927)
Cash Flows from Noncapital Financing Activities			
Interfund Transfers	995	(995)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	995	(995)	0
Cash Flows from Capital and Related Financing Activities Purchase of Property and Equipment	(31,371)	0	(31,371)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(31,371)	0	(31,371)
Cash Flows from Investing Activities			
Interest Income Received	45,108	950	46,058
Finance Charge Income	382	45	427
Net Cash Provided by (Used in) Investing Activities	45,490	995	46,485
Net Increase (Decrease) in Cash and Cash Equivalents	(213,018)	(1,795)	(214,813)
Cash and Cash Equivalents, Beginning of Year	1,713,528	2,697	1,716,225
Cash and Cash Equivalents, End of Year	$ 1,500,510	$ 902	$ 1,501,412
Consisting of:			
Unrestricted Funds	$1,343,318	$902	$1,344,220
Restricted Funds	157,192	0	157,192
	$ 1,500,510	$ 902	$ 1,501,412

See accompanying notes

Florida Gas Utility
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2012

	Operating	All Requirements Project	Total
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating (Loss) Income	$ (125,619)	$ 0	$ (125,619)
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	26,537	0	26,537
Accounts Receivable	4,988,938	124,426	5,113,364
Inventory	1,222,507	0	1,222,507
Prepaid Expenses	(1,730)	0	(1,730)
Accounts Payable and Other Current and Restricted Liabilities	(6,270,100)	(194,886)	(6,464,986)
Due to/Due from	(68,665)	68,665	0
Net Cash Provided by (Used in) Operating Activities	$ (228,132)	$ (1,795)	$ (229,927)

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, 2012, 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 contained in the FASB, Accounting Standards Codification (ASC) 980, *Regulated Operations,* 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 (ARP). The 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 2012, 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, 2012, and their requirements beginning October 1, 2012. 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 2012	Amount Beginning October 1, 2012
Blountstown	$ 35,000	$ 24,000
Chipley	31,000	19,000
Clearwater	1,399,000	1,104,000
Crescent City	26,000	14,000
DeFuniak Springs	67,000	37,000
FMPA Group	21,140,000	16,664,000
Ft. Meade	13,000	7,000
Ft. Pierce LDC	216,000	182,000
Homestead	335,000	110,000
Jay	12,000	8,000
Lake City	217,000	153,000
Lakeland	1,000,000	0
Leesburg	364,000	256,000
Live Oak	64,000	46,000
Marianna	116,000	89,000
Palatka	103,000	70,000
Perry	51,000	36,000
Starke LDC	40,000	26,000
Sunrise	298,000	214,000
Williston	21,000	13,000
Total	**$ 25,548,000**	**$ 19,072,000**

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, 2012, 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, 2012, FGU held $157,192 in this account.

Due from/Due to Balances

As of September 30, 2012, there was a net amount of $20,710 due from the ARP fund to the Gas Operating fund. Approximately $18,100 was due to the Gas Operating fund for ARP fund's service charges. Approximately $1,600 of the amount due to the Gas Operating fund are supply costs that were paid out of the Gas Operating fund but not reimbursed by ARP as of September 30, 2012. Another $995 is the amount of the annual operating transfer from ARP to the Gas Operating fund. The net amount was transferred in October 2012.

Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance at 9/30/2011	Additions	Disposals	Depreciation Expense	Balance at 9/30/2012
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	33,810	0	1,154	0	32,656
Office Equipment	23,174	0	0	0	23,174
Computer Equipment	111,189	7,739	8,656	0	110,272
Computer Software	73,051	23,982	0	0	97,033
Telephone Equipment	22,794	0	0	0	22,794
Appliance	2,026	0	0	0	2,026
Other Miscellaneous Property	492	0	0	0	492
Total	744,067	31,721	9,810	0	765,978
Accumulated Depreciation	(337,751)		9,810	(26,537)	(354,478)
Net Book Value of Fixed Assets	$406,316				$411,500

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, 2012, FGU maintained a designated working capital fund balance of approximately $577,914. 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 Revolving Taxable Certificate of Indebtedness in the maximum principal amount of $5,000,000 with SunTrust Bank (All Requirements LOC) with variable rate terms. From inception, there has been no activity on this line of credit. As of September 30, 2012, the available amount of the line was $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 (Systemwide LOC). 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.

On June 8, 2012, the Board of Directors accepted the Credit Committee's recommendation to combine the All Requirements LOC in the maximum principal amount of $5,000,000 and the $15,000,000 Systemwide LOC into one combined bank line of credit and reduce the total outstanding amount of the combined line of credit to $7,500,000. The Board of Directors simultaneously approved Resolution No. 2012-01 authorizing Revolving Credit Taxable Certificate of Indebtedness, Series 2012 in the maximum principal amount of $7,500,000 with SunTrust Bank with an effective date of October 1, 2012. As of October 1, 2012, $1,742,000 of the $7,500,00 bank line of credit is allocated to fulfill the credit enhancement requirements of the All Requirements Project participants.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2012 was for $995 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 $90,488 for the year ended September 30, 2012.

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 81.7% of FGU's fiscal year 2012 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.

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, 2013 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, 2013 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 is 1,000,000 MMBtu per month.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