Florida
GAS UTILITY

2015
ANNUAL REPORT


FOUNDATION

Letter to Members

LAYING THE FOUNDATION

Service and bringing value to our Members. That's what Florida Gas Utility (FGU) does and what is expected of us. Fundamentally, this has not changed since our inception in 1989. However, much has changed in the natural gas industry... and it is not slowing down. While continuing to serve the needs of Members and bring outstanding value is very challenging during the best of times, it is more difficult in the industry environment that we find ourselves in now. That's why 2015 was such an important year for FGU. In order to proactively prepare for the future, FGU focused on building the basic infrastructure of the organization. The centerpiece was the development of a Strategic Plan, the first formal effort completed by the organization. Without a Strategic Plan, it is very difficult to ensure that we are doing the right things for our Members. There is probably no more important plan that an organization has than a Strategic Plan. In addition to defining our mission, the plan provides both short and long-term goals designed to continue to achieve superior results for our Members.

But our work did not stop here. We successfully upgraded our core information technology (IT) hardware systems. FGU has entered into a contractual relationship with an IT company to provide expertise and support for our current and future requirements. We also have streamlined one of our most important processes: creditworthiness of suppliers and other third-party providers. Prior to implementing our current relationship with a third-party credit expert, FGU utilized significant internal resources to constantly monitor activities to determine the financial condition and risk of doing business with each of our counterparties. Under the new arrangement, this work is done for us and we are notified promptly of all credit related activities for our specified list of entities that we monitor. Between the IT and credit outsourcing, significant internal time savings have been created, allowing FGU to focus more on our core activities that bring significant value to our Members.

In 2015, FGU also focused on becoming more engaged with our Members, most notably with our largest Member, Florida Municipal Power Agency (FMPA). We now meet monthly for discussions on pertinent industry-related

"Without a solid foundation, you'll have trouble creating anything of value."

— Unknown

MISSION

opportunities, as they specifically relate to FMPA. This type of dialogue creates a forum where both FGU and its Members can proactively identify specific services that maximize the value of FGU membership. In general, FGU is getting more involved. FGU will continue to focus on improving relationships with Members in the coming year, as it directly relates to one of our Strategic Plan goals for 2016.

As we navigate through the paradigm shift in the industry, FGU has concentrated on finding additional value for Members beyond the traditional gas supply and capacity management services. We have been steadily adding to our palette of services offered to our Members, all of which are already included in their service charges. FGU's list of services has become quite robust, ranging from project management to sales, marketing and public awareness programs. The early results are favorable, as Members are taking advantage of the new service offerings and extracting even more value from their membership. FGU is continuing to actively work with Members to tailor plans that enhance the value of their existing natural gas assets.

One of the more sought after services this year was our project management. FGU provides a solid platform of services including contract negotiations, engineering coordination and construction management. The installation of a six mile, six-inch HDPE distribution main that FGU managed for the City of Lake City was successfully completed in early 2015. FGU began managing another project later in the year for the City of Crescent City. This project is the first of three phases that will relocate the primary gas main for the City during an FDOT road widening project. Due to the success achieved and value added, FGU anticipates other Members will take advantage of this service over time.

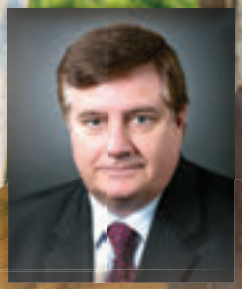
Another highly beneficial service FGU began offering to Members is performing rate studies. FGU can analyze Members' expenses, financial obligations, delivery system and market demand to determine the appropriate amount of revenues needed to meet the Member's requirements. In 2015, FGU completed a rate study for Palatka Gas Authority and began one for DeFuniak Springs. Additionally, FGU is now calculating the Purchase Gas Adjustment (PGA) monthly rate for the City of Lake City. There is real logic and science to the development of customer

rates, and FGU's job is to make it a win-win for everyone involved.

FGU is very excited to announce our new sales and marketing program that we have been diligently working on this year. Several Members have expressed interest in sales and marketing assistance, and FGU is eager to see this high-value service in action in 2016. By analyzing the most beneficial and lucrative target markets, FGU will help Members formulate smart and appropriate approaches to optimize their sales and marketing strategies. FGU understands that each of our Members have their own focus areas for sales and marketing activities and, with this service offering, FGU will be able to create targeted programs specific to each Member's unique needs. The roll-out of this new service is widely anticipated by Members in 2016.

As FGU looks forward to the promise of 2016, we would like to recognize the smooth transition to our current Chairman of the Board of Directors, Mr. Brian Langille, representing Clearwater Gas System. Mr. Langille brings a wealth of knowledge of the natural gas industry and is dedicated to the success of FGU. We look forward to working with Mr. Langille during his term as Chairman.

Sincerely,



Thomas A. Geoffroy
General Manager

Brian Langille
Chair

"When you discover your mission, you will feel its demand. It will fill you with enthusiasm and a burning desire to get to work on it."

— W. Clement Stone

Paradigm Shift, Strategic Plan, and Value-Added

PARADIGM SHIFT

Over the past several years, a paradigm shift in the natural gas production segment has resulted in relatively stable and low natural gas prices. In large part, this is a result of the development of several shale gas plays through the hydraulic fracturing, or "fracking", process. Additionally, significant increases in available pipeline capacity in Florida has occurred through expansions of existing pipelines and the planned Sabal Trail and Florida Southeast Connection pipelines. With these advances in supply and infrastructure, FGU has determined that it needs to look at how it has been conducting business and what direction it should take going forward.

STRATEGIC PLAN

In 2015, FGU developed a Strategic Plan to reflect the new reality in the Florida natural gas market and chart an appropriate course of action. With guidance from the Strategic Planning Committee, FGU successfully completed the Strategic Plan, including the following new mission and vision statements, values, and goals of the organization:

- **Mission:** To provide comprehensive and reliable natural gas services to its Members at a competitive price
- **Vision:** To be the preferred provider of natural gas services for its Members
- **Values:** Integrity, Commitment to Service, and Fiscal Responsibility
- **Goals:**
  - Continuously improve industry knowledge
  - Communicate industry-related opportunities and provide guidance to our Members
  - Enhance value to our Members

With this plan now in place, Staff is working diligently to achieve the above goals and fulfill our mission to our Members.

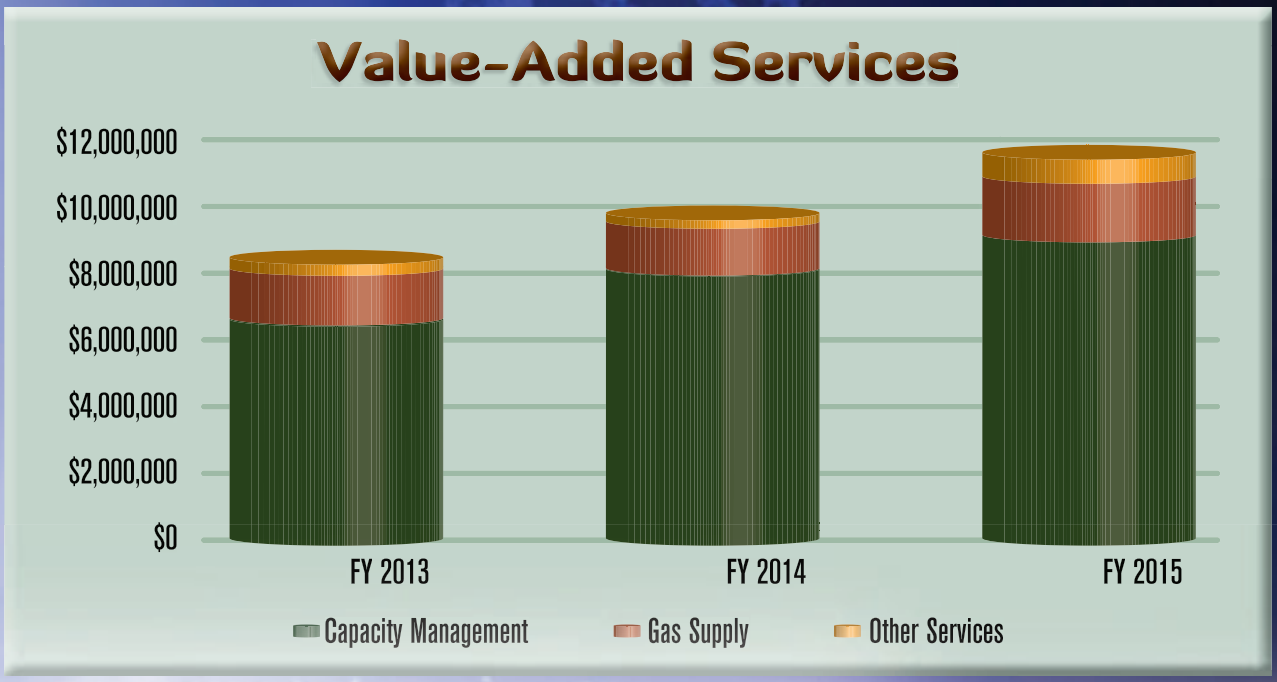
VALUE-ADDED

Traditionally, FGU's value-added chart focused on gas supply and capacity management activities that produced virtually all of the value FGU brought to Members. However, with the additional services now offered to Members, the value equation is now enhanced. After a thorough review of all of the services that bring value to Members, Staff determined that the following three categories are where value is created for Members:

1. Capacity Management
2. Gas Supply
3. Other Services

Capacity Management

Pipeline capacity may not be something you can see, hear, smell, taste or feel, but in the natural gas industry, you have to have it. Pipeline capacity



is simply space inside a piece of pipe, and all FGU Members have to have it in order to reliably transport their gas supply to the point of use. With the diversity found amongst FGU Members, many Members have more capacity than they need, while others need additional capacity from time-to-time. Because our Members have aggregated their capacity contracts with FGU, we are able to efficiently and effectively utilize all of the pipeline capacity assets. As shown in the chart, Capacity Management services accounts for 79% of our 2015 value added, saving our Members almost $9 million. FGU's efficient utilization of pipeline capacity is essential in achieving our mission of providing natural gas at competitive prices to our Members.

Gas Supply

Members have historically also received significant savings in the cost of natural gas by being aggregated on FGU contracts. As the fifth largest shipper on the Florida Gas Transmission (FGT) pipeline, FGU's volume purchases allow it to achieve significant savings for Members, when compared to industry benchmarks. In 2015, these savings totaled approximately $1.8 million. However, due to the paradigm shift in the natural gas production sector, FGU recognizes that it needs to adapt in order to be able to continue to bring gas supply savings to Members.

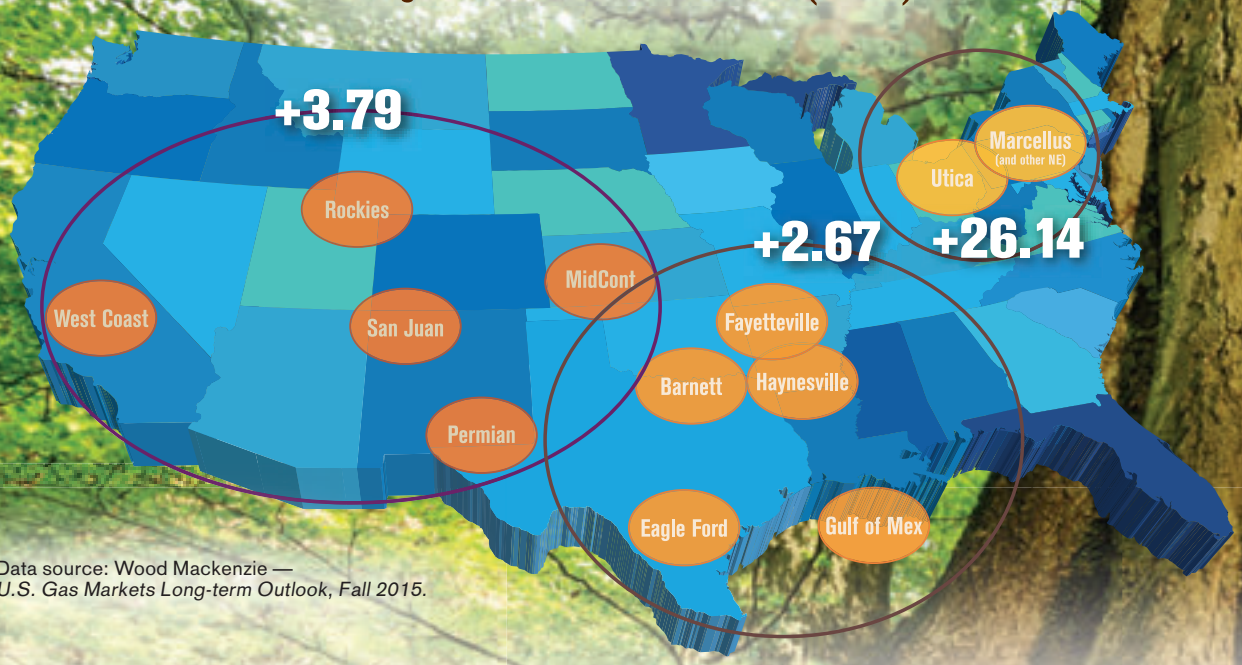
The future outlook for natural gas supply has changed significantly due to the shale gas plays. This is evident in the supply and demand growth projections between 2015 and 2025, where fore-

"If you are working on something exciting that you really care about, you don't have to be pushed. This vision pulls you."

— Steve Jobs

Supply Growth

Change between 2015 and 2025 (BCF/d)



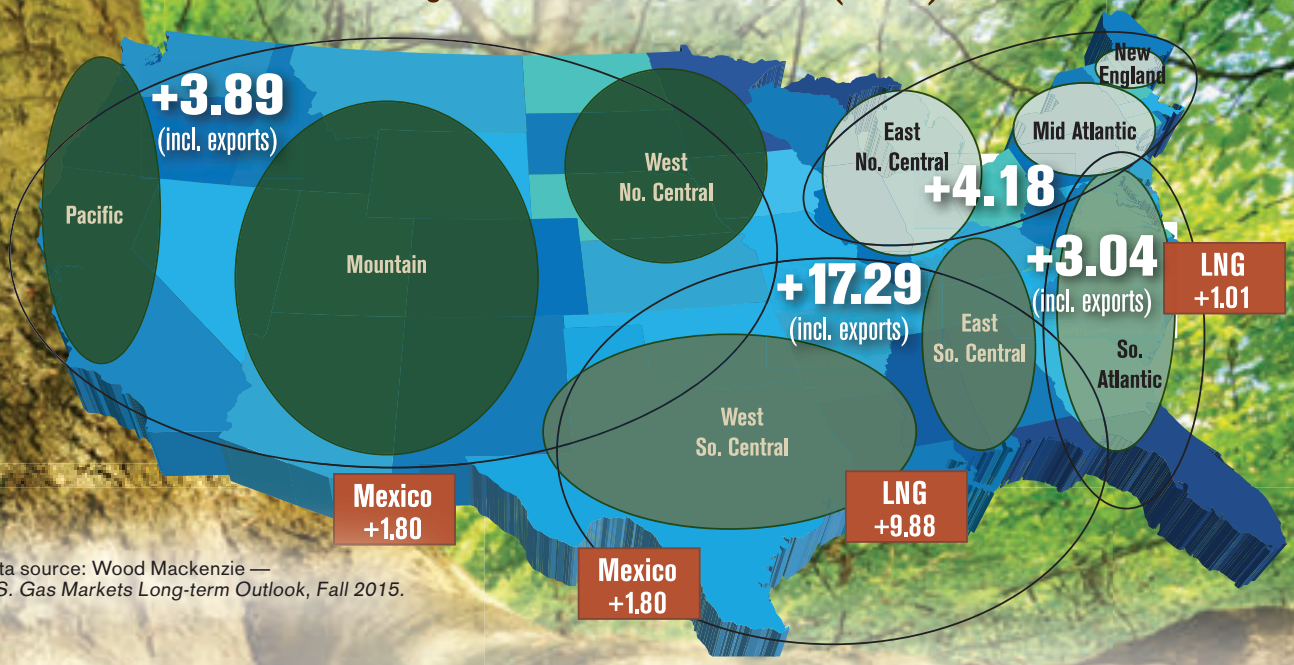
Data source: Wood Mackenzie —
U.S. Gas Markets Long-term Outlook, Fall 2015.

casts predict that the Northeast production areas will more than double their output. Over the same time period, demand growth is expected to dramatically increase along the Gulf Coast, due to exports to Mexico, LNG exports and a return of manufacturing plants. Traditionally, natural gas has flowed north from the Gulf Coast, but due to the Northeast supply forecasts, FGU believes that the flow of natural gas will move south. FGU is positioning itself to be able to access these lower-cost supply sources and move this gas to Florida for the benefit of our Members.

Other Services

Services outside the traditional gas related categories are included in the Other Services category. Regulatory representation, rate studies, project management, and sales and marketing assistance are examples of some of the services offered to Members.

Members routinely benefit from joint regulatory representation during FGT rates cases, which usually occur every 4-5 years. Most recently, FGT filed a rate case on October 31, 2014. Since then, FGU has been working diligently to ensure that the outcome of the case is favorable for our Members. A settlement was reached in September 2015 by all parties, and FERC issued an order on December 4, 2015 approving, without modification, the Settlement Agreement. One of the major benefits achieved by FGU in this case is the ability, but not the obligation, for Members



Data source: Wood Mackenzie —
U.S. Gas Markets Long-term Outlook, Fall 2015.

to adjust their capacity levels that meet their current and future needs. Staff is currently working with each of our Members to determine the specific quantities of pipeline capacity to be adjusted. The effective date of the Settlement Agreement is February 1, 2016.

In 2015, FGU initiated several of these Other Services for Members, including project management and rate studies. The results for 2015 show that these Other Services generated about $0.6 million in value to Members. FGU's first opportunity to provide project management services was with the City of Lake City for the installation of a 6 mile 6" HDPE natural gas distribution main to provide service to an asphalt plant, now the City's largest customer. A second project is now underway with the City of Crescent City. FGU also assisted Palatka Gas Authority with a rate study in 2015. The results of the study were approved by Palatka's Board and put into place at the beginning of October 2015. FGU provides assistance to the City of Williston on its Public Awareness Program, which is a comprehensive plan designed to comply with the Florida Public Service Commission's regulations in accordance with the standards set forth in the Recommended Practice 1162 (RP1162).

FGU will continue to focus on our new mission and goals as we move into FY 2016, bringing substantial value to all Members.

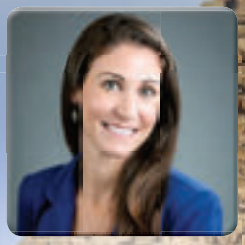
"Try not to become a man of success, but rather try to become a man of value."

— Albert Einstein

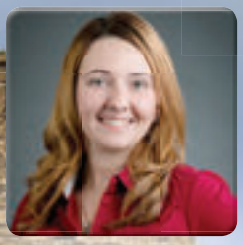
STAFF

Tom Geoffroy
General Manager
& CEO

MEMBER SERVICES DEPARTMENT



Katie Hall
Member Services
Manager



Melanie Scott
Member Services
Specialist

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Controller

Tammy Turnbull
Sr. Accounting
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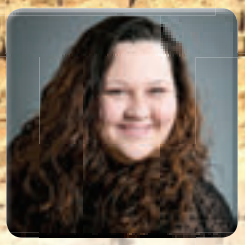
Vacant
Accounting Analyst

OPERATIONS DEPARTMENT

Seth Jacobs
Operations Director



Jenni Sweat
Trader

Renee Rollins
Scheduler

Vacant
Energy Analyst

Florida Gas Utility Members

Florida
GAS UTILITY

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, 2015, and the related notes to the financial statements, which collectively comprise FGU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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, 2015, 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.

Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT *(Concluded)*

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, on our consideration of FGU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FGU's internal control over financial reporting and compliance.

Purvis, Gray and Company, LLP

December 7, 2015
Gainesville, Florida

Management's Discussion and Analysis

The management of Florida Gas Utility (FGU) provides readers of FGU's financial statements this discussion and analysis of the financial activities of FGU for the fiscal year ended September 30, 2015. This information should be read in conjunction with the auditors' report, basic financial statements, and the notes.

Overview of the Financial Statements

FGU utilizes fund accounting to comply with Governmental Accounting Standards Board (GASB) and finance-related legal requirements, consistent with governments and other special agencies or districts. FGU currently has two proprietary funds, the Operating fund and the All Requirements Project fund. Each of these funds has the same basic business purpose - to provide natural gas to FGU's members, customers, and project participants. Each of these funds is described in detail in the "Individual Funds" section below.

The Statement of Net Position reports on all of FGU's assets and liabilities, with the differences between the two reported as net position. Due to the not-for-profit nature of FGU, its net position will not accumulate significantly over time. FGU passes through operational expenses to its members, customers, and project participants as incurred with no built-in profit. FGU funds its administrative and general costs through a service charge. When actual administrative and general costs do not equal actual service charge revenues for the year, it results in a change of net position (positive or negative). The factors that contribute to the change in net position will be discussed in the "Financial Highlights" section below.

The Statement of Revenues, Expenses, and Changes in Net Position reflects how FGU's net position 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.

The Statement of Cash Flows were presented using the direct method and outline the sources and uses of cash as resulting from operations, non-capital related financing, capital related financing, and investing activities.

Current Year vs. Prior Year Comparison

The following combined, condensed financial information compares, in summary, the financial condition and operations of FGU for the years ended September 30, 2015 and 2014, respectively. The combined information should be read cautiously when evaluating FGU's financial position due to the legal separation that must be maintained between each fund.

Net Position	FY 2015	FY 2014	% Change
Current assets, including restricted	$ 19,102,983	$ 26,837,195	-28.8%
Property and equipment, net	400,432	372,807	7.4%
Total assets	19,503,415	27,210,002	-28.3%
Current liabilities, including restricted	17,501,803	25,244,053	-30.7%
Total liabilities	17,501,803	25,244,053	-30.7%
Net position invested in capital assets, net of related debt	400,432	372,807	7.4%
Net position – unrestricted	1,601,180	1,593,142	0.5%
Total net assets	$ 2,001,612	$ 1,965,949	1.8%

Management's Discussion and Analysis *(Concluded)*

Revenues, Expenses and Changes in Net Position	FY 2015	FY 2014	% Change
Revenues – gas operations	$ 185,711,443	$ 265,212,340	-30.0%
Revenues – member special services	1,652,856	252,087	555.7%
Revenues – service charge and other	1,786,505	1,615,388	10.6%
Total operating revenues	189,150,804	267,079,815	-29.2%
Expenses - gas operations	185,711,443	265,212,340	-30.0%
Expenses - administrative and general	1,750,080	1,585,693	10.4%
Expenses - member special services	1,652,856	252,087	555.7%
Depreciation and amortization	32,829	32,119	2.2%
Total operating expenses	189,147,208	267,082,239	-29.2%
Operating income	3,596	(2,424)	248.3%
Interest and finance charge income	4,128	5,673	-27.2%
Other income and other expense, net	31,700	78,055	-59.4%
Gain (loss) on disposal of assets	(3,761)	(168)	2138.7%
Change in net position	$ 35,663	$ 81,136	-56.0%

Financial Highlights

- In fiscal year 2015, current assets decreased by $7.7 million primarily due to the decrease in cash of $0.8 million, the decrease in storage inventory of $0.6 million and the decrease in accounts receivable of $6.0 million. Current liabilities decreased by $7.7 million primarily due to the decrease in Inventory Held for Members of $0.6 million and the decrease in accounts payable of $7.2 million.
- Gas operating revenues and gas operating expenses both decreased by $79.5 million. The decrease in gas prices and volumes are the major contributor to the decrease in these accounts.
- In fiscal year 2014, FGU began providing special services to its members. Member Special Services revenues and expenses include costs associated with managing Member specific projects. Three projects were completed for one member in fiscal year 2015. A project for a second member began near the end of the fiscal year. As of September 30, 2015, FGU was managing special projects for one member.
- FGU's total change in net position in fiscal year 2015 was a positive $35,663 as compared to a positive $81,136 in fiscal year 2014. The decrease in the change in net position is primarily due to the decrease in other income as compared to fiscal year 2014, a decrease of $46,355. As discussed in the "Overview of the Financial Statements" section above, FGU does not generally accumulate or expend significant amounts of net position. FGU establishes its service charges based on revenue requirements.

Individual Funds

The Operating fund accounts for general operations beneficial to all members not participating in the All Requirements Project. All of FGU's administrative expenses are paid out of the Operating fund and allocated to the other funds. The Operating fund is FGU's only fund that accumulates net position. Refer to the discussion of net position above.

The All Requirements Project (ARP) fund accounts for the operations beneficial to those members that participate in FGU's All Requirements Project. This project began in March 2002. At the end of fiscal year 2015, this project consisted of 11 members. The ARP has no accumulated net position since any excess revenues are transferred to the Operating fund to offset future service charges.

Contact Information

This financial report is designed to provide a general overview of FGU's finances. Questions concerning any of the information provided in this report should be addressed to Florida Gas Utility, Financial Services Department, 4619 N.W. 53rd Avenue, Gainesville, Florida 32653.

Florida Gas Utility
Statement of Net Position
As of September 30, 2015

	Operating	All Requirements Project	Total
Assets			
Current Assets			
Cash and Cash Equivalents	$ 1,407,263	$ 5,647	$ 1,412,910
Accounts Receivable:			
Members	12,571,087	0	12,571,087
Project Participants	0	1,097,815	1,097,815
Customers	847,867	0	847,867
Other	364,676	7,320	371,996
Notes Receivable	30,000	0	30,000
Inventory	2,088,585	0	2,088,585
Prepaid Expenses	24,202	7,083	31,285
Due from ARP Fund	35,230	0	35,230
Total Current Assets	17,368,910	1,117,865	18,486,775
Restricted Assets			
Cash and Cash Equivalents	616,208	0	616,208
Total Restricted Assets	616,208	0	616,208
Property and Equipment, Net of Accumulated Depreciation of $307,783	400,432	0	400,432
Total Assets	18,385,550	1,117,865	19,503,415
Liabilities and Net Position			
Current Liabilities			
Trade	13,065,516	1,072,407	14,137,923
Other	522,462	3,145	525,607
Due to Operating Fund	0	35,230	35,230
Accrued Expenses	93,251	0	93,251
Inventory Held for Members	2,088,585	7,083	2,095,668
Short Term Obligations	30,000	0	30,000
Total Current Liabilities	15,799,814	1,117,865	16,917,679
Liabilities Payable from Restricted Assets			
Deposits Held	584,124	0	584,124
Total Liabilities Payable from Restricted Assets	584,124	0	584,124
Total Liabilities	16,383,938	1,117,865	17,501,803
Net Position			
Invested in Capital Assets, Net of Related Debt	400,432	0	400,432
Unrestricted	1,601,180	0	1,601,180
Total Net Position	$ 2,001,612	$ 0	$ 2,001,612

See accompanying notes

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2015

	Operating	All Requirements Project	Total
Operating Revenues			
Gas Operations	$ 168,484,873	$ 17,226,570	$ 185,711,443
Member Special Services	1,652,856	0	1,652,856
Service Fees and Other	1,202,068	584,437	1,786,505
Total Operating Revenues	171,339,797	17,811,007	189,150,804
Operating Expenses			
Gas Operations	168,484,873	17,226,570	185,711,443
Administrative and General	1,165,643	584,437	1,750,080
Member Special Services	1,652,856	0	1,652,856
Depreciation and Amortization	32,829	0	32,829
Total Operating Expenses	171,336,201	17,811,007	189,147,208
Operating (Loss) Income	3,596	0	3,596
Nonoperating Revenues/(Expenses)			
Interest Income	3,437	432	3,869
Other Income	28,846	2,854	31,700
Finance Charge Income	256	3	259
(Loss) on Disposal of Assets	(3,761)	0	(3,761)
Income Before Operating Transfers	32,374	3,289	35,663
Operating Transfers	3,289	(3,289)	0
Change in Net Position	35,663	0	35,663
Total Net Position, Beginning of Year	1,965,949	0	1,965,949
Total Net Position, End of Year	$ 2,001,612	$ 0	$ 2,001,612

See accompanying notes

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2015

	Operating	All Requirements Project	Total
Cash Flows from Operating Activities			
Receipts from (Credits to) Members and Customers	$ 177,481,573	$ 18,040,158	$ 195,521,731
Payments to or for the Benefit of Employees	(1,202,535)	0	(1,202,535)
Payments to Suppliers	(177,567,676)	(17,574,860)	(195,142,536)
Internal Activity Between Funds	467,980	(467,980)	0
Net Cash Provided by (Used in) Operating Activities	(820,658)	(2,682)	(823,340)
Cash Flows from Noncapital Financing Activities			
Interfund Transfers	3,289	(3,289)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	3,289	(3,289)	0
Cash Flows from Capital and Related Financing Activities			
Proceeds from Short-term Obligations	30,000	0	30,000
Purchase of Property and Equipment	(64,215)	0	(64,215)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(34,215)	0	(34,215)
Cash Flows from Investing Activities			
Interest Income Received	3,438	430	3,868
Other Income	28,847	2,854	31,701
Finance Charge Income	256	3	259
Net Cash Provided by (Used in) Investing Activities	32,541	3,287	35,828
Net Increase (Decrease) in Cash and Cash Equivalents	(819,043)	(2,684)	(821,727)
Cash and Cash Equivalents, Beginning of Year	2,842,514	8,331	2,850,845
Cash and Cash Equivalents, End of Year	$ 2,023,471	$ 5,647	$ 2,029,118
Consisting of:			
Unrestricted Funds	$ 1,407,263	$ 5,647	$ 1,412,910
Restricted Funds	616,208	0	616,208
	$ 2,023,471	$ 5,647	$ 2,029,118

See accompanying notes

Florida Gas Utility
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2015

	Operating	All Requirements Project	Total
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating (Loss) Income	$ 3,596	$ 0	$ 3,596
Adjustments to Reconcile Operating (Loss) Income to Net Cash Flows from Operating Activities:			
Depreciation and Amortization	32,829	0	32,829
Accounts Receivable	6,141,777	229,152	6,370,929
Inventory	553,566	0	553,566
Prepaid Expenses	(6,328)	0	(6,328)
Accounts Payable and Other Current and Restricted Liabilities	(7,540,415)	(237,517)	(7,777,932)
Due to/Due from	(5,683)	5,683	0
Net Cash Provided by (Used in) Operating Activities	$ (820,658)	$ (2,682)	$ (823,340)

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 has been amended several times, the most recent being the Third Amended and Restated Interlocal Agreement, dated March 25, 2011, (the Interlocal Agreement), executed and delivered among FGU and its members, which include municipalities, municipal utilities, and an interlocal agreement agency consisting of such entities. Due to the diverse needs of municipal utility systems, FGU established itself as a project-oriented agency. Under this structure, each member has the option 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, 2015, FGU has 22 members.

The accounting and reporting policies of FGU conform with the accounting rules prescribed by the Governmental Accounting Standards Board (GASB).

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. Since the FGU Board of Directors has the authority to set rates, FGU follows GASB regulated guidance in GASB 62, *Codification of Accounting and Financial Reporting Guidance* Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which provides the reporting of assets and liabilities consistent with the economic effect of the rate structure.

Fund Accounting

FGU maintains its accounts on a fund basis. The Operating fund accounts for general operations beneficial to all members except those members in the All Requirements Project (ARP). The ARP fund accounts for operations beneficial to the members participating in the ARP. Interproject transactions, revenues, and expenses are not eliminated.

Budget

As required by the Interlocal Agreement, FGU adopts an annual budget, prepared on a basis consistent with generally accepted accounting principles and covenants contained in any bond indenture. The budget is submitted by the General Manager and approved by the Board of Directors.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in a money market deposit account and in investments having an original maturity of less than three months. Such investments are considered cash equivalents.

Inventory

Inventory consists of natural gas in storage and is recorded using the weighted average index price method. An offsetting liability is recorded for inventory. As of September 30, 2015, FGU had inventory of $2,088,585.

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 Peoples Gas System's (PGS) 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
Computer Software	3 Years

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

Note 1. Summary of Significant Accounting Policies (Continued)

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 2015, no amounts were paid or received 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 initial 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 the 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, 2015. The following table reflects the breakdown of each member's credit requirement through September 30, 2015, and their requirements beginning October 1, 2015. 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 Enhancement Requirements

	Approved Level Fiscal Year 2015	Amount Beginning October 1, 2015
Blountstown	$ 29,000	$ 21,000
Chipley	22,000	17,000
Clearwater	1,265,000	1,076,000
Crescent City	17,000	16,000
DeFuniak Springs	60,000	44,000
FMPA Group	21,516,000	17,448,000
Ft. Pierce LDC	229,000	175,000
Homestead	128,000	96,000
Jay	10,000	7,000
Lake City	244,000	164,000
Lakeland	0	0
Lake Worth	0	0
Leesburg	332,000	215,000
Live Oak	56,000	45,000
Marianna	125,000	111,000
OUC	0	0
Palatka	91,000	68,000
Perry	49,000	34,000
Starke LDC	29,000	22,000
Sunrise	303,000	218,000
Williston	19,000	18,000
Total	$ 24,524,000	$ 19,795,000

The Credit Policy was revised at the June 27, 2014 Board of Directors meeting with an effective date of the later of October 1, 2014, or upon approval by the Executive Committee of the Credit Policy Operating Procedures. The effective date was November 1, 2014, consistent with the Executive Committee approval. There were no changes to Member or Affiliate requirements. The revisions to the Credit Policy establish the following objectives to FGU suppliers and counterparties: (1) allow FGU to make informed decisions as to the credit worthiness of a Counterparty, (2) maintain better control over cash flows, (3) minimize losses to FGU and Members from Counterparty defaults, and (4) provide for Member directives to extend additional credit to specified Counterparties and assume responsibility for the additional credit.

Note 2. Assets, Liabilities and Net Position

Cash, Cash Equivalents and Investments

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

- FGU's deposits are covered by the Federal Deposit Insurance Corporation. At September 30, 2015, FGU had cash account balances in excess of FDIC limits. Management does not believe that this is a significant risk. None of FGU's deposits are exposed to foreign currency risk.
- Investments made in the Operating fund and ARP fund are subject to FGU's Investment Policy and to Florida state law.

As of September 30, 2015, FGU had no investments.

Restricted Assets

FGU's 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 and amounts held in the Member Special Projects Account. At September 30, 2015, FGU held $616,208 in these accounts.

Note Receivable

On June 5, 2015, the Board of Directors approved Resolution 2015-02, approving short term advances to the City of Crescent City (Crescent City) to fund the relocation costs of its gas transmission line in connection with a road widening project conducted by Florida Department of Transportation. Crescent City signed a Commercial Note and Loan Agreement with FGU on August 11, 2015. At September 30, 2015, the Note Receivable was $30,000.

Due from/Due to Balances

As of September 30, 2015, there was a net amount of $35,230 due from the ARP fund to the Operating fund. Approximately $31,100 was due to the Operating fund for ARP fund's service charges. Another $4,100 is the amount of supply costs that were paid out of the Operating fund but not reimbursed by ARP as of September 30, 2015, and the annual operating transfer from ARP to the Operating fund. The net amount was transferred in October 2015.

Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Balance at 9/30/2014	Additions	Disposals	Depreciation Expense	Balance at 9/30/2015
Assets Not Being Depreciated:					
Land	$ 129,500	$ 0	$ 0	$ 0	$ 129,500
Assets Subject to Depreciation:					
Office Building	348,031	19,936	894	0	367,073
Office Furniture	24,457	0	1,726	0	22,731
Office Equipment	32,232	10,628	4,221	0	38,639
Computer Equipment	119,071	29,756	85,884	0	62,943
Computer Software	103,795	3,895	45,167	0	62,523
Telephone Equipment	22,794	0	276	0	22,518
Appliance	2,026	0	0	0	2,026
Other Miscellaneous Property	492	0	230	0	262
Total	782,398	$ 64,215	138,398	0	708,215
Accumulated Depreciation	(409,591)		$ 134,637	$ (32,829)	(307,783)
Net Book Value of Fixed Assets	$ 372,807				$ 400,432

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

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, transportation and other 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. The service charge is based on estimated annual operating expenses and anticipated sales volumes. As of September 30, 2015, FGU maintained a designated working capital fund balance of approximately $515,548. 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.

Lines of Credit

On June 8, 2012, the Board of Directors accepted the Credit Committee's recommendation to combine the All Requirements Project Line of Credit (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, 2015, $1,711,000 of the $7,500,000 bank line of credit is allocated to fulfill the credit enhancement requirements of the All Requirements Project participants.

On September 11, 2015, the Board of Directors approved Resolution 2015-03 authorizing the use of Revolving Credit Taxable Certificate of Indebtedness to fund certain working capital loans to members. As of September 30, 2015, the outstanding balance advanced for a member was $30,000.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2015 was for $3,289 from the All Requirements Project fund to the Operating fund. This amount represents all interest earned, finance charges, and other income 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 $53,000 per year. FGU's contributions generally become fully vested to employees after three years of employment. Contribution expense, included in administrative and general expenses on the accompanying Statement of Revenues, Expenses, and Changes in Net Position, was $66,166 for the year ended September 30, 2015.

Note 4. Major Customers

Five of FGU's members are part of the Florida Municipal Power Agency's (FMPA) All Requirements Project. Revenues from this group make up approximately 82.74% of FGU's fiscal year 2015 operating revenues.

Note 5. Commitments and Contingencies

Transportation

FGU holds firm transportation agreements (FTS-1, FTS-2, and SFTS) with FGT. The FTS 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. The SFTS agreements support the four FGU members that converted to this service during fiscal year 2015.

On September 22, 2014, FGU entered into two agreements for eleven of its members with gas distribution systems with PGS to relinquish FTS-1 capacity to PGS and then buy the capacity back from PGS on an as needed basis for the members. The contract requires the capacity be relinquished in the months October through April only. The term of the agreements is October 1, 2015 through September 30, 2016. The two PGS agreements contain provisions that, if executed, would extend these agreements for an additional two years.

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 has been extended since such initial term and will expire on July 31, 2017. 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 to FGU through October 31, 2017, 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 October 31, 2020. 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 held firm storage capacity rights in Southern Pines Energy Center through a release from one of FGU's members and these rights coincide with the original terms of the underlying member's contract. The capacity was released to FGU through October 31, 2017, at a zero rate, which made the releasing member responsible for payment of the reservation charges. This release provided FGU the rights to manage the storage capacity. The storage capacity is 1,000,000 MMBtu per month.

6. Subsequent Events

Florida Gas Transmission Rate Case

On October 31, 2014, FGT filed revised tariff sheets proposing to change its rates and make certain modifications to the General Terms and Conditions section of its tariff. During fiscal year 2015, all parties who participated in the filing met frequently to negotiate the proposed changes that were filed by FGT. As a result of these efforts, a Settlement Agreement (Settlement) was reached by all parties to the proceeding in July 2015 and filed with FERC in September 2015. FERC approved the Settlement, without modification, in its Order issued on December 4, 2015, with an effective date of February 1, 2016. Consistent with the terms of the Settlement, FGT did not place its filed rates into effect, thus the pre-existing tariff rates remain in effect until the Settlement rates go into effect. The 100% load factor Settlement rates are: FTS-1 $0.5674 per MMBtu, FTS-2 $0.6674 per MMBtu, and SFTS $1.1192 per MMBtu, which will be put into place prospectively on February 1, 2016.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