



Florida Gas Utility

2005 Annual Report



LETTER TO THE MEMBERS

Once again, our focus during the past year has been on the devastating impacts of hurricanes. While Florida sustained less direct damage during the 2005 hurricane season than in 2004, the impacts of the record breaking 2005 storms were nonetheless far reaching from Florida through the Gulf coast, causing significant damage to natural gas and oil production infrastructure. The resulting price impacts were felt nationwide with record high natural gas prices. The actual shortages of natural gas delivered to FGU's members were minimal due to the dedication and excellence of FGU's operations staff in managing the challenges of extreme supply disruptions. Each of the past several years has presented unique challenges to the stability and affordability of natural gas. FGU's staff and management remains committed to managing the challenges in such a manner as to provide the lowest cost natural gas supply while maintaining a suitable level of reliability and deliverability.

Prices reported as daily averages for FGU's system supply in '04-'05 ranged from a low of \$5.14/Dth to a high of \$17.46/Dth. Another year of such extreme volatility in gas prices has prompted the need for pro-active steps to assure the long-term availability and stability of natural gas supplies. FGU's focus on long-term supplies is evidenced by two major initiatives. FGU is a founding partner in Public Gas Partners, which was formally constituted in November 2004. As described more fully in the body of the report, PGP expects to provide long-term supplies for its participants primarily through the acquisition and ownership of natural gas reserves. In addition to PGP, FGU's staff and advisors began evaluating proposals for the prepayment of a portion of its members' requirements using tax-exempt revenue bonds to finance the acquisition, similar to the GSAP#1 project in 1998.

One of FGU's biggest challenges is appropriate allocation of costs among its membership. We face a heightened challenge due to the large diversity in size of our members. Placed into effect for Fiscal Year 2005, FGU's Board of Directors adopted a new cost allocation recovery mechanism that addresses and corrects certain inequities that had developed over time as FGU's membership grew.

In addition to providing natural gas supply management to its members, FGU offers assistance to its members in a variety of other ways. Examples of such assistance during the past year have been facilitating specialized price risk management strategies and evaluation and implementation of cost recovery mechanisms for individual member systems to assure complete recovery of natural gas costs in today's volatile price environment. FGU also assumes an active involvement in state and federal regulatory issues on behalf of its members. One such important issue during the past year was the overhaul of the State of Florida's Gross Receipts Tax billing methodology.

FGU's Staff and Management look forward to the coming year and the opportunities for improved supply and transportation capacity management services and expanding related services to its membership. As always, we sincerely appreciate the confidence and cooperation of our members and remain committed to the achievement of excellence in both service and effective gas supply and transportation capacity management for our members and customers.


Joseph L. Cone
Chair


Katrina R. Vaughan
General Manager

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.

FGU ORGANIZATION, MANAGEMENT, AND SERVICES

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

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

Since its creation in 1989, FGU's membership has grown to now include 23 municipal utilities or agencies. The size and flexibility resulting from FGU's membership provides savings and efficiency, as well as increased standing with suppliers, pipelines and regulatory agencies.

FGU SCHEDULING SERVICES

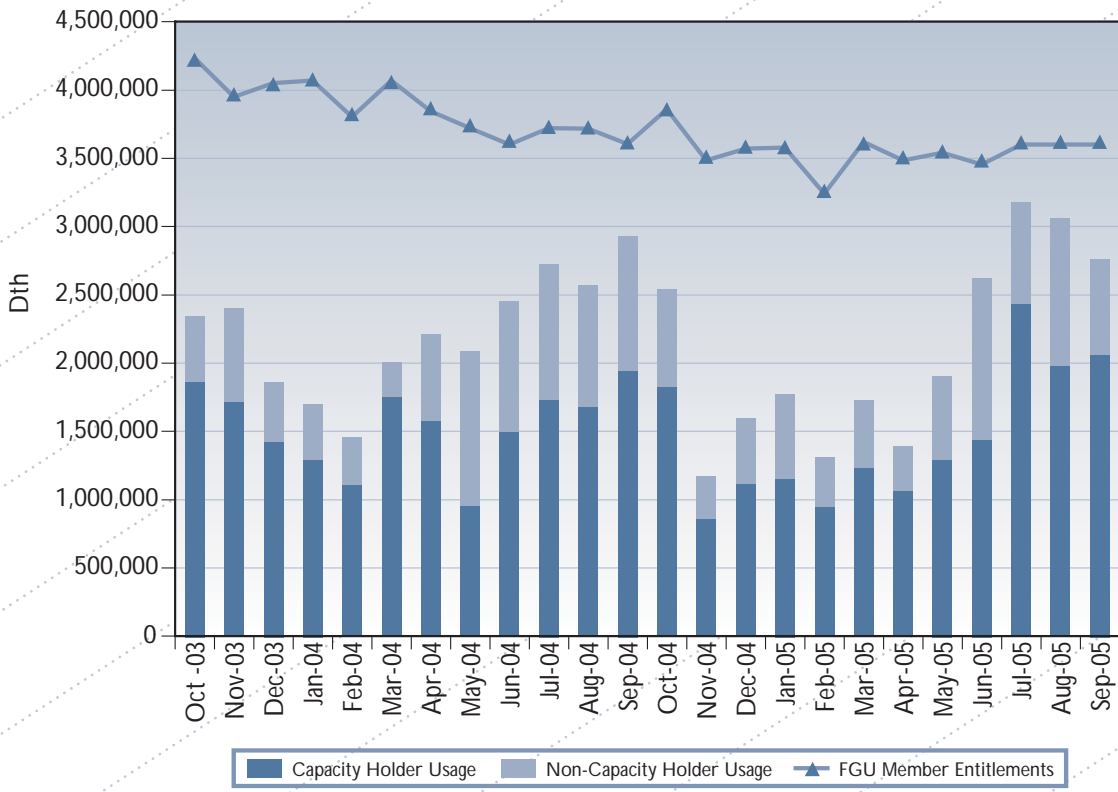
FGU considers historical gas usage, current and forecast weather conditions, accumulated monthly imbalances, and member-provided anticipated changes in fuel requirements on a daily basis to forecast consumption and make appropriate nominations to minimize pipeline imbalances and non-compliance penalties on transporting pipelines.



FGU TRANSPORTATION CAPACITY MANAGEMENT

Efficient utilization of transportation entitlements is one of the primary services provided by FGU. In addition to re-allocation of excess entitlements among the membership, FGU actively pursues daily, monthly, and long-term opportunities to use or relinquish any remaining excess capacity to third parties.

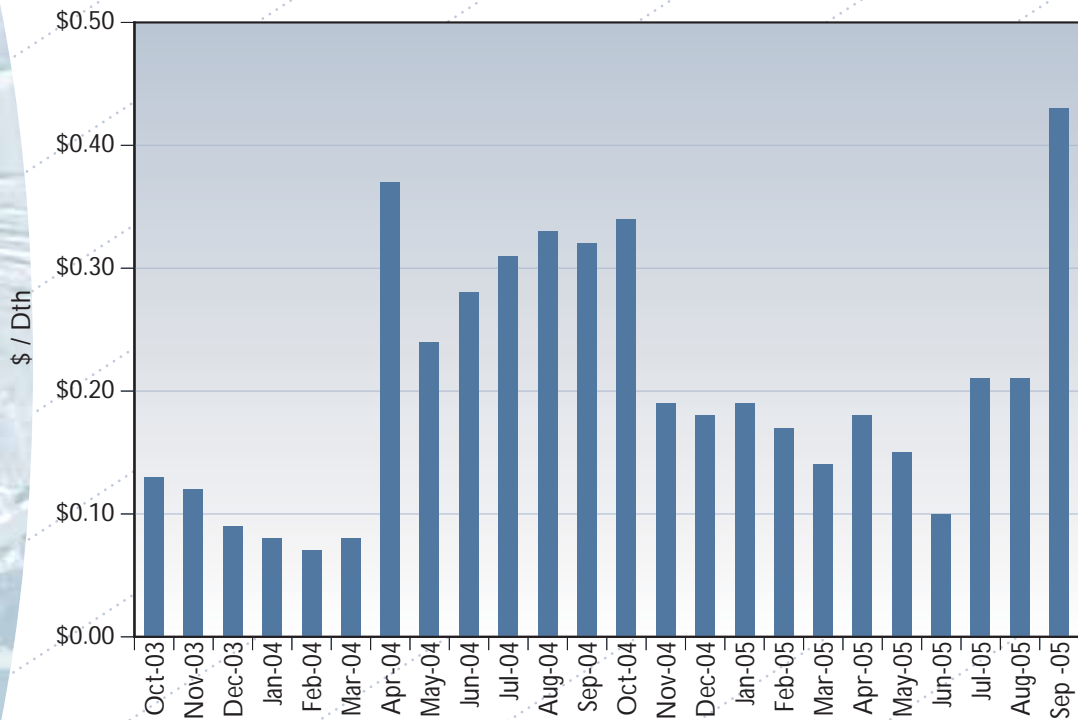
FGU Use of Firm Transportation Capacity



Approximately 59 percent of 42,643,256 Dth of firm entitlements on Florida Gas Transmission managed by FGU for its members and customers was utilized in Fiscal Year 2005. Of FGU's total entitlements, 17,508,820 Dth (about 41 percent) were used by the primary capacity holder, while 7,615,234 Dth (about 18 percent) were allocated to other members or third parties. Total cost savings to the FGU members and customers due to recoveries gained on sales or releases of excess transportation capacity was \$1,488,449 for Fiscal Year 2005 – a per Dth recovery of about \$0.21.

FGU also manages firm transportation entitlements on Gulfstream Natural Gas for one of its members.

FGU Recovery on Excess Capacity

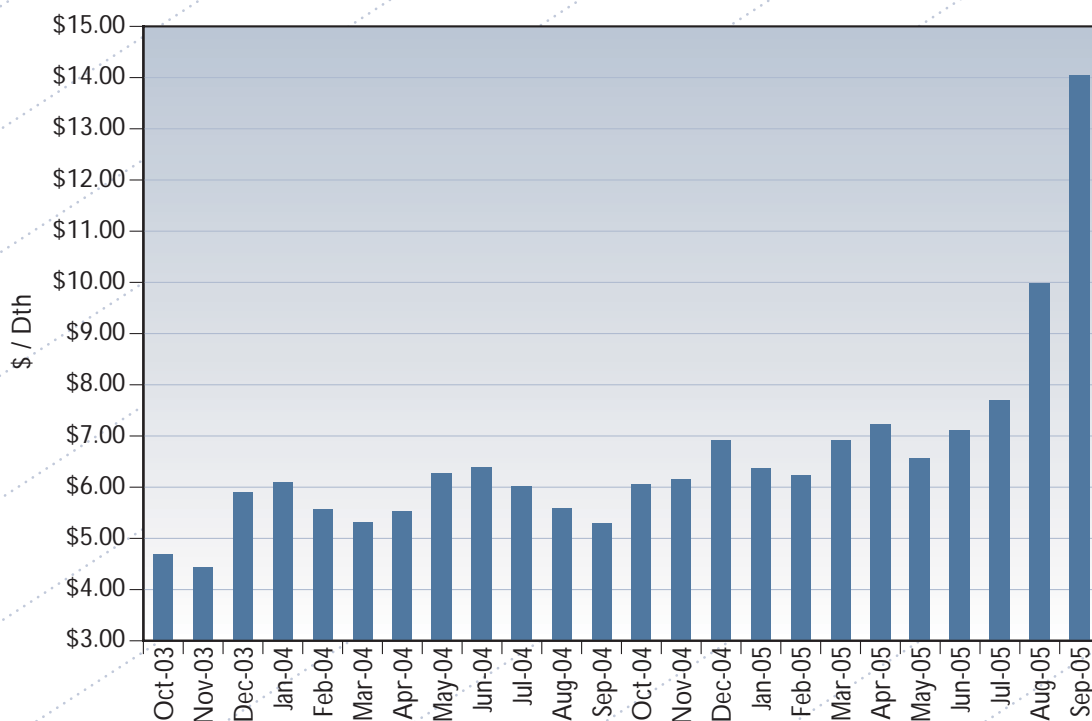


FGU GAS ACQUISITION

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

In addition to the cost of member-specific purchases of baseload gas, members are allocated their proportionate share of FGU's aggregated monthly purchases. These aggregated purchases, which typically blend some amount of monthly and daily acquisitions, comprise the FGU "system supply". FGU's weighted average cost for system supply during Fiscal Year 2005 was \$7.89 per Dth – a \$2.33 increase above the previous fiscal year system supply weighted average cost of \$5.56 per Dth.

FGU System Supply Cost



GAS SUPPLY ACQUISITION PROJECT

A key component of FGU's gas acquisition portfolio is the tax-exempt revenue bond-financed Gas Supply Acquisition Project ("GSAP"). FGU's GSAP contract, under which participants began taking deliveries in December 1998, assures firm supplies of gas at a below-market price. Participants in the ten-year project have contracted for delivery of over 5.9 million Dth of GSAP gas per year at a discount of about \$0.19 compared to a standard Florida first of the month price index. By the end of Fiscal Year 2005, participants had taken delivery of GSAP gas for 82 of the 120 months of the project – resulting in cumulative cost savings to project participants in excess of \$7.8 million compared to market prices.

PUBLIC GAS PARTNERS

FGU and six other public gas and electric agencies in six different states have formed Public Gas Partners, Inc. ("PGP"), the first-of-its-kind regional gas supply agency. PGP will secure economical, long-term wholesale natural gas supplies for its seven member agencies to stabilize and reduce the cost of natural gas for the mutual benefit of all their customers. The innovative partnership among governmental entities was motivated by the common need for a long-term, secure stream of economical natural gas supplies. By pooling the natural gas needs of its members, PGP will acquire producing reserves or other long-term gas supplies and create discounts and economies of scale for everyone in the group, and in turn, their customers. The members anticipate acquiring a portfolio of long-term supplies primarily made up of producing natural gas reserves. The group favors a portfolio approach to diversify assets and mitigate risk associated with long-term supplies.

MEMBER GAS CONSUMPTION

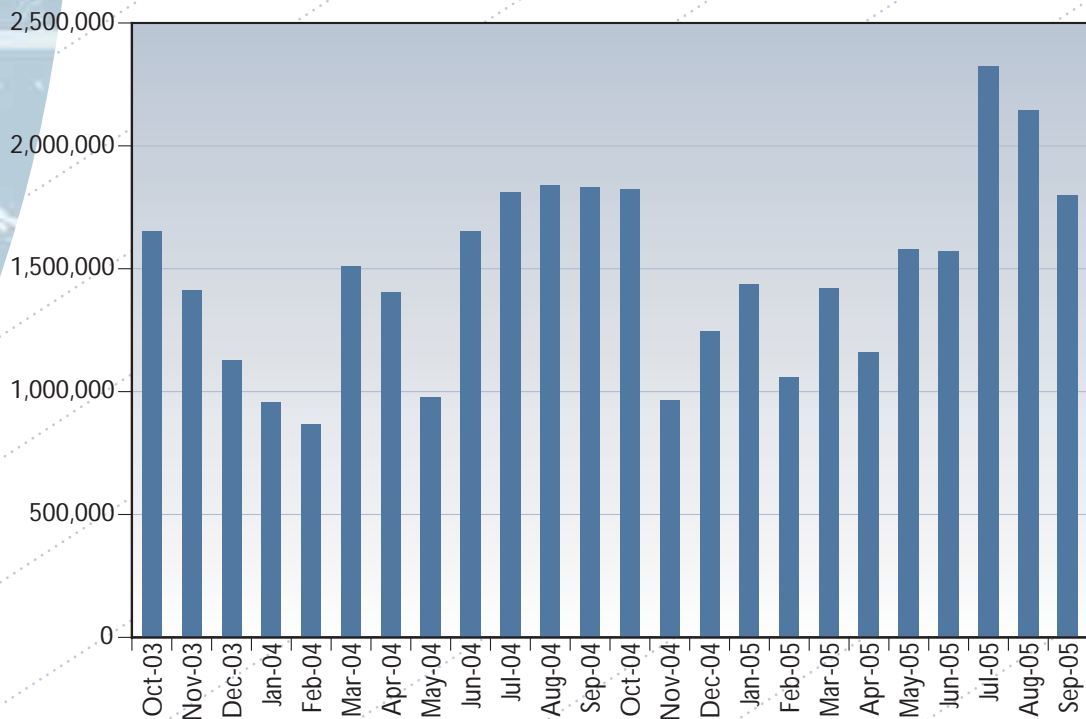
Relatively normal temperatures resulted in deliveries of gas to the FGU gas distribution systems of 4,904,837Dth in Fiscal Year 2005 – a slight decrease from the previous fiscal year’s 4,913,073 Dth.

Despite a significant increase in natural gas prices, gas usage by FGU power generation members increased by over 12% compared to Fiscal Year 2004. The total gas throughput for power generation was 13,638,141 Dth compared to Fiscal Year 2004’s throughput of 12,142,535 Dth.

In addition to services provided to its members, FGU provided gas supply acquisition and management services to full-service customers. Total throughput for FGU’s full-service customers for Fiscal Year 2005 was 3,904,767 Dth.

FGU’s total combined throughput for Fiscal Year 2005 was 22,463,716 Dth as compared to Fiscal Year 2004’s combined throughput of 21,682,010 Dth, an overall increase of about 3.5%.

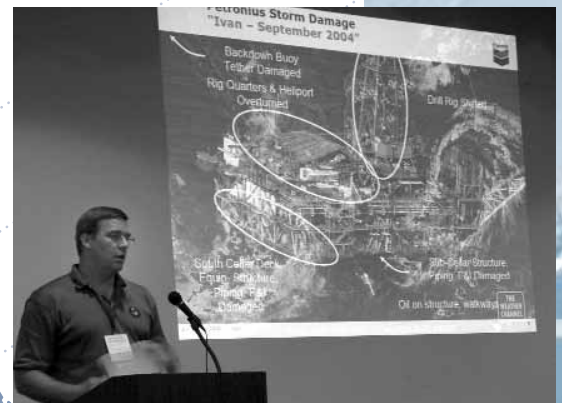
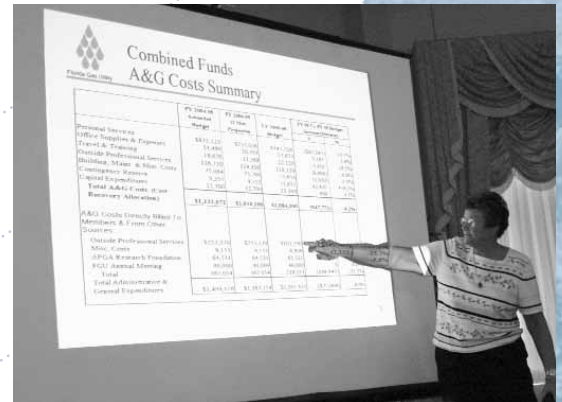
FGU Member Throughput



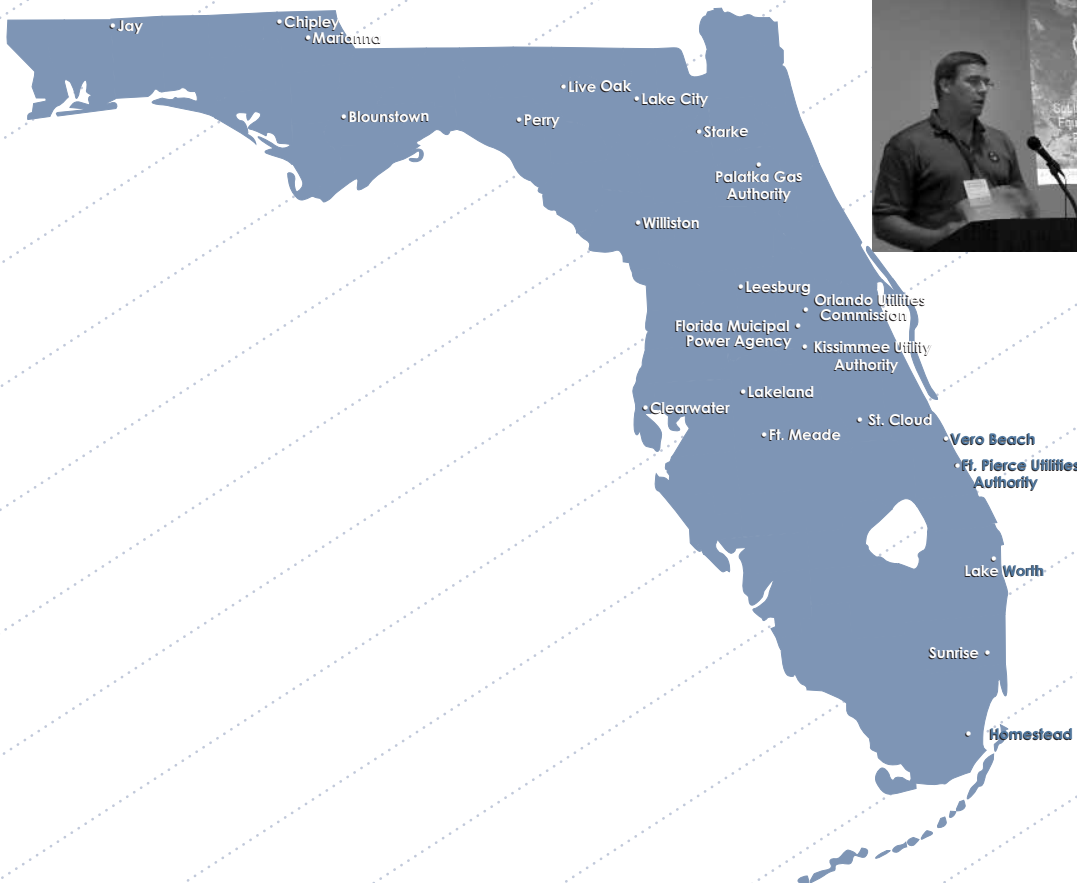
FGU ANNUAL MEETING

Florida Gas Utility held its 2005 Annual Meeting at the Plaza Resort and Spa in Daytona Beach, Florida. Over one hundred attendees, including representatives from FGU's members, other gas and electric utilities in the State, gas producers and marketers, pipeline representatives, and industry consultants, were present to hear from industry experts and to exchange ideas and information with fellow Florida market participants. Presenters at the meeting provided their views on a wide range of topics including regulatory and legislative issues, price impacts such as energy legislation, weather, and limitations on drilling, and the future of Natural Gas Prices.

Chair Joe Cone, City Manager of the City of Lake City, in his first year as Chair, presided over the annual Board of Directors meeting. Of significance was the approval of FGU's \$206.6 million FY 2006 operating budget and the election of new officers and executive committee members. Elected to the FGU Executive Committee were Mr. Brian Langille of the Clearwater Gas System and Mr. Jimmy Hand of the City of Blountstown. Newly elected Executive Committee members join Mr. A.K. (Ben) Sharma of the Kissimmee Utility Authority, Mr. Steve McElhane of the Florida Municipal Power Agency (Vice-Chair), Mr. Tod Barfield of the City of Chipley, Mr. Tom Richards of the Fort Pierce Utilities Authority, Mr. Joe Cone of the city of Lake City (Chair).



FGU MEMBERS



INDEPENDENT AUDITORS' REPORT

Board of Directors and
Members of Florida Gas Utility
Gainesville, Florida



We have audited the accompanying financial statements of Florida Gas Utility and each of its projects as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Florida Gas Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Florida Gas Utility and each of its projects as of September 30, 2005, 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 18, 2005, on our consideration of Florida Gas Utility's internal control over financial reporting for the year ended September 30, 2005, and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

November 18, 2005
Gainesville, Florida

A handwritten signature in cursive script that reads "Purvis Gray and Company".

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, 2005. Readers should consider the information here in conjunction with the transmittal letter, basic financial statements and the notes and supplemental schedule.

Overview of the Financial Statements

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

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

Current Year vs. Prior Year Comparison

The following combined, condensed financial information compares, in summary, the financial condition and operations of FGU for the years ended September 30, 2005 and 2004 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 2005	FY 2004	% Change
Current assets, including restricted	\$ 94,598,444	\$ 71,505,956	32.3%
Property and equipment, net	452,863	475,905	-4.8%
Other assets	30,999,594	42,600,875	-27.2%
Total assets	126,050,901	114,582,736	10.0%
Current liabilities, including restricted	70,177,533	47,836,778	46.7%
Long-term liabilities	54,143,074	65,334,117	-17.1%
Total liabilities	124,320,607	113,170,895	9.9%
Net assets invested in capital assets, net of related debt	452,863	475,905	-4.8%
Net assets – unrestricted	1,277,431	935,936	36.5%
Total net assets	\$ 1,730,294	\$ 1,411,841	22.6%

Revenues, Expenses and Changes in Net Assets

	FY 2005	FY 2004	% Change
Revenues – gas operations	\$222,172,014	\$188,556,452	17.8%
Revenues – service charge & other	1,713,111	1,584,846	8.1%
Total operating revenues	223,885,125	190,141,298	17.7%
Expenses – gas operations	219,388,709	185,811,228	18.1%
Expenses – general & administrative	1,285,332	1,364,822	-5.8%
Depreciation & amortization	438,903	446,109	-1.6%
Total operating expenses	221,112,944	187,622,159	17.9%
Operating income	2,772,181	2,519,139	10.0%
Net costs recoverable from future participant billings	(633,044)	(17,816)	3453.2%
Interest & finance charge income	904,793	649,031	39.4%
Interest & other expenses	(2,725,477)	(3,152,729)	-13.6%
Change in net assets	\$ 318,453	\$ (\$2,375)	-13508.5%

Financial Highlights

- In fiscal year 2005, current assets and current liabilities increased by \$23.1 million and \$22.3 million respectively. The vast majority of these increases came from the accounts receivable accounts and were due to Sept '05 gas prices being more than twice that of Sept '04.
- Other assets and long-term debt decreased by \$11.6 million and \$11.2 million respectively, which primarily results from the decrease to long-term prepaid gas supply and the associated debt in Gas Project No. 1. Likewise, interest expense decreased by 13.6% in fiscal year 2005 as some of the revenue bonds associated with the Gas Project No. 1 matured. FGU did not incur any new debt in fiscal year 2005.
- Gas operations revenues and gas operations expenses both increased by \$33.6 million. Changes in volumes of gas sold and changes in gas prices are the major contributors to the differences in these accounts from year to year. In fiscal year 2005, increases to FGU's members' volumes created an increase in gas operating revenues and expenses of about \$10 million; however, almost all of that was offset by a decrease of sales to outside customers. Therefore, the vast majority of the increase in these accounts is attributable to the significant increase in gas prices in fiscal year 2005.
- FGU's interest income was \$255,762 higher in fiscal year 2005 than in fiscal year 2004. This change is due to steadily increasing interest rates and to higher collected balances resulting from increased gas prices.
- The Net Costs Recoverable from Future Participant Billings account on the Statement of Revenues, Expenses and Changes in Fund Net Assets is used in accordance with the Statement of Financial Accounting Standards No. 71 for the Gas Supply Project No.1 fund. The total in this account was \$615,228 less in fiscal year 2005 than in fiscal year 2004. The majority of this change is due to the bond amortization schedules which vary from year to year and to the increase in interest earnings. Refer to Note No. 2 of the attached financial statements for further information.

- FD FGU's total change in net assets in fiscal year 2005 was \$318,453. As discussed in the Overview section above, FGU does not generally accumulate or expend significant amounts of net assets. However, there are several factors at play that make up this total as follows:
- FD There was a positive impact on net assets of approximately \$85,000 which resulted from money collected to replenish the project development funds above the amounts spent in these funds in fiscal year 2005.
 - FD In December 2001, FGU used \$465,721 of the working capital reserve funds to purchase an office building. This amount is being replenished over 15 years at which time the working capital reserve will be fully replenished for the cost of the office acquisition. \$36,500 was the approximate amount replenished this year in excess of depreciation on the office building.
 - FD The remaining positive impact to FGU's change in net assets was due to the fact that FGU carries forward interest earnings and any unspent budgeted amounts to the following fiscal year to decrease service charges. The remaining \$197,000 change in net assets is approximately the fiscal year 2005 interest earnings (excluding GSAP No.1) plus 2005 unspent budget amounts less the amount of excess earnings carried forward from fiscal year 2004.

Individual Funds

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

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

The All Requirements Project fund accounts for the operations beneficial to those members that have entered into FGU's All Requirements contract. This project began in March 2002. At the end of fiscal year 2005, this project consisted of ten 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.

In August 2004, the Board of Directors voted to become a member of Public Gas Partners, Inc., a Georgia nonprofit corporation ("PP"), approved various forms of documents, including the Production Sharing Agreement, and established a special project entitled PGP Gas Project No. 1. The PGP Gas Project No. 1 fund accounts for the operations beneficial to the participants of this project. This project was established to provide the benefits of long-term gas supply under the Production Sharing Agreement.

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, Finance Department, 4619 N.W. 53rd Avenue, Gainesville, Florida 32606.

Florida Gas Utility

Statement of Net Assets

September 30, 2005

	ASSETS OPERATING	GAS PROJECT NO. 1*	ALL REQUIREMENTS PROJECT	PUBLIC GAS PARTNERS PROJECT NO. 1	TOTAL
Current Assets:					
Cash and Cash Equivalents	\$ 2,487,792	\$ 23,293,447	\$ 199,351	\$ 0	\$ 25,980,590
Investments at Fair Value	0	20,544,638	0	0	20,544,638
Accounts Receivable:					
Members	24,879,533	0	0	0	24,879,533
Project Participants	0	5,335,275	2,999,057	178,654	8,512,986
Customers	1,472,660	64,319	0	0	1,536,979
Other	2,027,680	2,589	4,145	0	2,034,414
Prepaid Expenses	15,399	0	3,000	0	18,399
Prepaid Gas Supply	0	10,619,286	0	0	10,619,286
Due from Operating Fund	0	157,548	0	0	157,548
Due from ARP	14,017	37,201	0	0	51,218
Due from PGP	78,839	0	0	0	78,839
Total Current Assets	<u>30,975,920</u>	<u>60,054,303</u>	<u>3,205,553</u>	<u>178,654</u>	<u>94,414,430</u>
Restricted Assets:					
Cash and Cash Equivalents	184,014	*	0	0	184,014
Total Restricted Assets	<u>184,014</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>184,014</u>
Deferred Bond Issuance Costs	0	1,065,776	0	0	1,065,776
Prepaid Gas Supply	0	25,063,644	0	0	25,063,644
Net Costs Recoverable from Future Participant Billings	0	4,870,174	0	0	4,870,174
Property and Equipment, Net of Accumulated Depreciation of \$228,432	452,863	0	0	0	452,863
Total Assets	<u>31,612,797</u>	<u>91,053,897</u>	<u>3,205,553</u>	<u>178,654</u>	<u>126,050,901</u>
Liabilities and Net Assets					
Current Liabilities:					
Trade	29,073,296	278,634	3,151,396	0	32,503,326
Other	417,984	4,235,586	2,939	99,815	4,756,324
Due to Gas Operating Fund	0	0	14,017	78,839	92,856
Due to Gas Project No. 1 Fund	157,548	0	37,201	0	194,749
Interest Payable	0	1,022,653	0	0	1,022,653
Accrued Expenses	49,140	802	0	0	49,942
Current Portion of Revenue Bonds Payable	0	10,870,000	0	0	10,870,000
Total Current Liabilities	<u>29,697,968</u>	<u>16,407,675</u>	<u>3,205,553</u>	<u>178,654</u>	<u>49,489,850</u>
Liabilities Payable from Restricted Assets:					
Collateral Held	0	20,503,148	0	0	20,503,148
Deposits Held	184,535	0	0	0	184,535
Total Liabilities Payable from Restricted Assets	<u>184,535</u>	<u>20,503,148</u>	<u>0</u>	<u>0</u>	<u>20,687,683</u>
Long-term Debt:					
Arbitrage Rebate Payable	0	200,407	0	0	200,407
Revenue Bonds Payable	0	52,530,000	0	0	52,530,000
Unamortized Premium on Bonds	0	1,412,667	0	0	1,412,667
Total Long-term Debt	<u>0</u>	<u>54,143,074</u>	<u>0</u>	<u>0</u>	<u>54,143,074</u>
Total Liabilities	<u>29,882,503</u>	<u>91,053,897</u>	<u>3,205,553</u>	<u>178,654</u>	<u>124,320,607</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt Unrestricted	452,863	0	0	0	452,863
	1,277,431	0	0	0	1,277,431
Total Net Assets	<u>\$ 1,730,294</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,730,294</u>

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

The notes to the financial statements are an integral part of the financial statements.

Florida Gas Utility
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2005

	OPERATING	GAS PROJECT NO. 1	ALL REQUIREMENTS PROJECT	PUBLIC GAS PARTNERS PROJECT NO. 1	TOTAL
Operating Revenues:					
Gas Operations	\$148,527,945	\$44,070,626	\$29,573,443	\$ 0	\$222,172,014
Service Fees and Other	758,828	511,032	322,116	121,135	1,713,111
Total Revenues	<u>149,286,773</u>	<u>44,581,658</u>	<u>29,895,559</u>	<u>121,135</u>	<u>223,885,125</u>
Operating Expenses:					
Gas Operations	148,527,945	41,287,321	29,573,443	0	219,388,709
General and Administrative	585,858	256,223	322,116	121,135	1,285,332
Depreciation and Amortization	34,921	403,982	0	0	438,903
Total Expenses	<u>149,148,724</u>	<u>41,947,526</u>	<u>29,895,559</u>	<u>121,135</u>	<u>221,112,944</u>
Operating Income	138,049	2,634,132	0	0	2,772,181
Nonoperating Revenues/Expenses					
Interest Expense	0	(2,725,427)	0	0	(2,725,427)
Interest Income	151,715	724,263	28,080	0	904,058
Finance Charge Income	542	76	117	0	735
Loss on Disposal of Assets	(50)	0	0	0	(50)
Net Costs Recoverable from Future Participant Billings	0	(633,044)	0	0	(633,044)
Income Before Operating Transfers	<u>290,256</u>	<u>0</u>	<u>28,197</u>	<u>0</u>	<u>318,453</u>
Operating Transfers	28,197	0	(28,197)	0	0
Change in Net Assets	318,453	0	0	0	318,453
Total Net Assets, Beginning of Year	<u>1,411,841</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,411,841</u>
Total Net Assets, End of Year	<u>\$ 1,730,294</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,730,294</u>

The notes to the financial statements are an integral part of the financial statements.

Florida Gas Utility
Statement of Cash Flows
For the Year Ended September 30, 2005

	OPERATING	GAS PROJECT NO. 1	ALL REQUIREMENTS PROJECT	PUBLIC GAS PARTNERS PROJECT NO. 1	TOTAL
Cash Flows from Operating Activities:					
Receipts from (Credits to)					
Members and Customers	\$134,210,062	\$ 41,509,629	\$ 28,226,980	\$ 0	\$ 203,946,671
Other Receipts	17,124	0	0	0	17,124
Payments to or for the Benefit of Employees	(718,042)	0	0	0	(718,042)
Payments to Suppliers	(132,520,586)	(28,094,422)	(27,832,298)	0	(188,447,306)
Internal Activity Between Funds	541,186	(400,281)	(219,744)	0	(78,839)
Net Cash Provided by (Used in)					
Operating Activities	<u>1,529,744</u>	<u>13,014,926</u>	<u>174,938</u>	<u>0</u>	<u>14,719,608</u>
Cash Flows from Noncapital Financing Activities:					
Interfund Transfers	6,778	0	(6,778)	0	0
Net Cash Provided by (Used in)					
Noncapital Financing Activities	<u>6,778</u>	<u>0</u>	<u>(6,778)</u>	<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:					
Revenue Bond Payment	0	(10,225,000)	0	0	(10,225,000)
Interest Paid on Long-term Debt	0	(3,272,460)	0	0	(3,272,460)
Purchase of Property and Equipment	(11,634)	0	0	0	(11,634)
Net Cash Provided by (Used in) Capital and					
Related Financing Activities	<u>(11,634)</u>	<u>(13,497,460)</u>	<u>0</u>	<u>0</u>	<u>(13,509,094)</u>
Cash Flows from Investing Activities:					
(Increase) Decrease in Investments,					
Net of Sales	0	(12,751,175)	0	0	(12,751,175)
Interest Income Received	130,104	1,075,493	24,624	0	1,230,221
Finance Charge Income	542	77	116	0	735
Net Cash Provided by (Used in)					
Investing Activities	<u>130,646</u>	<u>(11,675,605)</u>	<u>24,740</u>	<u>0</u>	<u>(11,520,219)</u>
Net Increase (Decrease) in					
Cash and Cash Equivalents	<u>1,655,534</u>	<u>(12,158,139)</u>	<u>192,900</u>	<u>0</u>	<u>(10,309,705)</u>
Cash and Cash Equivalents,					
Beginning of Period	<u>1,016,272</u>	<u>35,451,586</u>	<u>6,451</u>	<u>0</u>	<u>36,474,309</u>
Cash and Cash Equivalents,					
End of Period	<u>\$ 2,671,806</u>	<u>\$ 23,293,447</u>	<u>\$ 199,351</u>	<u>\$ 0</u>	<u>\$ 26,164,604</u>
Consisting of:					
Unrestricted Funds	\$ 2,487,792	\$0	\$ 199,351	\$ 0	\$ 2,687,143
Restricted Funds	184,014	23,293,447	0	0	23,477,461
	<u>\$ 2,671,806</u>	<u>\$ 23,293,447</u>	<u>\$ 199,351</u>	<u>\$ 0</u>	<u>\$ 26,164,604</u>
Reconciliation of Operating Income to Net Cash					
Provided by (Used in) Operating Activities:					
Operating (Loss) Income	\$ 138,049	\$ 2,634,132	\$ 0	\$ 0	\$ 2,772,181
Adjustments to Reconcile Operating (Loss) Income to					
Net Cash Flows from Operating Activities:					
Depreciation and Amortization	34,921	403,982	0	0	438,903
Amortization of Prepaid Gas Supply	0	10,319,046	0	0	10,319,046
Increase (Decrease):					
Accounts Receivable	(15,059,587)	(3,059,259)	(1,668,579)	(57,519)	(19,844,944)
Prepaid Expenses	(1,125)	0	(3,000)	0	(4,125)
Accounts Payable and Other					
Current and Restricted Liabilities	16,323,432	2,873,853	1,862,582	57,519	21,117,386
Due to/due from	94,054	(156,828)	(16,065)	0	(78,839)
Net Cash Provided by (Used in)					
Operating Activities	<u>\$ 1,529,744</u>	<u>\$ 13,014,926</u>	<u>\$ 174,938</u>	<u>\$ 0</u>	<u>\$ 14,719,608</u>

The notes to the financial statements are an integral part of the financial statements.

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 1980's. 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 as of July 1, 1996, and thereafter amended and restated by the Second Amended and Restated Interlocal Agreement dated as of July 27, 1999, (the Interlocal Agreement), executed and delivered among FGU and its members, which include municipalities, municipal utilities, and an interlocal agreement agency consisting of such entities. Due to the diverse needs of municipal utility systems, FGU established itself as a project-oriented agency. Under this structure, each member has the option whether or not to participate in a project.

FGU has the authority to, among other things, plan, finance, acquire, construct, manage, operate, deliver, service, utilize, own, broker, exchange and distribute natural gas, or other energy and energy services pursuant to the Interlocal Agreement. As of September 30, 2005, FGU has 23 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*, to apply all applicable GASB pronouncements, as well as all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Regulatory Matters

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

Basis of Accounting

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

Fund Accounting

FGU maintains its accounts on a fund basis in compliance with the Indenture of Trust dated as of August 1, 1996, as supplemented and amended by the First Supplemental Indenture dated as of November 1, 1998 (the Indenture). The Operating fund accounts for general operations beneficial to all member systems. The Gas Project No. 1 fund accounts for operations beneficial to the project participants of Gas Project No. 1. The All Requirements Project fund accounts for operations beneficial to the project participants of the All Requirements Project. The Public Gas Partners Project No.1 fund accounts for operations beneficial to the project participants of Public Gas Partners Project No.1. Inter-project 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 the 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.

**Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005**

Investments

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

Net Costs Recoverable from Future Participant Billings

The Gas Project No. 1's rates for gas billings are designed to provide, over the life of the project, full recovery of project costs as defined by the respective bond resolutions, project contracts and as prescribed by the Board of Directors. Rates are structured to systematically provide for the current debt service requirements, operating costs, and reserves. The current costs to be recovered from future revenues consist primarily of the difference between the amortization of the prepaid gas supply and debt principal requirements included in rates. In accordance with SFAS No. 71, certain income and expense amounts which would be recognized during the current time period are deferred and not included in determination of net income until such costs are recoverable through participant billings.

Compensated Absences

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

Gas Imbalances

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

Property and Equipment

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

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

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

Operating Revenues and Expenses

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

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

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

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

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005

Amortization

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

Use of Estimates

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

Swap Agreement

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

If the Swap Agreement should terminate without the termination of the Firm Gas Purchase Agreement through the fault of Bank of America, either another mutually agreeable counterparty or the gas supplier will assume the role of the swap counterparty to FGU. If the Firm Gas Purchase Agreement should terminate for any reason, the Swap Agreement will also terminate without liability to and without termination payments from either FGU or the Bank of America. At the time of these statements, Bank of America, NA was rated Aa1 by Moody's Investor Service and AA by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies.

Under the terms of the Indenture, swap payments received by FGU are recorded as gas operations revenues of the Gas Project No. 1 fund. Amounts payable by FGU under the Swap Agreement are recorded as gas operations expenses of the Gas Project No. 1 fund. At the time of the bond issuance, the original amount subject to the swap was approximately \$141,500,000. In fiscal year 2005, FGU received \$0 and paid approximately \$28,089,000 under the terms of the Swap Agreement. The fair value of the swap at September 30, 2005, is a negative \$142,544,673.

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 2005, FGU paid \$447,765 and received \$415,560 under natural gas hedges. As of September 30, 2005, FGU has outstanding gas hedges covering approximately 150,000 MMBTU's.

Credit Policy

On November 7, 2001, FGU's Board 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 All Requirements Project (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, 2005. The following table reflects the breakdown of each member's credit requirement through September 30, 2005, and their requirements beginning October 1, 2005. At the time these financial statements are issued, all members are in compliance with these requirements.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005

Credit Enhancement Requirements

	APPROVED LEVEL FISCAL YEAR 2005	AMOUNT BEGINNING OCTOBER 1, 2005
Blountstown	\$ 39,000	\$ 45,000
Chipley	42,000	47,000
Clearwater	1,781,000	2,023,000
FMPA Group	5,195,000	8,152,000
Ft. Meade	14,000	16,000
Ft. Pierce LDC	93,000	111,000
Homestead	351,000	294,000
Jay	18,000	20,000
Lake City	172,000	203,000
Lakeland	1,000,000	1,000,000
Leesburg	511,000	565,000
Live Oak	114,000	133,000
Marianna	111,000	131,000
OUC	0	0
Palatka	175,000	205,000
Perry	109,000	120,000
Starke LDC	42,000	48,000
St. Cloud	0	134,000
Sunrise	414,000	484,000
Williston	22,000	25,000
Total	<u>\$ 10,203,000</u>	<u>\$ 13,756,000</u>

Note 2: Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments

For the year ended September 30, 2005, FGU is required to implement a new disclosure standard set by Government Accounting Standards Board (GASB). GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires additional 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 All Requirements Project No.1 fund are subject to FGU's Investment Policy and to Florida state law. Investments made in the Gas Project No.1 fund are pursuant to the Indenture.

As of September 30, 2005, FGU held the following securities, all of which were in the Gas Project No.1 fund:

DESCRIPTION	MATURITY DATE	PRINCIPAL AMOUNT PURCHASED	MATURITY VALUE	FAIR VALUE @ 09/30/05
GE Capital Corp Commercial Paper	11/25/05	\$ 901,739	\$ 922,000	\$ 917,873
GE Capital Corp Commercial Paper	12/01/05	\$ 899,924	\$ 919,000	\$ 914,251
GE Capital Corp Commercial Paper	12/01/05	\$ 897,981	\$ 915,000	\$ 910,194
GE Capital Corp Commercial Paper	12/01/05	\$ 894,179	\$ 909,000	\$ 904,087
GE Capital Corp Commercial Paper	12/01/05	\$ 1,826,979	\$ 1,853,000	\$ 1,842,890
GE Capital Corp Commercial Paper	12/01/05	\$ 1,101,710	\$ 1,117,000	\$ 1,110,943
GE Capital Corp Commercial Paper	12/01/05	\$ 1,090,361	\$ 1,103,000	\$ 1,096,832
GE Capital Corp Commercial Paper	12/01/05	\$ 1,090,435	\$ 1,100,000	\$ 1,093,588
GE Capital Corp Commercial Paper	12/01/05	\$ 1,088,211	\$ 1,095,000	\$ 1,088,320
Subtotal GE Capital Corp Paper		\$ 9,791,519	\$ 9,933,000	\$ 9,878,978
Federal Home Loan Mtg Corp Disc Nt	10/06/05	\$11,558,309	\$11,762,000	\$11,753,981
		<u>\$21,349,828</u>	<u>\$21,695,000</u>	<u>\$21,632,959</u>

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005

The Indenture limits the purchase of commercial paper to only those having a maturity of not more than 270 days at the time of purchase. GE Capital Corporation Commercial Paper comprises 21.3% of FGU's cash and investments. As required in the Indenture, this commercial paper is rated "A-1+" by Moody's Investors Service (Moody's) and "P-1" by Standard & Poor's Rating Service (S&P). It is the only non-U.S. government security that FGU holds which comprises more than 5% of total cash and investments. The Indenture does not place limits on the amount that may be invested in any one issuer.

As of September 30, 2005, FGU held the majority of its remaining cash in the following pooled investments, all of which are available for immediate withdrawal and which are rated "AAA" by S&P and "Aaa" by Moody's:

<u>FUND NAME</u>	<u>FGU FUND(S)</u>	<u>FAIR VALUE</u> <u>@ 09/30/05</u>
Federated Prime Obligations Fund	Gas Project No.1	\$20,431,204
Dreyfus Cash Management Fund	Gas Project No.1	\$ 1,767,000
Goldman Sachs Federal Fund	Gas Operating and ARP	\$ 2,873,000
		<u>\$25,071,204</u>

Cash and Collateral Account

The obligations of Williams Energy Marketing & Trading Company (Williams EM&T) under the Gas Purchase Agreement are guaranteed under an Unconditional Guaranty (Guaranty) of The Williams Companies, Inc. (Williams). The Guaranty requires Williams to maintain certain minimum credit ratings. The credit ratings of Williams were downgraded in July 2002 to levels below those required by the Guaranty. Pursuant to the Guaranty, FGU requested that Williams deliver additional collateral to secure its obligations to FGU. Williams posted \$11.25 million of cash collateral in September 2002, which is held by FGU in the Cash and Collateral Account and is invested and applied as provided in a Cash Collateral and Security Agreement (Collateral Agreement) between FGU and Williams. Pursuant to the Collateral Agreement, Williams increased the amount in the Cash and Collateral Account as gas prices rose. At September 30, 2005, FGU held \$20,503,148 in this account. The cash collateral would be used by FGU to purchase replacement gas if Williams EM&T or Williams fail to meet their obligations under the Gas Purchase Agreement or the Guaranty. The cash collateral has not been pledged to secure the Series 1998 Bonds and is required to be returned to Williams upon the completion of the Gas Purchase Agreement, the restoration of Williams' credit ratings to the required levels and other events specified in the Collateral Agreement.

Restricted Assets

All assets of Gas Project No. 1 are restricted as to use by bond covenants and by the Collateral Agreement with Williams. FGU's only other restricted assets are the amounts held in the FGU Deposit Account for those members and customers who choose to provide their required credit enhancements in the form of a cash deposit. At September 30, 2005, FGU held \$184,014 in this account.

Due from/Due to Balances

As of September 30, 2005, there was a net of approximately \$158,000 due from the Gas Operating fund to the Gas Project No. 1 fund on the Statement of Net Assets. This was made up primarily of approximately \$161,000 of September Gas Project No. 1 prepaid supply sold to the members and full service customers through the Gas Operating fund in September. Additionally, due to delays in vendors' issuing invoices, \$16,000 of GSAP costs incurred were paid by participants and transferred to Gas Operating prior to Gas Operating paying the associated vendor bills in October. These balances were offset by approximately \$19,000 for the September service charge owed from the Gas Project No. 1 participants. These amounts were transferred in October and November 2005.

\$37,201 was owed from the All Requirements Project fund to the Gas Project No. 1 fund for the purchase of September prepaid supply. The cash was transferred in October 2005.

A net amount of approximately \$14,000 was due from the All Requirements Project fund to the Gas Operating fund, of which approximately \$28,000 was for All Requirement's service charges transferred to Gas Operating in October and November. Another \$29,000 of the remaining amount is made up of legal fees that FGU intends to bill to the responsible parties during fiscal year 2006. Once these amounts are billed to and collected from the ARP Participants, the amounts will be transferred to the Gas Operating account. Another \$28,000 is the amount of the annual operating transfer between ARP and the Gas Operating fund. The transfer occurred in November 2005. Approximately \$10,000 was for miscellaneous

bills paid out of Gas Operating but not yet reimbursed by ARP. These amounts were offset by \$81,000 in cash billed, collected and transferred from ARP Participants, but the invoices were not paid by Gas Operating until October due to delays in vendors' invoicing.

\$78,839 was owed from the PGP No. 1 fund to the Gas Operating fund for the payment of initial project set-up costs. These amounts will be billed and collected from PGP participants once a PGP transaction is completed. At that time, this amount will be transferred to Gas Operating.

Capital Assets

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance at 9/30/04	Additions	Disposals	Depreciation Expense	Balance at 9/30/2005
Assets Not Being Depreciated:					
Land	\$ 129,500	\$ 0	\$ 0		\$ 129,500
Assets Subject to Depreciation:					
Office Building	319,360	0	0		319,360
Office Furniture	24,952	436	213		25,175
Office Equipment	24,952	2,682	0		27,634
Computer Equipment	96,851	7,811	18,285		86,377
Computer Software	38,717	1,000	0		39,717
Automobile	18,000	0	0		18,000
Telephone Equipment	32,954	0	0		32,954
Appliance	2,026	0	0		2,026
Other Miscellaneous Property	552	0	0		552
Total	<u>687,864</u>	<u>\$ 11,929</u>	<u>\$ 18,498</u>		<u>681,295</u>
Accumulated Depreciation	<u>(211,959)</u>			<u>\$ (16,473)</u>	<u>(228,432)</u>
Net Book Value of Fixed Assets	<u>\$ 475,905</u>				<u>\$ 452,863</u>

Net Costs Recoverable from Future Participant Billings

Gas billings to participants in the Gas Project No. 1 are designed to provide, over the life of the project, full recovery of project costs as defined by the bond covenants and project contracts. The net costs to be recovered from future billings consist primarily of timing differences between amortization schedules and the debt service requirements. In accordance with Statement of Financial Accounting Standards No. 71, certain income and expense amounts which would be recognized during the current time period are deferred and not included in the determination of net income until such costs are recoverable through participant billings. As of September 30, 2005, the cumulative balance in the net costs recoverable account on the Statement of Net Assets is \$4,870,174. This total is comprised of the following components:

Differences in timing between collections for debt service and project cost amortization	\$ 4,949,072
Plus estimated interest income in excess of actual interest income (net of arbitrage rebate)	379,489
Less \$.04/Dth surcharge collected to offset interest shortfall	(454,662)
Less finance charges collected from participants	(3,725)
Net Costs Recoverable from Future Participant Billings	<u>\$ 4,870,174</u>

Working Capital Reserve Fund

The Board 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, developed through a rate study, is based on estimated annual operating expenses and anticipated sales volumes. As of September 30, 2005, FGU maintained a designated working capital fund balance of approximately \$557,051. FGU used \$465,721 of the working capital reserve funds to purchase an office building in December 2001. This amount is being amortized over 15 years and the working capital reserve fund will be completely replenished.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005

Long-Term Debt

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

The following table lists the annual debt service requirements still existing at September 30, 2005:

Debt Service Requirements by Fiscal Year:

	INTEREST PAYMENTS	PRINCIPAL PAYMENTS	TOTAL PAYMENTS
Fiscal Year 2006	\$ 2,796,210	\$ 10,870,000	\$ 13,666,210
Fiscal Year 2007	2,230,835	11,745,000	13,975,835
Fiscal Year 2008	1,669,355	12,755,000	14,424,355
Fiscal Year 2009	700,750	28,030,000	28,730,750
Total	<u>\$ 7,397,150</u>	<u>\$ 63,400,000</u>	<u>\$ 70,797,150</u>

Long-term Revenue Bonds Payable at September 30, 2004	\$ 63,400,000
Less Current Portion Due December 1, 2005	<u>(10,870,000)</u>
Long-term Revenue Bonds Payable at September 30, 2005	<u>\$ 52,530,000</u>

Arbitrage rebate payable on this bond issue equals a total of \$200,407 through September 30, 2005. The next and final rebate payment to the Internal Revenue Service will occur in January 2009.

In order to fulfill the credit enhancement requirements of FGU's All Requirement Project participants, FGU has a line of credit with SunTrust bank with variable rate terms. To date there has been no activity on this line of credit. As of September 30, 2005, the available amount of the line was \$4,164,000.

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. 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. To date there has been no activity on this line of credit.

Interfund Transfers

FGU's only interfund transfer in fiscal year 2005 was for \$28,197 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 fund during the fiscal year. These amounts are used to offset the members' and participants' service charge in future years.

Note 3: Retirement Benefits

FGU sponsors a defined contribution retirement plan that covers substantially all employees. FGU contributes a defined percentage of each qualified employee's salary, with maximum retirement contributions being the lesser of 25% of the employee's salary or \$35,000 per year. FGU's contributions generally become fully vested to employees after 3 years of employment. Contribution expense, included in general and administrative expenses on the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets, was \$45,648 for the year ended September 30, 2005.

Florida Gas Utility Notes to the Financial Statements For the Year Ended September 30, 2005

Note 4: Major Customers

Six of FGU's electric members are part of the Florida Municipal Power Agency's (FMPA) All Requirements Project. Revenues from this group make up approximately 57% of FGU's fiscal year 2005 operating revenues.

In fiscal year 2005, FGU's industrial customers made up approximately 14% of FGU's operating revenues and associated operating expenses. During fiscal year 2006, FGU plans to discontinue serving industrial customers in order to better serve its municipal members.

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 eleven members' entitlements from SFTS to FTS-1, relinquish that capacity to PGS and then buy the capacity back from PGS on an as needed basis for the eleven members. These agreements are for an initial term of three years.

Florida Gas Transmission filed a general rate case on October 1, 2003, which proposed significant increases to FTS-1, FTS-2 and SFTS rates. A Settlement in Principle was reached on April 28, 2004, among the parties. The settlement rates, which included modest increases to FTS-1, FTS-2 and SFTS, were implemented by FGT, effective April 1, subject to acceptance of the Settlement by the Federal Energy Regulatory Commission (FERC). A Stipulation and Agreement of Settlement was filed by FGT on August 13, 2004. A final order accepting the Stipulation and Agreement of Settlement was issued by the FERC on December 21, 2004.

Natural Gas Supply

On behalf of and at the specific direction of certain members or full service customers, FGU has entered into firm gas supply agreements at fixed prices. The terms and volumes of such agreements vary. The longest term currently in place is through September, 2010. Pursuant to FGU's policies and service agreements, each member or customer for whom a firm fixed price contract was entered into is responsible for the cost of such gas under the terms of their gas services contract with FGU.

PGP Gas Supply Pool No. 1

In November 2004, FGU entered into a Natural Gas Production Sharing Agreement ("PSA") with Public Gas Partners, Inc. ("PGP"), a Georgia nonprofit corporation that acquires and manages separate pools of long-term natural gas supplies on behalf of its municipal members.

The PSA obligates (FGU) to pay its share of all costs incurred by PGP Pool 1. In addition, PGP has the option, with at least six months notice, to require (PGP Member) to prepay for its share of acquisition costs, which may be financed through the issuance by (PGP Member) of bonds or some other form of long-term financing.

Under the Pool 1 PSA, FGU has committed to take up to an average nominated quantity of 5,890 MMBtu/day of gas, representing 8.625% of the total Pool 1 commitments. As of September 30, 2005, PGP had not completed any acquisitions within Pool 1. In October 2005, PGP entered into a definitive agreement for the acquisition of \$271.5 million of producing gas reserves for Pool 1. Separate audited financial statements of Public Gas Partners as of June 30, 2005, are available from PGP.

FGU has established a separate project designated as "PGP Gas Supply Pool No. 1" and has entered into Gas Supply Agreements with certain FGU members that have elected to participate in this project. Under the Gas Supply Agreements, the participating members of FGU are obligated on a "take-or-pay" basis to purchase all of the gas and to pay all of the costs for which FGU is obligated under the Production Sharing Agreement.

Florida Gas Utility
Notes to the Financial Statements
For the Year Ended September 30, 2005

Potential Claims/Contingencies

FGU received a verbal claim from representatives of Enron North America Corporation, or one of its affiliated companies (Enron) in November 2002, claiming that unspecified amounts were due and owing by FGU to Enron as a result of certain favorable pricing for gas received by FGU in the open market, but for which confirmations had been placed with Enron under an earlier contract. FGU has since received a letter dated December 12, 2003, from Enron asserting a claim, demanding payment, and threatening action in the Bankruptcy Court for the Southern District of New York or other forum. Enron failed to make deliveries of gas in December 2001 and FGU accordingly terminated all confirmations and any existing contract with Enron. FGU disclaims any obligation that may be claimed by Enron pursuant to any gas confirmation or any contract with Enron. FGU will vigorously contest the claim by Enron. FGU is not able to make an informed judgment concerning FGU's ultimate liability and the extent of any unfavorable outcome cannot be ascertained at this time. With such uncertainties, FGU is unable to determine the potential impact on the financial statements as of September 30, 2005.

Supplemental Schedule
Schedule of Changes in Financial Condition
For the Year Ended September 30, 2005

	Project	Revenue Fund/ General Reserve	Operating Account/Fund	Working Capital Account	Debt Service Account/ Fund	Debt Service Reserve Account	Williams' Guaranty Account
Beginning Balance, September 30, 2004	\$11,225	\$ 381,710	\$ 0	\$1,360,830	\$ 9,678,896	\$11,559,000	\$19,997,274
Receipts	185	42,383,710	28,538,313	50,888	14,033,577	589,252	518,519
Disbursements	(4,720)	(42,454,526)	(28,538,313)	(33,006)	(13,632,706)	(589,252)	(12,770)
Ending Balance, September 30, 2005	<u>\$ 6,690</u>	<u>\$ 310,894</u>	<u>\$ 0</u>	<u>\$1,378,712</u>	<u>\$10,079,767</u>	<u>\$11,559,000</u>	<u>\$20,503,023</u>

Florida Gas Utility Board Members

Jimmy Hand	City of Blountstown	Harmon Bynum	City of Leesburg
Tod Barfield*	City of Chipley	Matt Brock*	City of Live Oak
Brian Langille*	Clearwater Gas System	Louy Harris	City of Marianna
Steve McElhaney*	Florida Municipal Power Agency	Fred Haddad	Orlando Utilities Commission
Al Minner	City of Fort Meade	Eula White	Palatka Gas Authority
Thomas W. Richards*	Fort Pierce Utilities Authority	Bill Brynes	City of Perry
Ken Konkol	City of Homestead	Michael Turner	City of St. Cloud
Maxine Ivey	Town of Jay	Ricky Thompson	City of Starke
A.K. (Ben) Sharma*	Kissimmee Utility Authority	Harry Zehender	City of Sunrise
Joe Cone*	City of Lake City	Pete Lindberg	City of Vero Beach
Tim Bates	City of Lakeland Electric	Jim Coleman	City of Williston
Walt Gill	City of Lake Worth		

*Executive Committee Member

Florida Gas Utility Executive Committee Members



Brian Langille
Clearwater Gas System



Steve McElhaney
Florida Municipal Power Agency



Thomas W. Richards
Fort Pierce Utilities Authority



A.K. (Ben) Sharma
Kissimmee Utility Authority



Joe Cone
City of Lake City



Tod Barfield
City of Chipley

Matt Brock
City of Live Oak
(not pictured)

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