



Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2014 and
2013

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Public Gas Partners, Inc.
As of and for the Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Directors of
Public Gas Partners
Atlanta, Georgia

We have audited the accompanying consolidated statements of financial position of Public Gas Partners as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Gas Partners as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matter

The 2013 financial statements of Public Gas Partners, Inc. were audited by other auditors, whose report dated September 24, 2013 expressed an unmodified opinion on those statements.

BDO USA, LLP

Atlanta, Georgia
September 22, 2014

Management's Discussion and Analysis (Unaudited)

Corporate Structure

Public Gas Partners, Inc. (PGP) is a nonprofit corporation organized under Georgia law, formed on November 15, 2004. PGP is comprised of six members: Florida Municipal Power Agency (FMPA), Municipal Gas Authority of Georgia (the Gas Authority), National Public Gas Agency, Patriots Energy Group, The Southeast Alabama Gas District, and Tennessee Energy Acquisition Corporation (collectively, the Members).

PGP's mission is to build a portfolio of economic long-term gas supplies for its Members. PGP is organized into projects in which Members may elect to participate. Each of the Members participating in a PGP project has executed a Production Sharing Agreement (PSA) for that project. PGP has undertaken three projects: Gas Supply Pool No. 1 (Pool 1), Gas Supply Pool No. 2 (Pool 2), and Gas Supply Pool No. 3 (Pool 3). Pool 1 was formed in 2004, Pool 2 was formed in 2005, and Pool 3 was formed in 2009. Five Members are participants in Pools 1 and 2, and four Members are participants in Pool 3. For Pools 1 and 2, PGP was authorized to acquire gas reserves or other contract rights during a three-year acquisition period that ended June 30, 2008. Pool 3 is authorized to acquire gas reserves or other contract rights on an ongoing basis, as necessary, to fulfill gas deliveries requested by Pool 3 participants. PGP utilizes wholly owned subsidiaries to own the assets and manage the operations of its various projects.

Joint Action

Although the Members are individually governed, through joint action they can share the costs of mutual endeavors, such as natural gas purchasing, and accomplish those tasks more efficiently than if they were conducted individually. In addition, by contracting with PGP, the Members can diversify their source of long-term supplies through a portfolio of supply arrangements. Similarly, they can pool their credit strength to manage risks and reduce costs through joint financing of acquisitions, hedging of long-term gas supplies, and other financing activities. Through joint action, the Members can use economies of scale to reduce the overall cost and price volatility of natural gas to their ultimate customers.

Authority

The Bylaws of PGP and each PSA provide that PGP will be governed by a Board of Directors that includes one representative from each PGP Member. In addition, each PGP project is managed by an Operating Committee made up of two representatives from each participating Member. The Operating Committees for each Pool have been authorized by the Board of Directors and their respective PSAs to undertake the acquisition and management of gas supplies that meet the property criteria or other requirements in the PSAs and to issue debt to finance the costs of such activities. The PSAs authorize the Board of Directors to establish rates and charges to produce revenue sufficient to cover all project costs, including allocations from PGP or other projects, and obligate the participating Members to pay those charges.

Management's Discussion and Analysis (Unaudited) (continued)

Administrative Management

The Gas Authority manages PGP's day-to-day administrative operations under a contract that ends on November 1, 2015. This contract renews annually until either party provides notice of termination no later than 180 days from the date of expiration.

Derivative Instruments

PGP uses derivative instruments to hedge its commodity price risk associated with forecasted oil and gas sales from owned reserves by converting the revenues that PGP will receive from customers from a variable price, based on a spot market price, to a fixed price.

Proprietary Funds

PGP operates only one type of proprietary fund, the enterprise fund type, to account for its general operations in accordance with Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds are used to report business-type activities (as contrasted with tax-supported governmental activities).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to PGP's basic financial statements. These financial statements are designed to provide readers with a broad overview of PGP's finances in a manner similar to a private-sector business.

The statements of net position present information on PGP's assets, liabilities, and deferred inflows/outflows of resources with the differences between these amounts reported as net position. Because PGP is a nonprofit organization and an extension of the municipal utilities participating in the Pools, net position is likely to be limited since, generally, all billings and revenues in excess of actual costs are returned to the Members in the form of billing credits or rate changes. The statements of revenues, expenses, and changes in net position present information showing how PGP's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, certain revenues and expenses, such as costs recoverable from future billings, will result in cash flows in future fiscal periods. All of the activities of PGP are considered business-type activities.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2014 Compared to 2013

Following are the condensed statements of net position as of June 30, 2014 and 2013:

	2014	2013
Capital assets	\$ 345,656,530	\$ 208,738,445
Noncapital assets	81,335,377	78,682,886
Deferred outflows of resources – costs recoverable / (refundable)	157,842,189	178,043,403
Deferred outflows of resources – unrealized loss on derivative instruments	7,650,179	–
Total assets and deferred outflows of resources	\$ 592,484,275	\$ 465,464,734
Current liabilities	\$ 41,497,834	\$ 29,664,345
Long-term liabilities	550,986,441	415,889,767
Total liabilities	592,484,275	445,554,112
Deferred inflows of resources – unrealized gain on derivative instruments	–	19,910,622
Net position	–	–
Total liabilities, deferred inflows of resources, and net position	\$ 592,484,275	\$ 465,464,734

In October 2013, Pool 3 closed on the acquisition of the leases, the related working and royalty interests, , and other operating assets for approximately 1,155 coalbed methane gas wells in the Black Warrior Basin of Alabama owned and operated by Energen Resources, Inc. (“the Acquisition”).

The increase in total assets and deferred outflows of resources of \$127,019,541 was primarily due to an increase in capital assets from the Acquisition in fiscal 2014. This acquisition resulted in the increase of natural gas and oil properties of \$134,102,316, net of current year depletion; increases in accounts receivable of \$16,218,780; and other property plant and equipment of \$2,815,769. These increases were offset by a decrease in deferred outflows of resources of \$20,201,214 related to the excess of revenues over expenses and a decrease in the market values of derivative instruments of \$27,723,420.

The increase in liabilities, deferred inflows of resources, and net position of \$127,019,541 was primarily due to a net decrease in advances from the Gas Authority of \$139,143,276 for borrowings related to the Acquisition, net of current year payments; offset by a principal

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2014 Compared to 2013 (continued)

payment of debt of \$12,250,000 and a decrease in the market values of derivative instruments of \$27,723,420. See Note 4 for further explanation of the changes in the debt balance during the fiscal year 2014.

Following is a summary of operations for the years ended June 30, 2014 and 2013:

	2014	2013
Operating revenues:		
Production sold to customers and Members	\$ 115,718,991	\$ 78,879,534
Gas acquired and sold to Members	62,787,221	31,235,241
Total operating revenues	178,506,212	110,114,775
Operating expenses:		
Oil and gas field operations	44,663,019	32,416,871
Gas supplies delivered to Members	58,969,028	23,923,364
Depletion of oil and gas properties	41,356,035	38,407,672
Depreciation of property, plant, and equipment	228,389	–
General and administrative	5,214,477	2,471,150
Total operating expenses	150,430,948	97,219,057
Operating income	28,075,264	12,895,718
Nonoperating income (expense):		
Interest expense and other, net	(9,466,381)	(9,094,089)
Equity in earnings of affiliates	1,592,331	5,468,578
Costs recoverable / (refundable) in future billings	(20,201,214)	(9,270,207)
Total nonoperating expense	(28,075,264)	(12,895,718)
Changes in net position	–	–
Net position:		
Beginning of year	–	–
End of year	\$ –	\$ –

Operating Revenues

Operating revenues from production sold to customers and Members increased \$36,839,457, or 46.7%, due to the additional working interests acquired as part of the Acquisition during fiscal 2014. Gas acquired and resold to members increased \$31,551,980, or 101.0%,

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2014 Compared to 2013 (continued)

due to the Members increasing their physical delivery requirements in relation to the additional production acquired.

Operating Expenses

Operating expenses increased \$53,211,891, or 54.7%, primarily due to an increase in oil and gas field operations expenses and gas supplies delivered to Members of \$47,291,812, or 83.9%, as a result of the Acquisition. Also as a result of the acquisition, depletion increased year over year by \$2,948,363, or 7.7%, and general and administrative increased by \$2,743,327, or 111.0%.

Liquidity and Capital Resources

PGP's cash balance decreased \$90,107 to \$17,231,327 at June 30, 2014. See the accompanying statements of cash flows for details of cash activity during fiscal 2014.

PGP is exposed to credit risk in the normal course of business. PGP has adopted policies and procedures to minimize this risk. Expected borrowing arrangements with banks, along with operating cash flow, are expected to provide sufficient liquidity for planned operations. PGP uses derivative instruments, including swaps and options (collectively, commodity derivatives) to hedge its commodity price risk associated with short and long-term changes in oil and natural gas prices.

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2013 Compared to 2012

Following are the condensed statements of net position as of June 30, 2013 and 2012:

	2013	2012
Capital assets	\$ 208,738,445	\$ 219,517,080
Noncapital assets	78,682,886	73,770,512
Deferred outflows of resources – costs recoverable / (refundable)	178,043,403	187,313,610
Total assets and deferred outflows of resources	<u>\$ 465,464,734</u>	<u>\$ 480,601,202</u>
Current liabilities	\$ 29,664,345	\$ 37,565,882
Long-term liabilities	415,889,767	415,626,308
Total liabilities	445,554,112	453,192,190
Deferred inflows of resources – unrealized gain on derivative instruments	19,910,622	27,409,012
Net position	-	-
Total liabilities, deferred inflows of resources, and net position	<u>\$ 465,464,734</u>	<u>\$ 480,601,202</u>

The decrease in total assets and deferred outflows of resources of \$15,136,468 was primarily due to a decrease in oil and gas properties and development costs of \$10,778,635, which represents depletion and property sales offset by acquisitions and capital development; a decrease in deferred outflows of resources of \$9,270,207 related to the excess of revenues over expenses; and a decrease in the market values of derivative instruments of \$7,498,390. These decreases were offset primarily by increases in cash and restricted cash of \$10,643,535.

The decrease in liabilities, deferred inflows of resources, and net position of \$15,136,468 was primarily due to a net decrease in deferred inflows of resources of \$7,498,390 due to changes in market values of derivative instruments and a decrease in the line-of-credit payable of \$9,000,000 due to a maturity and repayment made during the year.

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2013 Compared to 2012 (continued)

Following is a summary of operations for the years ended June 30, 2013 and 2012:

	2013	2012
Operating revenues:		
Production sold to customers and Members	\$ 78,879,534	\$ 79,325,417
Gas acquired and sold to Members	31,235,241	31,811,207
Total operating revenues	110,114,775	111,136,624
Operating expenses:		
Oil and gas field operations	32,416,871	30,758,398
Gas supplies delivered to Members	23,923,364	21,092,128
Depletion of oil and gas properties	38,407,672	43,585,189
General and administrative	2,471,150	2,641,587
Total operating expenses	97,219,057	98,077,302
Operating income	12,895,718	13,059,322
Nonoperating income (expense):		
Interest expense and other, net	(9,094,089)	(9,073,707)
Equity in earnings of affiliates	5,468,578	6,462,879
Costs recoverable / (refundable) in future billings	(9,270,207)	(10,448,494)
Total nonoperating expense	(12,895,718)	(13,059,322)
Changes in net position	–	–
Net position:		
Beginning of year	–	–
End of year	\$ –	\$ –

Operating Revenues

Operating revenues from production sold to customers and Members decreased \$445,883, or 0.6%, due to a 9.0% decrease in total production driven by normal production declines offset by the inclusion in the current year of a full year of a prior mid-year acquisition. Price changes were mixed, with gas prices increasing 7.2% year over year, while oil prices decreased 3.0%. Operating revenues from gas acquired and sold to Members decreased \$575,966, or 1.8%, due to lower gas prices.

Management's Discussion and Analysis (Unaudited) (continued)

Financial Analysis – 2013 Compared to 2012 (continued)

Operating Expenses

Operating expenses decreased \$858,245, or 0.9%, primarily due to an increase in oil and gas field operations and gas supplies delivered to Members of \$4,489,709, or 8.7%, primarily due to an increase in gas prices. This increase was offset by a \$5,177,517 decrease in depletion expense caused by a lower impairment in the current year than the prior year.

Public Gas Partners, Inc.
Statements of Net Position

	June 30	
	2014	2013
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 6,617,674	\$ 8,417,020
Restricted cash	10,613,653	8,904,414
Accounts receivable	31,083,895	14,886,115
Fair value of derivative instruments	670,002	6,473,417
Other assets	2,205,104	622,586
Total current assets	51,190,328	39,303,552
Noncurrent assets:		
Oil and gas properties – net	342,840,761	208,738,445
Property, plant, and equipment – net	2,815,769	–
Investments	28,281,775	25,209,123
Fair value of derivative instruments	1,263,274	14,170,211
Other assets	600,000	–
Total noncurrent assets	375,801,579	248,117,779
Deferred outflows of resources - costs recoverable/(refundable)	157,842,189	178,043,403
Deferred outflows of resources - unrealized loss on derivative instruments	7,650,179	–
Total assets and deferred outflows of resources	<u>\$ 592,484,275</u>	<u>\$ 465,464,734</u>
Liabilities, deferred inflows of resources, and net position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,777,493	\$ 9,985,349
Advance billings – FMPA	4,192,698	4,420,037
Fair value of derivative instruments	3,648,620	583,393
Current portion of long-term debt	13,318,150	13,497,668
Asset retirement obligations	1,560,873	1,177,898
Total current liabilities	41,497,834	29,664,345
Noncurrent liabilities:		
Advances from the Gas Authority	379,890,982	240,747,706
Advance billings – FMPA	79,661,259	83,980,706
Fair value of derivative instruments	6,097,454	149,612
Long-term debt	67,524,906	80,843,056
Asset retirement obligations	17,811,840	10,168,687
Total noncurrent liabilities	550,986,441	415,889,767
Total liabilities	592,484,275	445,554,112
Deferred inflows of resources - unrealized gain on derivative instruments	–	19,910,622
Net position	–	–
Total liabilities, deferred inflows of resources, and net position	<u>\$ 592,484,275</u>	<u>\$ 465,464,734</u>

See accompanying notes to the financial statements.

Public Gas Partners, Inc.
Statements of Revenues,
Expenses, and Changes in Net Position

	Year Ended June 30	
	2014	2013
Operating revenues:		
Production sold to customers and Members	\$ 115,718,991	\$ 78,879,534
Gas acquired and sold to Members	62,787,221	31,235,241
Total operating revenues	178,506,212	110,114,775
Operating expenses:		
Oil and gas field operations	44,663,019	32,416,871
Gas supplies delivered to Members	58,969,028	23,923,364
Depletion of oil and gas properties	41,356,035	38,407,672
Depreciation of property, plant, and equipment	228,389	-
General and administrative	5,214,477	2,471,150
Total operating expenses	150,430,948	97,219,057
Operating income	28,075,264	12,895,718
Nonoperating income (expense):		
Interest expense and other, net	(9,466,381)	(9,094,089)
Equity in earnings of affiliates	1,592,331	5,468,578
Deferred outflows of resources - costs recoverable/(refundable)	(20,201,214)	(9,270,207)
Total nonoperating expense	(28,075,264)	(12,895,718)
Changes in net position	-	-
Net position:		
Beginning of year	-	-
End of year	\$ -	\$ -

See accompanying notes to the financial statements.

Public Gas Partners, Inc.
Statements of Cash Flows

	Year Ended June 30	
	2014	2013
Operating activities		
Receipts from customers and Members	\$ 169,299,241	\$ 101,822,523
Payments to Members	(7,642,989)	(2,407,089)
Payments to operators and suppliers	(100,225,831)	(57,669,832)
Payments from (to) oil and gas derivative counterparties, net	(2,649,405)	7,668,728
Net cash provided by operating activities	58,781,016	49,414,330
Capital and related financing activities		
Acquisition of oil and gas properties and operating assets	(154,012,878)	(381,013)
Sales of oil and gas properties	2,037,768	256,578
Capital expenditures of property, plant, and equipment	(675,007)	-
Sale of property, plant, and equipment	9,500	-
Drilling and completion costs, net of refunds	(20,942,792)	(22,946,233)
Repayments of gas revenue bonds	(12,250,000)	(12,250,000)
Repayments on lines of credit	-	(9,000,000)
Advances from the Gas Authority	139,143,276	12,636,380
Interest payments and debt issuance costs	(10,521,409)	(10,664,388)
Net cash used in capital and related financing activities	(57,211,542)	(42,348,676)
Investing activities		
Investment distributions/(additions)	(1,659,581)	3,577,881
Net cash provided by (used in) investing activities	(1,659,581)	3,577,881
Net increase/(decrease) in cash and cash equivalents	(90,107)	10,643,535
Cash and cash equivalents:		
Beginning of year	17,321,434	6,677,899
End of year	\$ 17,231,327	\$ 17,321,434
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:		
Operating income	\$ 28,075,264	\$ 12,895,718
Adjustments to reconcile to net cash flows provided by operating activities:		
Accretion of asset retirement obligation	479,827	345,522
Depreciation expense	228,389	-
Depletion of oil and gas properties	41,356,035	38,407,672
Changes in certain assets and liabilities:		
Accounts receivable	(16,197,781)	(623,523)
Other assets	(1,089,870)	-
Accounts payable and accrued expenses	10,475,938	796,030
Advance billings – FMPA	(4,546,786)	(2,407,089)
Net cash provided by operating activities	\$ 58,781,016	\$ 49,414,330

See accompanying notes to the financial statements.

Public Gas Partners, Inc.
Notes to Financial Statements
June 30, 2013

1. Summary of Significant Accounting Policies

Overview of Business and Reporting Entity

Public Gas Partners, Inc. (PGP) is a nonprofit corporation organized under Georgia law, formed on November 15, 2004. PGP's mission is to build a portfolio of economic long-term gas supplies for its members (collectively, the Members). PGP is organized into projects in which the Members may elect to participate. Each of the Members participating in a PGP project has executed a Production Sharing Agreement (PSA) for that project. PGP has undertaken three projects: Gas Supply Pool No. 1 (Pool 1), Gas Supply Pool No. 2 (Pool 2), and Gas Supply Pool No. 3 (Pool 3). The following table summarizes the Members' participation share by Pool as of June 30, 2014 (totals may not equal 100% due to rounding). As described further below, in December 2008, Florida Municipal Power Agency (FMPA) prepaid for its share of acquisitions and, therefore, does not have a specific obligation with respect to PGP's debt (including advances payable to the Gas Authority).

Member	Pool 1 Participation Share	Pool 2 Participation Share	Pool 3 Participation Share
Florida Municipal Power Agency	22.04%	25.90%	0.00%
Municipal Gas Authority of Georgia	49.74%	58.10%	85.23%
National Public Gas Agency	0.00%	0.00%	2.20%
Patriots Energy Group	8.29%	10.00%	2.66%
The Southeast Alabama Gas District	17.91%	5.00%	9.91%
Tennessee Energy Acquisition Corp.	2.02%	1.00%	0.00%

Pool 1 was formed in 2004, Pool 2 was formed in 2005, and Pool 3 was formed in 2009. Each PSA obligates the Member to pay, as a component of its gas operations expense, its participation share of all costs incurred by the related PGP pool until all related debt has been paid and the last volumes have been delivered. The PSAs include a step-up provision that may obligate the Members to increase their participation share in the related pool in the event of default by another Member. The Members are obligated to purchase their share of gas produced by the respective Pools, or cash from the sale of the Members' share of gas produced may be received by the Members in lieu of physical supply. Each of PGP's gas supply pools is held by wholly-owned subsidiary limited liability companies which are blended component units of PGP.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Additionally, Pool 3 has a wholly-owned subsidiary, PGP Operating, LLC (PGP Operating), which operates approximately 1,400 wells in the Black Warrior Basin of Alabama.

For Pools 1 and 2, PGP was authorized to acquire gas reserves or other contract rights during a three-year acquisition period that ended June 30, 2008. Pool 3 is authorized to acquire gas reserves or other contract rights on an ongoing basis as necessary to fulfill the gas deliveries requested by Pool 3 participants. PGP utilizes wholly owned subsidiaries to own the assets and manage the operations of its various projects. All intercompany transactions have been eliminated.

The Gas Authority manages PGP's day-to-day operations under a contract that ends on November 1, 2015, and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP paid the Gas Authority \$2,010,929 and \$1,447,309 for management fees for the years ended June 30, 2014 and 2013, respectively. Also, during fiscal 2014, PGP Operating paid \$3,096,203 to the Gas Authority in salaries and benefits costs for field personnel who are employees of the Gas Authority.

Subsequent Events

In preparing the accompanying financial statements, management reviewed all known events that have occurred after June 30, 2014, and through September 22, 2014, for inclusion in the financial statements and footnotes.

Basis of Accounting

PGP follows proprietary fund accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. Proprietary fund accounting is used to report business-type activities, as contrasted with tax-supported governmental activities.

PGP also complies with policies and practices prescribed by its Board of Directors and to practices common in the natural gas industry. As the Board of Directors has the authority to set rates, PGP follows GASB-regulated accounting guidance in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Under GASB 62, regulatory assets are recorded to reflect probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities are recorded to reflect probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. At June 30, 2014 and 2013, PGP's significant regulatory assets and liabilities are included in the accompanying statements of net position as deferred outflows of resources – costs recoverable/(refundable).

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PGP's financial statements include certain significant estimates, including oil and gas reserve quantities, which are the basis for calculating depletion and impairment of oil and gas properties, the timing and cost of its asset retirement obligations, accrued revenues and expenses associated with oil and gas properties, and estimates of fair values of derivative contracts.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank demand accounts, and cash deposited in local government investment pools. Restricted cash represents funds held by a trustee restricted for future service pursuant to a bond resolution. PGP is subject to custodial credit risk, which is the risk that in the event of a bank failure, PGP's deposits may not be returned to it. At June 30, 2014, \$750,000 of PGP's cash balances was covered by federal depository insurance, \$10,283,983 was collateralized with securities held by a third-party bank's trust department, and \$8,006,740 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2013, \$750,000 of PGP's cash balances was covered by federal depository insurance, \$9,021,219 was collateralized with securities held by a third-party bank's trust department, and \$8,175,457 was subject to custodial credit risk as it was uninsured and uncollateralized.

Restricted Cash

Cash or cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreement or arrangements are recorded separately from cash and cash equivalents. As of June 30, 2014, PGP restricted \$10,142,038 for debt service, \$25,000 for security against a letter of credit, and \$446,615 for legal and administrative suspense for future royalty payments related to our oil and gas operations in Alabama. As of June 30, 2013, PGP restricted \$8,904,414 for debt service.

Other Assets

Other assets include well materials such as pumps and rotors, advances on well drilling, and deposits. The well materials are used in PGP's gas production operations and are held at purchased cost on the statement of net position.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Oil and Gas Properties

Oil and gas properties represent working and royalty interests in oil and natural gas wells and related contract rights, facilities, and equipment. PGP uses the full-cost method of accounting for its investments in oil and gas properties. Under this method, PGP capitalizes all acquisition, exploration, and development costs incurred for the purpose of finding oil and gas reserves. Costs associated with production are expensed in the period incurred. PGP also includes the present value as of the date of incurrence of its dismantlement, restoration, and abandonment costs within the capitalized oil and gas property balance.

PGP computes the depreciation, depletion, and amortization (DD&A) of oil and gas properties, including unproved properties, except those noted below, using the unit-of-production method based upon a ratio of production and estimates of proved reserve quantities. The Company's total oil and gas properties consisted of the following:

Oil and gas properties, full cost method of accounting:	2014	2013
Proved properties	\$ 900,910,439	\$ 725,452,087
Total oil and gas properties	900,910,439	725,452,087
Accumulated depletion of proved properties	(558,069,678)	(516,713,642)
Total oil and gas properties, net	\$ 342,840,761	\$ 208,738,445

Accumulated depletion was \$375,274,125 for Pool 1, \$136,001,423 for Pool 2, and \$46,794,130 for Pool 3 as of June 30, 2014, and \$353,326,992 for Pool 1, \$134,108,392 for Pool 2, and \$29,278,258 for Pool 3 as of June 30, 2013.

Under the full-cost method, capitalized costs are limited to an amount not to exceed the value of the related oil and gas reserves (referred to as a ceiling on capitalized costs). In performing its annual ceiling test, PGP limits the capitalized costs of oil and gas properties, net of accumulated DD&A, to the present value of estimated future net cash flows, including cash flows from hedging transactions, from proved oil and gas reserves, plus the lower of cost or fair value of any unproved properties included in the costs being amortized. The full-cost method stipulates that future cash flows are discounted at 10%. If capitalized costs exceed this limit, the excess is charged as additional DD&A expense. The full-cost method also stipulates that revenues for all future periods are calculated by applying the arithmetic average first-day-of-the-month price over the preceding 12 months, except in those instances where future oil and natural gas prices are covered by derivative contracts. Consequently, the preceding 12-month average prices could have a significant impact on the ceiling test calculation and could result in write-downs of oil and gas properties. No impairment loss was recognized as of June 30, 2014, under the ceiling test

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

calculation. An impairment loss of \$7,183,874 was recognized during the year ended June 30, 2013. Hedging transactions cover approximately 32% and 24% of expected future production from proved reserves for the years ended June 30, 2014 and 2013, respectively. If hedging transactions had not been considered in the impairment tests, additional expense of \$10,288,546 and \$24,359,799 for the years ended June 30, 2014 and 2013, respectively, would have been included in the impairment test.

Given the volatility of oil and gas prices, it is reasonably possible that PGP's estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline significantly, even if only for a short period of time, it is possible that additional impairments of oil and gas properties could occur.

Property, Plant, and Equipment

During fiscal 2014, PGP acquired tangible fixed assets in relation to its acquisition of the gas operations of Energen Resources in Alabama. In addition, subsequent to the acquisition, PGP acquired additional tangible fixed assets as needed for maintaining its operations. The assets acquired from Energen were specifically identified and recorded at fair value in accordance with purchase accounting. The assets subsequently acquired in the normal course of business were recorded at purchased cost.

All property, plant, and equipment are stated at cost less accumulated depreciation on the statement of net position. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant, and equipment are described below:

Property and Equipment	Useful Life
Land	Indefinite
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	5 years
Computer hardware and software	7 years
Buildings	40 years

Investments

PGP owns a noncontrolling interest in a partnership, accounted for under the equity method (see Note 2).

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources - Costs Recoverable / (Refundable)

Under the provisions of the PSAs, the Board of Directors establishes rates and charges to produce revenues sufficient to cover PGP's costs. Expenses in excess of amounts currently billable to the Members under the pricing mechanism will be recovered from future billings to the Members and are classified as a deferred outflow.

Asset Retirement Obligations

Asset retirement obligations represent the present value of the estimated costs for well shut-ins and abandonments upon retirement of the related oil and gas properties. Such costs are recorded in oil and gas properties and amortized to expense using the units-of-production method.

Advance Billings – FMPA

Advance billings – FMPA represents FMPA's payment to PGP in December 2008 of \$101,649,489 for a portion of its participation share of future gas deliveries over the life of Pools 1 and 2, adjusted by payments to or from FMPA subsequent to December 2008 for FMPA's participation share of net cash flows from oil and gas operations. The original amount advanced was based on FMPA's participation share of the December 2008 balances of PGP's lines of credit, which had been used to fund acquisitions and certain capital development costs in accordance with the terms of FMPA's PSAs for Pools 1 and 2.

Derivative Instruments

PGP uses derivative instruments, including swaps and options, to hedge its commodity price risk associated with short- and long-term changes in oil and natural gas prices. Realized gains or losses on hedging derivative instruments are recognized in operating revenues in the period to which the derivative instruments relate. Realized gains or losses on derivative instruments that do not meet the criteria to be accounted for as hedging derivative instruments (investment derivative instruments), if any, are recognized in investment income in the period to which the derivative instruments relate. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), requires PGP to record the fair value of derivative instruments on the statements of net position as an asset or liability. The change in fair value of hedging derivative instruments (unrealized gains or losses) is recorded as a deferred gain or deferred loss on the statements of net position (referred to as deferred inflows or outflows of resources). Changes in the fair value of investment derivative instruments (unrealized gains or losses) are recognized as investment income (loss) and then deferred as regulatory assets or liabilities under GASB 62. The fair values of derivative instruments with individual counterparties under master netting arrangements are offset as current and/or long-term net position or liabilities on the statements of net position. Cash receipts and payments for

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

commodity instruments are classified as operating activities in the statements of cash flows. Unrealized gains and losses on commodity derivatives held on behalf of PGP are deferred and offset corresponding fair value changes in the Gas Authority's receivable from PGP.

Deferred Inflows/Outflows of Resources – Unrealized Gain/Loss on Derivative Instruments

Deferred inflows/outflows of resources represent the unrealized gain/loss on hedging derivative instruments.

Revenues

Oil and gas revenues are recognized when production or acquired gas is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Oil and gas are sold in their local markets and shown as Operating revenues: Production sold to customers and Members in the financial statements. PGP acquires comparable volumes of produced gas in its Members' service areas and delivers that gas to the Members, shown as Operating revenues: Gas acquired and sold to members in the financial statements. Additionally, realized gains and losses related to PGP's natural gas and oil derivatives are recognized in operating revenues, as described above. Under the provisions of the PSAs, PGP is required to set rates sufficient to recover all its costs. Any excess revenues or expenses are either credited or billed, respectively, to the Members in accordance with policies established by the Board of Directors.

Income Taxes

PGP is a nonprofit corporation comprised of governmental entities and, therefore, claims exemption from federal and state income taxes. Accordingly, no provision for such taxes is made in the accompanying financial statements.

Fair Value of Financial Instruments

PGP's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other current liabilities, are carried at cost, which approximates fair values due to the short-term maturities of these instruments. PGP's derivative instruments to hedge its commodity price risk are recorded at estimated fair values.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Business Combinations

PGP applies GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69) in its accounting for acquisitions. It requires PGP to recognize the assets acquired and the liabilities assumed at their acquisition date fair values. While PGP uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, PGP may record adjustments to the assets acquired and liabilities assumed.

New Accounting Standards

In January 2013, the GASB issued GASB 69, which established accounting and financial reporting standards related to government combination and disposals of government operations. This statement was effective for financial reporting standards beginning after December 15, 2013, however in light of the acquisition PGP made in October 2013, PGP elected to adopt this standard early and apply it to the acquisition.

2. Investments

PGP owns a noncontrolling interest in a partnership that owns oil and gas properties. Summarized financial information for this investment as of and for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Assets	\$ 36,877,855	\$ 33,902,681
Liabilities	\$ 1,619,648	\$ 1,217,982
Revenues	\$ 10,633,346	\$ 17,833,794
Expenses	(8,603,145)	(10,652,638)
Net income	<u>\$ 2,030,201</u>	<u>\$ 7,181,156</u>

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

2. Investments (continued)

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2014 and 2013, primarily relates to the acquisition of additional interests from other partners.

3. Property, Plant, and Equipment

Property and equipment activity for the year ended June 30, 2014 was as follows:

	Balance at June 30, 2013	Additions	Disposals	Depreciation	Balance at June 30, 2014
Buildings	\$ -	\$ 1,266,888	\$ -	\$ -	\$ 1,266,888
Vehicles	-	1,001,634	(12,518)	-	989,116
Computer hardware and software	-	649,961	-	-	649,961
Land	-	100,000	-	-	100,000
Machinery and equipment	-	37,563	-	-	37,563
Accumulated depreciation	-	-	630	(228,389)	(227,759)
Total property, plant, and equipment net	\$ -	\$ 3,056,046	\$ (11,888)	\$ (228,389)	\$ 2,815,769

Depreciation expense relating to property, plant, and equipment for 2014 was \$228,389.

4. Debt and Advances from the Gas Authority

PGP's two \$25,000,000 lines of credit matured on December 26, 2012. In October 2009, PGP issued 10-year, fixed-rate bonds (the Series A Bonds) in a principal amount of \$125,000,000. Annual principal payments are due through October 1, 2020.

Following is a summary of activity for the lines of credit and the Series A Bonds:

	June 30, 2013	Proceeds	Payments	June 30, 2014
Series A Bonds	\$ 89,500,000	\$ -	\$ 12,250,000	\$ 77,250,000
	June 30, 2012	Proceeds	Payments	June 30, 2013
Lines of credit	\$ 9,000,000	\$ -	\$ 9,000,000	\$ -
Series A Bonds	101,750,000	-	12,250,000	89,500,000

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

4. Debt and Advances from the Gas Authority (continued)

The summary of annual debt service, along with expected interest payments, for the years ending June 30 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Years Ending June 30:			
2015	\$ 12,250,000	\$ 3,508,250	\$ 15,758,250
2016	11,000,000	2,935,700	13,935,700
2017	11,000,000	2,394,400	13,394,400
2018	16,000,000	1,719,400	17,719,400
2019	11,000,000	1,044,400	12,044,400
2020	16,000,000	384,700	16,384,700
Total	77,250,000	\$ 11,986,850	\$ 89,236,850
Unamortized bond premium	3,593,056		
Total per statement of net position	<u>\$ 80,843,056</u>		

The Series A Bonds have fixed interest rates ranging from 3.0% to 5.0%, with an effective rate, including bond premium, of 3.39%.

In December 2008, PGP entered into Advance Payment Agreements (APAs) with the Gas Authority under which the Gas Authority provides funding to PGP. The APAs mature in 2027. Interest expense is charged based on the Gas Authority's actual borrowing costs or contractual line-of-credit costs.

As of June 30, 2014, the weighted-average rate charged to PGP was approximately 1.65%. PGP made interest payments to the Gas Authority totaling \$6,261,941 and \$6,310,612 for fiscal years 2014 and 2013, respectively. The Members are obligated for their participation share of all Pool costs in which they have elected to participate, including related debt, unless such Members have also elected to pay a portion of their share of costs as an Advance Billing.

5. Derivative Instruments

Hedging Derivative Instruments

PGP uses derivative instruments to hedge its commodity price risk associated with forecasted oil and gas sales from owned reserves by converting the revenues that PGP will receive from customers from a variable price, based on a spot market price, to a fixed price.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

The derivative agreements require monthly payments to be paid or received based on the difference between the spot market price and the contract strike price on notional volumes. None of PGP's derivatives require a cash payment at inception.

Effective June 30, 2009, PGP, the Gas Authority, and the Bank of Montreal, counterparty to certain of PGP's derivative instruments, entered into a novation agreement whereby the Bank of Montreal transferred, and the Gas Authority accepted, all the rights, liabilities, duties, and obligations with respect to PGP's outstanding derivative contracts with the Bank of Montreal. Accordingly, the Gas Authority has entered into various commodity derivatives to convert forecasted sales by PGP for oil and gas reserves to fixed prices. PGP is obligated to repay all amounts incurred by the Gas Authority under these arrangements in full as required by the Gas Authority. Trades executed on behalf of PGP result in a derivative between the Gas Authority and PGP with a value that corresponds and offsets the value of the derivatives executed by the Gas Authority on PGP's behalf. At June 30, 2014 and 2013, PGP has a receivable from the Gas Authority of \$665,132 and \$3,056,084, respectively, for the fair value of these contracts. These amounts are reflected within the fair values of derivative instruments on the accompanying statements of net position.

Fair Values of Derivatives

The fair value estimates reflected on the statements of net position are based on pertinent information available to management at each statement of net position date. The fair value estimates for PGP's derivative instruments represent the present value of the differences of the fixed prices in the related instruments less the NYMEX (gas) or NYMEX – WTI (oil) forward price curve (or, for basis hedges at local delivery points, the forward price curve at that delivery point), multiplied by the corresponding monthly oil or gas volume using the LIBOR forward interest rate curve as a discount rate.

The fair values of option contracts are estimated using option pricing models that consider similar factors and also include an estimate of expected volatility. These estimated fair values may be significantly impacted by changes in underlying oil and natural gas commodity prices or the general interest rate environment. The fair values presented have not been comprehensively revalued for purposes of these financial statements since June 30, 2014, and current estimates of fair value may differ significantly from the amounts presented herein.

The fair value balances of derivative instruments outstanding at June 30, 2014 and 2013, classified by type, and the changes in fair value of such derivative instruments for the years then ended, as reported in the financial statements are as follows (losses and liabilities in parentheses).

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

As of and for the year ended June 30, 2014:

	Notional Amount at June 30, 2013*		Fair Value at June 30, 2013		Change in Fair Value		Fair Value at June 30, 2014		Notional Amount at June 30, 2014*
Hedging derivatives									
Henry Hub Swaps – Gas –									
Receive fixed	11,724,400	\$	17,306,839	\$	(17,739,238)	\$	(432,399)		54,402,600
Henry Hub Options –									
Bought put	1,497,400		2,780,886		(325,434)		2,455,452		1,388,800
Henry Hub Options –									
Sold call	1,497,400		(66,512)		25,181		(41,331)		1,388,800
WTI Swaps – Oil –									
Receive fixed	1,501,460		577,781		(9,667,681)		(9,089,900)		1,275,760
WTI Options –									
Bought put	66,500		135,627		(127,805)		7,822		36,400
WTI Options – Sold call	66,500		(432,904)		44,359		(388,545)		36,400
Basis Swaps – Gas –									
Receive fixed	2,714,000		(391,095)		67,198		(323,897)		2,835,500

As of and for the year ended June 30, 2013:

	Notional Amount at June 30, 2012*		Fair Value at June 30, 2012		Change in Fair Value		Fair Value at June 30, 2013		Notional Amount at June 30, 2013*
Hedging derivatives									
Henry Hub Swaps – Gas –									
Receive fixed	11,855,200	\$	28,388,916	\$	(11,082,077)	\$	17,306,839		11,724,400
Henry Hub Options –									
Bought put	1,497,400		2,979,987		(199,101)		2,780,886		1,497,400
Henry Hub Options –									
Sold call	1,497,400		(225,214)		158,702		(66,512)		1,497,400
WTI Swaps – Oil –									
Receive fixed	918,300		(2,068,661)		2,646,442		577,781		1,501,460
WTI Options –									
Bought put	248,750		2,159,737		(2,024,110)		135,627		66,500
WTI Options – Sold call	248,750		(2,325,365)		1,892,461		(432,904)		66,500
Basis Swaps – Gas –									
Receive fixed	3,423,700		(1,500,388)		1,109,293		(391,095)		2,714,000

* Notional amounts are in MMBtu except WTI Swaps, which are in barrels.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

Following are key terms of PGP's derivative instruments as of June 30, 2014:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps – Gas – Receive fixed	2014 – 2023	54,402,600	\$3.91 - \$8.78
Henry Hub Options – Bought put	2014 – 2016	1,388,800	\$5.50 - \$6.00
Henry Hub Options – Sold call	2014 – 2016	1,388,800	\$6.85 - \$7.00
WTI Swaps – Oil – Receive fixed	2014 – 2019	1,275,760	\$68.50 - \$101.75
WTI Options – Bought put	2014 – 2015	36,400	\$65.00 - \$80.00
WTI Options – Sold call	2014 – 2015	36,400	\$88.00 - \$99.00
Basis Swaps – Gas – Receive fixed	2014 – 2015	2,835,500	NYMEX minus (\$0.17 - \$0.50)

* Notional amounts are in MMBtu except WTI Swaps, which are in barrels.

Risks

Basis Risk

The NYMEX-based commodity hedging transactions are subject to locational basis risk. NYMEX-based forward contract transactions are based on pricing at the Henry Hub or WTI delivery points; however, PGP's oil and gas properties produce and deliver at various delivery points. PGP enters into derivative instruments based on pricing at certain local delivery points to mitigate basis risk.

Credit Risk

PGP intends to hold all derivative instruments to maturity. PGP is exposed to market price risk in the event of nonperformance by any of its four counterparties; however, PGP does not anticipate nonperformance. The counterparties to these contracts are major financial institutions with credit ratings of at least A with one of the major rating agencies.

Each Pool has entered into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of those arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2014, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2014 Asset (Liability)
Municipal Gas Authority of Georgia	AA-/A1	\$ 665,132
BP Corporation North America, Inc.	A/Baa1	(1,140,918)
JP Morgan Chase Bank, N.A.	A+/Aa3	(505,697)
Royal Bank of Canada	AA-/Aa3	(2,131,250)
Wells Fargo Bank, N.A.	AA-/Aa3	(4,700,065)

Termination Risk

PGP is exposed to termination risk in its commodity derivatives. Termination of certain PGP commodity hedges may occur if PGP's credit ratings fall below BBB and PGP elects not to collateralize the unrealized losses on those transactions with specified cash and securities. No such collateral has been required or posted as of or during the periods presented.

6. Asset Retirement Obligations (ARO)

PGP has recorded a liability representing the present value of expected future costs associated with site reclamation, facilities dismantlement, and plugging and abandonment of oil and gas wells at June 30, 2014 and 2013, as follows:

	June 30	
	2014	2013
Balance of ARO – beginning of year	\$ 11,346,585	\$ 6,828,145
Additions from acquisitions and drilling	8,064,869	152,289
Changes in cost estimate	-	4,215,611
Accretion expense	479,827	345,522
ARO settled	(518,568)	(194,982)
Balance of ARO – end of year	\$ 19,372,713	\$ 11,346,585

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

7. Acquisition of Alabama Coalbed Methane Assets

In October 2013, Pool 3 closed the acquisition of the leases and the related working and royalty interests in approximately 1,155 coalbed methane gas wells in the Black Warrior Basin of Alabama owned and operated by Energen Resources, Inc. In addition, PGP Operating acquired the operational rights to these wells and an additional 260 wells comprising the entirety of the acreage covered by these leases. In addition to these rights and assets, PGP Operating acquired a field office building and related land, vehicles used in the execution of gas field operations, well materials, and certain furniture, fixtures, computers and related equipment.

The total consideration for this acquisition was \$160,000,000, which was funded through an advance from the Gas Authority. This transaction had an effective date of July 1, 2013. In accordance with GASB 69, all revenues and expenses from the effective date through closing were capitalized into the purchase price.

The following table summarizes the allocation of estimated fair values of the net assets acquired as part of this acquisition.

Assets Acquired	Fair Value Acquired
Natural gas properties	\$ 151,069,424
Buildings	1,266,888
Well materials	1,092,649
Vehicles	1,001,632
Land	100,000
Total assets acquired	154,530,593
Net liabilities assumed	517,715
Total net position acquired	\$ 154,012,878
Pre-closing date revenues	9,668,302
Overhead fees and other credits	2,115,015
Pre-closing date expenses	(4,370,045)
Miscellaneous other adjustments	(1,426,150)
Total original purchase price	\$ 160,000,000

8. Related Party Transactions

PGP Operating delivers extracted natural gas in the normal course of operations to several pipelines, marketers and other purchasers, including Municipal Gas Marketing Services (MGMS), a joint venture owned equally by the Gas Authority and The Southeast Alabama Gas District (SEAGD). MGMS delivers volumes to both the Gas Authority and SEAGD. During

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

8. Related Party Transactions (continued)

2014, PGP Operating recognized gross sales of natural gas to MGMS totaling \$12,933,075. On a net working interest basis to Pool 3, this resulted in \$1,983,367 of fiscal 2014 revenues recorded in production sold to customers and Members. As of June 30, 2014, PGP held \$2,061,000 in accounts receivable for amounts owed by MGMS.

9. Litigation

PGP is subject to various litigation incidental to its ownership interests in oil and gas reserves. While the outcome of such contingencies cannot be predicted with certainty, management does not believe that the resolution of such matters will have a material impact on the results of operations, financial position, or cash flows of PGP.

Supplemental Schedules

Public Gas Partners, Inc.
Statement of Net Position

	June 30, 2014			
	Pool 1	Pool 2	Pool 3	Total
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	\$ 1,796,861	\$ 811,498	\$ 4,009,315	\$ 6,617,674
Restricted cash	10,142,038	25,000	446,615	10,613,653
Accounts receivable	11,333,357	1,219,399	18,531,139	31,083,895
Fair value of derivative instruments	665,132	4,870	-	670,002
Other assets	104,261	243,363	1,857,480	2,205,104
Interproject receivables (payables)	137,240	(14,736)	(122,504)	-
Total current assets	24,178,889	2,289,394	24,722,045	51,190,328
Noncurrent assets:				
Oil and gas properties – net	139,365,653	27,233,289	176,241,819	342,840,761
Property, plant, and equipment — net	-	-	2,815,769	2,815,769
Investments	-	28,281,775	-	28,281,775
Fair value of derivative instruments	839,515	90,608	333,151	1,263,274
Other assets	-	-	600,000	600,000
Total noncurrent assets	140,205,168	55,605,672	179,990,739	375,801,579
Deferred outflows of resources - costs recoverable/(refundable)	97,836,834	36,467,814	23,537,541	157,842,189
Deferred outflows of resources - unrealized loss on derivative instruments	724,749	(1,839)	6,927,269	7,650,179
Total assets and deferred outflows of resources	\$262,945,640	\$ 94,361,041	\$235,177,594	\$ 592,484,275
Liabilities, deferred inflows of resources, and net position				
Current liabilities:				
Accounts payable and accrued expenses	\$ 4,250,631	452,274	14,074,588	\$ 18,777,493
Advance billings – FMPA	2,952,157	1,240,541	-	4,192,698
Fair value of derivative instruments	926,277	110,807	2,611,536	3,648,620
Current portion of long-term debt	13,318,150	-	-	13,318,150
Asset retirement obligations	746,510	125,693	688,670	1,560,873
Total current liabilities	22,193,725	1,929,315	17,374,794	41,497,834
Noncurrent liabilities:				
Advances from the Gas Authority	107,898,533	67,559,773	204,432,676	379,890,982
Advance billings – FMPA	56,090,974	23,570,285	-	79,661,259
Fair value of derivative instruments	1,410,495	38,075	4,648,884	6,097,454
Long-term debt	67,524,906	-	-	67,524,906
Asset retirement obligations	7,827,007	1,263,593	8,721,240	17,811,840
Total noncurrent liabilities	240,751,915	92,431,726	217,802,800	550,986,441
Total liabilities	262,945,640	94,361,041	235,177,594	592,484,275
Net position	-	-	-	-
Total liabilities, deferred inflows of resources, and net position	\$262,945,640	\$ 94,361,041	\$235,177,594	\$ 592,484,275

Public Gas Partners, Inc.
Statement of Revenues,
Expenses, and Changes in Net Position

	Year Ended June 30, 2014			
	Pool 1	Pool 2	Pool 3	Total
Operating revenues:				
Production sold to customers and Members	\$ 71,023,695	\$ 6,179,030	\$ 38,516,266	\$ 115,718,991
Gas acquired and sold to Members	31,988,670	12,572,826	18,225,725	62,787,221
Total operating revenues	103,012,365	18,751,856	56,741,991	178,506,212
Operating expenses:				
Oil and gas operations	26,726,093	3,560,399	14,376,527	44,663,019
Gas supplies delivered to Members	28,657,796	11,259,261	19,051,971	58,969,028
Depletion of oil and gas properties	21,947,133	1,893,030	17,515,872	41,356,035
Depreciation of property, plant, and equipment	-	-	228,389	228,389
General and administrative	1,223,017	235,594	3,755,866	5,214,477
Total operating expenses	78,554,039	16,948,284	54,928,625	150,430,948
Operating income	24,458,326	1,803,572	1,813,366	28,075,264
Nonoperating income (expense):				
Interest expense and other, net	(5,778,281)	(1,556,920)	(2,131,180)	(9,466,381)
Equity in earnings of affiliates	-	1,592,331	-	1,592,331
Deferred outflows of resources - costs recoverable/(refundable)	(18,680,045)	(1,838,983)	317,814	(20,201,214)
Total nonoperating expense	(24,458,326)	(1,803,572)	(1,813,366)	(28,075,264)
Changes in net position	-	-	-	-
Net position:				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

Public Gas Partners, Inc.
Statement of Cash Flows

	Year Ended June 30, 2014			
	Pool 1	Pool 2	Pool 3	Total
Operating activities				
Receipts from customers and Members	\$ 103,846,904	\$ 18,911,289	\$ 46,541,048	\$ 169,299,241
Payments to Members	(4,122,912)	(423,874)	(3,096,203)	(7,642,989)
Payments to operators and suppliers	(58,257,527)	(15,286,900)	(26,681,404)	(100,225,831)
Payments from (to) oil and gas derivative counterparties, net	337,855	265,358	(3,252,618)	(2,649,405)
Internal activity — payments to other pools	(110,345)	25,950	84,395	—
Net cash provided by (used in) operating activities	41,693,975	3,491,823	13,595,218	58,781,016
Capital and related financing activities				
Acquisitions of oil and gas reserves and operating assets	—	—	(154,012,878)	(154,012,878)
Sale of oil and gas reserves	1,883,859	—	153,909	2,037,768
Capital expenditures of property, plant, and equipment	—	—	(675,007)	(675,007)
Sale of property, plant, and equipment	—	—	9,500	9,500
Drilling and completion costs, net of refunds	(20,347,163)	(608,304)	12,675	(20,942,792)
Repayments of gas revenue bonds	(12,250,000)	—	—	(12,250,000)
Advances from the Gas Authority	(4,864,487)	(2,479,068)	146,486,831	139,143,276
Interest payments and debt issuance costs	(6,986,442)	(1,414,233)	(2,120,734)	(10,521,409)
Net cash provided by (used in) capital and related financing activities	(42,564,233)	(4,501,605)	(10,145,704)	(57,211,542)
Investing activities				
Investment distributions/(additions)	(83,756)	(1,567,764)	(8,061)	(1,659,581)
Net cash provided by (used in) investing activities	(83,756)	(1,567,764)	(8,061)	(1,659,581)
Net increase (decrease) in cash equivalents	(954,014)	(2,577,546)	3,441,453	(90,107)
Cash and cash equivalents:				
Beginning of period	12,892,913	3,414,044	1,014,477	17,321,434
End of period	\$ 11,938,899	\$ 836,498	\$ 4,455,930	\$ 17,231,327
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:				
Operating income	\$ 24,458,326	\$ 1,803,572	\$ 1,813,366	\$ 28,075,264
Adjustments to reconcile net cash flows provided by (used in) operating activities:				
Accretion of asset retirement obligation	348,581	64,680	66,566	479,827
Depreciation expense	—	—	228,389	228,389
Depletion of oil and gas properties	21,947,133	1,893,030	17,515,872	41,356,035
Changes in certain assets and liabilities:				
Accounts receivable	1,172,394	424,793	(17,794,968)	(16,197,781)
Other assets	161,633	113,329	(1,364,832)	(1,089,870)
Accounts payable and accrued expenses	(2,160,835)	(409,657)	13,046,430	10,475,938
Advance billings — FMPA	(4,122,912)	(423,874)	—	(4,546,786)
Interproject receivables (payables)	(110,345)	25,950	84,395	—
Net cash provided by operating activities	\$ 41,693,975	\$ 3,491,823	\$ 13,595,218	\$ 58,781,016