

Public Gas Partners

Financial Statements

As of and for the Years Ended
June 30, 2012 and 2011



Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2012 and 2011

Table of Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis (Unaudited)	2
Financial Statements	
Statements of Net Position.....	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows.....	12
Notes to Financial Statements.....	13
Supplemental Schedules (Unaudited)	
Statement of Net Position	29
Statement of Revenues, Expenses, and Changes in Net Position	30
Statement of Cash Flows	31

Report of Independent Auditors

The Board of Directors
Public Gas Partners, Inc.

We have audited the accompanying basic financial statements of Public Gas Partners, Inc. (the Company) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Company's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Public Gas Partners, Inc. as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States by us. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



September 26, 2012

Public Gas Partners, Inc.

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 seven members: Florida Municipal Power Agency (FMPA), Lower Alabama Gas District, Municipal Gas Authority of Georgia (the Gas Authority), Patriots Energy Group, The Southeast Alabama Gas District, Tennessee Energy Acquisition Corporation, and National Public Gas Agency (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. Six Members are participants in Pools 1 and 2, and five 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 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, 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, 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

Public Gas Partners, Inc.

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

Authority (continued)

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.

Operations

The Gas Authority manages PGP's day-to-day operations under a contract that ends on November 1, 2013. 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 Members in the form of billing credits or rate changes. The statement of revenues, expenses, and changes in net position presents 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.

Public Gas Partners, Inc.

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

Overview of the Financial Statements (continued)

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 accompanying financial statements.

Financial Analysis – 2012 Compared to 2011

Following are the condensed statements of net position as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Capital assets	\$ 219,517,080	\$ 221,947,272
Noncapital assets	260,132,965	248,366,509
Deferred outflows of resources	–	626,204
Total assets and deferred outflows of resources	<u>\$ 479,650,045</u>	<u>\$ 470,939,985</u>
Current liabilities	\$ 37,565,882	\$ 47,128,043
Long-term liabilities	414,675,151	422,165,301
Total liabilities	<u>452,241,033</u>	<u>469,293,344</u>
Deferred inflows of resources	27,409,012	1,646,641
Net position	<u>–</u>	<u>–</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 479,650,045</u>	<u>\$ 470,939,985</u>

The increase in total assets and deferred outflows of resources of \$8,710,060 was primarily due to an increase in fair value of derivative instruments of \$21,450,927 due to changes in market values of derivative instruments and an increase in investments of \$5,206,629 from PGP's share of investee earnings net of distributions received, offset by a decrease in oil and gas properties and unproved properties and development costs not being amortized of \$2,430,192, which represents depletion offset by acquisitions and capital development, and a decrease in costs recoverable from future billings of \$10,168,012 related to the excess of revenues over expenses.

Public Gas Partners, Inc.

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

Financial Analysis – 2012 Compared to 2011 (continued)

The increase in liabilities, deferred inflows of resources, and net position of \$8,710,060 was primarily due to a net increase in deferred inflows of resources and fair value of financial instruments of \$20,824,724 due to changes in market values of derivative instruments and an increase in advances from the Gas Authority of \$9,642,036, offset by a decrease in long-term debt of \$13,667,505 due to a principal payment and amortization of bond premium and a decrease in the line of credit payable of \$5,602,454 due to net repayments made during the year.

Following is a summary of operations for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Operating revenues:		
From customers	\$ 79,325,417	\$ 71,973,281
From Members	31,811,207	33,720,943
Total operating revenues	<u>111,136,624</u>	<u>105,694,224</u>
Operating expenses:		
Oil and gas field operations	30,758,398	29,127,760
Gas supplies delivered to Members	21,092,128	27,127,040
Depletion of oil and gas properties	43,585,189	23,737,361
General and administrative	2,641,587	2,716,986
Total operating expenses	<u>98,077,302</u>	<u>82,709,147</u>
Operating income	<u>13,059,322</u>	<u>22,985,077</u>
Nonoperating income (expense):		
Interest expense	(9,354,342)	(10,168,424)
Interest and other income, net	153	7,503
Equity in earnings of affiliates	6,462,879	3,579,054
Costs refundable in future billings	(10,168,012)	(16,403,210)
Total nonoperating expense	<u>(13,059,322)</u>	<u>(22,985,077)</u>
Changes in net position	–	–
Net position:		
Beginning of year	–	–
End of year	<u>\$ –</u>	<u>\$ –</u>

Public Gas Partners, Inc.

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

Financial Analysis – 2012 Compared to 2011 (continued)

Operating Revenues

Operating revenues from customers increased \$7,352,136, or 10.2%, due to a 12.0% increase in production driven by an acquisition of producing reserves, as well as capital development that partially offset the production decline curve. Price changes were mixed, with gas prices declining 23% year over year, while oil prices increased 10%. Operating revenues from Members declined \$1,909,736, or 5.7%, due to slightly lower volumes and gas prices.

Operating Expenses

Operating expenses increased \$15,368,155, or 19% primarily due to a \$19,847,828 increase in depletion, caused by the addition to the amortization pool of properties that were previously classified as unproved, an acquisition of producing reserves, and an impairment charge of \$12,780,223 due to the reclassification of unproved properties, as well as significantly lower gas prices experienced in the current year. This increase was offset by a decrease in gas supplies delivered to Members of \$6,034,912, or 22% primarily due to a decline in gas prices.

Liquidity and Capital Resources

PGP's cash balance decreased \$1,393,267 to \$6,677,899 at June 30, 2012. See the accompanying statement of cash flows for details of cash activity during fiscal 2012. In December 2011, PGP renewed its \$25,000,000 lines of credit with each of two banks for the purpose of paying down debt and funding potential acquisitions. Such lines are secured by the Pool 3 PSAs and mature on December 26, 2012. As of June 30, 2012, \$9,000,000 was outstanding under the lines of credit.

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.

Public Gas Partners, Inc.

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

Financial Analysis – 2011 Compared to 2010

Following are the condensed statements of net position as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Capital assets	\$ 221,947,272	\$ 213,581,737
Noncapital assets	248,366,509	265,735,150
Deferred outflows of resources	626,204	–
Total assets and deferred outflows of resources	<u>\$ 470,939,985</u>	<u>\$ 479,316,887</u>
Current liabilities	\$ 47,128,043	\$ 63,036,686
Long-term liabilities	422,165,301	404,088,159
Total liabilities	469,293,344	467,124,845
Deferred inflows of resources	1,646,641	12,192,042
Net position	–	–
Total liabilities, deferred inflows of resources, and net position	<u>\$ 470,939,985</u>	<u>\$ 479,316,887</u>

The decrease in total assets and deferred outflows of resources of \$8,376,902 was primarily due to a decrease in oil and gas properties of \$9,373,536 related to the excess of depletion expense over capital additions and a decrease in costs recoverable from future billings of \$16,403,210 related to the excess of revenues over expenses, offset by an increase in unproved properties and development costs not being amortized of \$17,739,071 related to drilling costs on developmental-stage projects.

The decrease in liabilities, deferred inflows of resources, and net position of \$8,376,902 was primarily due to a decrease in the line of credit payable of \$20,397,546 due to net repayments during the year, a decrease in long-term debt of \$12,644,826 due to a principal payment and amortization of bond premium, and a decrease in deferred inflows of resources of \$10,545,401 due to changes in market values of derivative instruments, offset by an increase in advances from the Gas Authority of \$30,288,794 and an increase in accounts payable and accrued expenses of \$3,468,627 due primarily to timing of payables.

Public Gas Partners, Inc.

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

Financial Analysis – 2011 Compared to 2010 (continued)

Following is a summary of operations for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Operating revenues:		
From customers	\$ 71,973,281	\$ 73,513,508
From Members	33,720,943	28,147,397
Total operating revenues	<u>105,694,224</u>	<u>101,660,905</u>
Operating expenses:		
Oil and gas field operations	29,127,760	28,248,743
Gas supplies delivered to Members	27,127,040	29,711,216
Depletion of oil and gas properties	23,737,361	24,367,336
General and administrative	2,716,986	2,912,266
Total operating expenses	<u>82,709,147</u>	<u>85,239,561</u>
Operating income	<u>22,985,077</u>	<u>16,421,344</u>
Nonoperating income (expense):		
Interest expense	(10,168,424)	(12,256,961)
Interest and other income, net	7,503	4,978,763
Equity in earnings of affiliates	3,579,054	8,437,817
Costs refundable in future billings	(16,403,210)	(17,580,963)
Total nonoperating expense	<u>(22,985,077)</u>	<u>(16,421,344)</u>
Changes in net position	–	–
Net position:		
Beginning of year	–	–
End of year	<u>\$ –</u>	<u>\$ –</u>

Operating Revenues

Operating revenues from customers decreased \$1,540,227, or 2.1%, primarily due to a slight decline in production. Operating revenues from Members increased \$5,573,546, or 19.8%, primarily due to higher costs charged to Members to accelerate repayment of debt.

Public Gas Partners, Inc.

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

Financial Analysis – 2011 Compared to 2010 (continued)

Operating Expenses

Oil and gas field operations expense increased \$879,017, or 3.1%, due to normal inflation. Gas supplies delivered to Members decreased by \$2,584,176, or 8.7%, due to slightly decreased volumes delivered to Members. Depletion expense decreased by \$629,975, or 2.6%, primarily due to a slight decrease in production. General and administrative expenses decreased \$195,280, or 6.7%, primarily due to legal and financing costs incurred in fiscal 2010 to establish the lines of credits and certain other initial contracts with counterparties.

Public Gas Partners, Inc.
Statements of Net Position

	June 30	
	2012	2011
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 6,677,899	\$ 8,071,166
Accounts receivable – Members	2,445,604	2,675,936
Accounts receivable – other	11,816,988	14,180,130
Fair value of derivative instruments	9,466,105	3,675,658
Other assets	941,778	1,507,430
Total current assets	31,348,374	30,110,320
Noncurrent assets:		
Oil and gas properties – net	214,031,507	165,537,458
Unproved properties and development costs not being amortized	5,485,573	56,409,814
Investments	23,318,256	18,111,627
Fair value of derivative instruments	19,103,882	3,443,402
Costs recoverable from future billings	185,687,966	195,855,978
Other assets	674,487	845,182
Total noncurrent assets	448,301,671	440,203,461
Deferred outflows of resources - unrealized gain on derivative instruments	–	626,204
Total assets and deferred outflows of resources	\$ 479,650,045	\$ 470,939,985
Liabilities, deferred inflows of resources, and net position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,275,685	\$ 10,478,969
Advance billings – FMPA	4,540,392	4,639,765
Fair value of derivative instruments	611,361	3,151,709
Current portion long-term debt	13,667,505	13,833,799
Lines of credit payable	9,000,000	14,602,454
Asset retirement obligation	470,939	421,347
Total current liabilities	37,565,882	47,128,043
Noncurrent liabilities:		
Advances from the Gas Authority	227,160,168	217,518,134
Advance billings – FMPA	86,267,440	88,155,538
Fair value of derivative instruments	549,614	2,946,913
Long-term debt	94,340,723	108,008,228
Asset retirement obligation	6,357,206	5,536,488
Total noncurrent liabilities	414,675,151	422,165,301
Total liabilities	452,241,033	469,293,344
Deferred inflows of resources - unrealized gain on derivative instruments	27,409,012	1,646,641
Net position	–	–
Total liabilities, deferred inflows of resources, and net position	\$ 479,650,045	\$ 470,939,985

See accompanying notes.

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

	Year Ended June 30	
	2012	2011
Operating revenues:		
From customers	\$ 79,325,417	\$ 71,973,281
From Members	31,811,207	33,720,943
Total operating revenues	111,136,624	105,694,224
Operating expenses:		
Oil and gas field operations	30,758,398	29,127,760
Gas supplies delivered to Members	21,092,128	27,127,040
Depletion of oil and gas properties	43,585,189	23,737,361
General and administrative	2,641,587	2,716,986
Total operating expenses	98,077,302	82,709,147
Operating income	13,059,322	22,985,077
Nonoperating income (expense):		
Interest expense	(9,354,342)	(10,168,424)
Interest and other income, net	153	7,503
Equity in earnings of affiliates	6,462,879	3,579,054
Costs refundable in future billings	(10,168,012)	(16,403,210)
Total nonoperating expense	(13,059,322)	(22,985,077)
Changes in net position	-	-
Net position:		
Beginning of year	-	-
End of year	\$ -	\$ -

See accompanying notes.

Public Gas Partners, Inc. Statements of Cash Flows

	Year Ended June 30	
	2012	2011
Operating activities		
Receipts from customers and Members	\$ 108,217,423	\$ 98,530,270
Payments to Members	(1,990,684)	(2,967,504)
Payments to suppliers	(54,557,600)	(58,060,206)
Payments from oil and gas derivative counterparties, net	5,512,676	3,225,489
Net cash provided by operating activities	57,181,815	40,728,049
Capital and related financing activities		
Acquisition of oil and gas reserves	(13,880,706)	–
Sales of oil and gas reserves	1,008,875	2,007,638
Capital expenditures	(27,782,120)	(32,119,873)
Repayments of gas revenue bonds	(12,250,000)	(11,000,000)
Proceeds from lines of credit	19,000,000	17,000,000
Repayments on lines of credit	(24,602,454)	(37,397,546)
Repayments to the Gas Authority	9,642,036	30,293,612
Interest payments and debt issuance costs	(10,967,116)	(11,671,809)
Net cash used in capital and related financing activities	(59,831,485)	(42,887,978)
Investing activities		
Investment distributions	1,256,250	–
Investment additions	–	(1,050,000)
Interest receipts	153	7,502
Net cash provided by (used in) investing activities	1,256,403	(1,042,498)
Net decrease in cash and cash equivalents	(1,393,267)	(3,202,427)
Cash and cash equivalents:		
Beginning of year	8,071,166	11,273,593
End of year	\$ 6,677,899	\$ 8,071,166
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:		
Operating income	\$ 13,059,322	\$ 22,985,077
Adjustments to reconcile to net cash flows provided by operating activities:		
Accretion of asset retirement obligation	300,985	279,635
Depletion of oil and gas reserves	43,585,189	23,737,361
Changes in certain assets and liabilities:		
Accounts receivable – Members	230,332	(94,876)
Accounts receivable – other	2,363,143	(4,524,957)
Accounts payable and accrued expenses	(369,685)	1,066,946
Accounts payable - members	–	(322,072)
Advance billings – FMPA	(1,987,471)	(2,399,065)
Net cash provided by operating activities	\$ 57,181,815	\$ 40,728,049

See accompanying notes.

Public Gas Partners, Inc.

Notes to Financial Statements

As of and for the Years Ended June 30, 2012 and 2011

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 is comprised of seven members: Florida Municipal Power Agency (FMPA), Lower Alabama Gas District, Municipal Gas Authority of Georgia (the Gas Authority), Patriots Energy Group, The Southeast Alabama Gas District, Tennessee Energy Acquisition Corporation, and National Public Gas Agency (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. 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 Members to increase their participation share in the related pool in the event of default by another Member. 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 Members in lieu of physical supply. Six Members are participants in Pools 1 and 2, and five Members are participants in Pool 3. Each of PGP's gas supply pools are held by wholly-owned subsidiary limited liability companies which are blended component units of PGP.

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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The following table summarizes the Members' participation share by Pool as of June 30, 2012 (totals may not equal 100% due to rounding). As described further below, in December 2008, 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%
Lower Alabama Gas District	3.32%	4.50%	2.97%
Municipal Gas Authority of Georgia	46.43%	53.60%	73.23%
Patriots Energy Group	8.29%	10.00%	3.66%
The Southeast Alabama Gas District	17.91%	5.00%	17.11%
Tennessee Energy Acquisition Corp.	2.02%	1.00%	0.00%
National Public Gas Agency	0.00%	0.00%	3.02%

The Gas Authority manages PGP's day-to-day operations under a contract that ends on November 1, 2013, and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP paid the Gas Authority \$1,392,020 and \$1,236,317 for management fees for the years ended June 30, 2012 and 2011, respectively.

In preparing the accompanying financial statements, management reviewed all known events that have occurred after June 30, 2012, and through September 26, 2012, 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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 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, 2012 and 2011, PGP's significant regulatory assets and liabilities are included in the accompanying statements of net position as costs recoverable from future billings.

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.

New Accounting Standards

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Public Gas Partners adopted this Statement as of July 1, 2011. Accordingly, in the 2011 financial statements, \$626,203 of deferred unrealized loss on derivative instruments, net was reclassified from assets to deferred outflows of resources and \$1,646,641 of deferred unrealized gain on derivative instruments, net was reclassified from liabilities to deferred inflows of resources.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and equivalents include cash on hand, bank demand accounts, and cash deposited in local government investment pools. 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, 2012, \$750,000 of PGP's cash balances were covered by federal depository insurance, \$117,537 was collateralized with securities held by a third-party bank's trust department, and \$5,905,822 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2011, \$750,000 of PGP's cash balances were covered by federal depository insurance, \$117,396 was collateralized with securities held by a third-party bank's trust department, and \$7,203,770 was subject to custodial credit risk as it was uninsured and uncollateralized.

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. Accumulated depletion was \$332,004,826 for Pool 1, \$128,483,001 for Pool 2 and \$17,818,143 for Pool 3 as of June 30, 2012, and \$309,412,248 for Pool 1, \$125,308,533 for Pool 2, and \$0 for Pool 3 as of June 30, 2011.

PGP excludes from amortization the cost of certain unproved properties. As of June 30, 2012 and 2011, \$5,485,573 and \$56,409,814, respectively, of development costs are not being amortized. The excluded costs relate to certain wells under development in Oklahoma.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Under the full-cost method, capitalized costs are limited to an amount not to exceed the value of the related gas reserves (referred to as a ceiling on capitalized costs). In performing its annual ceiling test, PGP limits the capitalized costs of 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 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 average first-of-month price over the preceding 12 months, except in those instances where future 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 gas properties. As of June 30, 2012, under the ceiling test calculation, PGP recognized an impairment loss of \$12,780,223. The impairment was the result of pricing all future gas production at the prior 12-month average of \$3.15/mcf, as required by the full-cost method, as well as the addition to the amortization pool of several projects that previously were accounted for as development projects. Such impairment loss was deferred under GASB 62 as such costs are expected to be recovered in future billings to Members over the life of the related oil and gas properties. No impairment loss was recognized during the year ended June 30, 2011. Hedging transactions cover approximately 22% and 24% of expected future production from proved reserves for the years ended June 30, 2012 and 2011, respectively. If hedging transactions had not been considered in the impairment tests, additional expense of \$28,075,418 and \$23,692,661 for the years ended June 30, 2012 and 2011, 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.

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)

Costs (Refundable In) Recoverable From Future Billings

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 Members under the pricing mechanism will be recovered from future billings to Members and are classified as a deferred debit. Billings in excess of expenses incurred will be refunded through reductions in future billings to Members and are classified as a deferred credit.

Asset Retirement Obligation

Asset retirement obligation represents the present value of the estimated costs for well shut-in and abandonment upon retirement of the related oil and gas properties. Such costs are recorded in oil and gas properties and amortized to expense using the unit-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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 statement of net position as an asset or liability. The change in fair value of hedging derivative instruments (unrealized gains or losses) are recorded as a deferred gain or deferred loss on the statement 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 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 of Resources

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

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 revenue from customers in the financial statements. PGP acquires comparable volumes of produced gas in its Members' service areas and delivers that gas to Members, shown as revenue from 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 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 (see Note 4).

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

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, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Assets	<u>\$ 29,926,372</u>	<u>\$ 25,054,589</u>
Liabilities	<u>\$ 1,217,982</u>	<u>\$ 749,010</u>
Revenues	\$ 17,419,046	\$ 11,017,725
Expenses	<u>(9,025,403)</u>	<u>(5,735,970)</u>
Net income	<u>\$ 8,393,643</u>	<u>\$ 5,281,755</u>

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2012 and 2011, primarily relates to the acquisition of additional interests from other partners.

3. Debt and Advances from the Gas Authority

PGP has lines of credit with two banks with available credit of \$25,000,000 each for the purpose of paying down advances from the Gas Authority and funding potential acquisitions. Such lines are secured by the Pool 3 PSAs and mature 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, 2027.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

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

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

	<u>June 30, 2011</u>	<u>Proceeds</u>	<u>Payments</u>	<u>June 30, 2012</u>
Lines of credit	\$ 14,602,454	\$ 19,000,000	\$ 24,602,454	\$ 9,000,000
Series A Bonds	114,000,000	–	12,250,000	101,750,000

	<u>June 30, 2010</u>	<u>Proceeds</u>	<u>Payments</u>	<u>June 30, 2011</u>
Lines of credit	\$ 35,000,000	\$ 17,000,000	37,397,546	\$ 14,602,454
Series A Bonds	125,000,000	–	11,000,000	114,000,000

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:			
2013	\$ 12,250,000	\$ 4,726,250	\$ 16,976,250
2014	12,250,000	4,117,750	16,367,750
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
2018–2020	43,000,000	3,148,500	46,148,500
Total	101,750,000	<u>\$ 20,830,850</u>	<u>\$ 122,580,850</u>
Unamortized bond premium	6,258,228		
Total per balance sheet	<u>\$ 108,008,228</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%. The estimated fair value of the Bonds as of June 30, 2012, computed using a discounted cash flow method based on current rates, was \$112,612,202.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

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

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 2019. Interest expense is charged based on the Gas Authority's actual borrowing costs or contractual line of credit costs. As of June 30, 2012, the weighted-average rate charged to PGP was approximately 2.22%. PGP made interest payments to the Gas Authority totaling \$5,050,489 and \$4,051,621 for fiscal 2012 and 2011, respectively. 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 (see Note 1).

4. 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. 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 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, 2012 and 2011, PGP has a receivable from the Gas Authority of \$7,875,429 and \$1,705,427, 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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

4. Derivative Instruments (continued)

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, 2012, 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, 2012 and 2011, 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). Notional amounts of gas are in Mmbtu and oil are in Bbls.

As of and for the year ended June 30, 2012:

	Notional Amount at June 30, 2011	Fair Value at June 30, 2011	Change in Fair Value	Fair Value at June 30, 2012	Notional Amount at June 30, 2012
Hedging derivatives					
Henry Hub swaps – gas – receive fixed	10,100,800	\$ 23,456,938	\$ 4,931,978	\$ 28,388,916	11,855,200
Henry Hub options – bought put	1,497,400	1,528,424	1,451,563	2,979,987	1,497,400
Henry Hub options – sold call	1,497,400	(861,001)	635,788	(225,213)	1,497,400
WTI Swaps – oil – receive fixed	1,065,270	(18,315,472)	16,246,811	(2,068,661)	918,300
WTI options – bought put	272,900	1,810,111	349,626	2,159,737	248,750
WTI options – sold call	272,900	(4,502,212)	2,176,847	(2,325,365)	248,750
Basis swaps – gas – receive fixed	5,732,600	(2,096,351)	595,963	(1,500,388)	3,423,700

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

4. Derivative Instruments (continued)

As of and for the year ended June 30, 2011:

	Notional Amount at June 30, 2010	Fair Value at June 30, 2010	Change in Fair Value	Fair Value at June 30, 2011	Notional Amount at June 30, 2011
Hedging derivatives					
Henry Hub swaps – gas – receive fixed	10,088,561	\$ 24,295,030	\$ (838,092)	\$ 23,456,938	10,100,800
Henry Hub options – bought put	679,000	391,604	1,136,820	1,528,424	1,497,400
Henry Hub options – sold call	679,000	(192,700)	(668,301)	(861,001)	1,497,400
WTI swaps – oil – receive fixed	871,429	(9,850,855)	(8,464,617)	(18,315,472)	1,065,270
WTI options – bought put	272,500	3,334,324	(1,524,213)	1,810,111	272,900
WTI options – sold call	272,500	(3,129,775)	(1,372,437)	(4,502,212)	272,900
Basis swaps – gas – receive fixed	9,299,300	(2,655,586)	559,235	(2,096,351)	5,732,600

Following are key terms of PGP's derivative instruments as of June 30, 2012:

	Effective Dates	Notional Volumes	Strike Prices
Hedging derivatives			
Henry Hub swaps – gas – receive fixed	2012–2017	11,855,200	\$3.54–\$8.78
Henry Hub options – bought put	2014–2016	1,497,400	\$5.50–\$6.00
Henry Hub options – sold call	2014–2016	1,497,400	\$6.85–\$7.00
WTI swaps – oil – receive fixed	2012–2017	918,300	\$65.35–\$105.25
WTI options – bought put	2012–2015	248,750	\$65.00–\$80.00
WTI options – sold call	2012–2015	248,750	\$88.00–\$99.00
Basis swaps – gas – receive fixed	2012–2014	3,423,700	Nymex minus (\$0.29–\$1.10)

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

4. Derivative Instruments (continued)

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. The Company enters into derivative instruments based on pricing at certain local delivery points to mitigate basis risk. Changes in NYMEX-based natural gas prices and NYMEX-WTI-based oil prices, coupled with basis swaps, have been, and are anticipated to be, highly correlated with oil and gas prices at PGP's properties' delivery points.

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 Baa1.

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)

4. Derivative Instruments (continued)

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2012, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2012 Asset (Liability)
Municipal Gas Authority of Georgia	AA-/A1	\$ 7,875,428
BP Corporation North America, Inc.	A/Baa1	(732,455)
JP Morgan Chase Bank, N.A.	A+/Aa3	13,457,962
Royal Bank of Canada	AA-/Aa3	6,808,077

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.

5. Asset Retirement Obligations (ARO)

PGP has recorded a liability representing the present value of expected future costs associated with site reclamation, facilities dismantlement, and plug and abandonment of oil and gas wells at June 30, 2012 and 2011, as follows:

	June 30	
	2012	2011
Balance of ARO – Beginning of year	\$ 5,957,835	\$ 5,708,683
Additions from acquisitions and drilling	681,291	56,854
Accretion expense	300,985	283,990
ARO settled	(111,966)	(91,692)
Balance of ARO – End of year	\$ 6,828,145	\$ 5,957,835

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

6. 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, 2012			
	Pool 1	Pool 2	Pool 3	Total
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,126,893	\$ 1,278,603	\$ 1,272,403	\$ 6,677,899
Accounts receivable – Members	888,413	685,991	871,200	2,445,604
Accounts receivable – other	9,931,072	793,704	1,092,212	11,816,988
Fair value of derivative instruments	6,839,017	2,032,566	594,522	9,466,105
Interproject receivables (payables)	(113,982)	1,794,053	(1,680,071)	–
Other assets	381,426	558,759	1,593	941,778
Total current assets	22,052,839	7,143,676	2,151,859	31,348,374
Noncurrent assets:				
Oil and gas properties – net	145,553,847	23,330,926	45,146,734	214,031,507
Unproved properties and development costs not being amortized	–	5,485,573	–	5,485,573
Investments	–	23,318,256	–	23,318,256
Fair value of derivative instruments	14,626,756	2,844,713	1,632,413	19,103,882
Costs recoverable from future billings	131,497,597	39,747,330	14,443,039	185,687,966
Other assets	674,487	–	–	674,487
Total noncurrent assets	292,352,687	94,726,798	61,222,186	448,301,671
Total assets	\$ 314,405,526	\$ 101,870,474	\$ 63,374,045	\$ 479,650,045
Liabilities, deferred inflows of resources, and net position				
Current liabilities:				
Accounts payable and accrued expenses	\$ 6,727,376	\$ 996,487	\$ 1,551,822	\$ 9,275,685
Advance billings – FMPA	3,277,726	1,262,666	–	4,540,392
Fair value of derivative instruments	581,012	30,349	–	611,361
Current portion long-term debt	13,667,505	–	–	13,667,505
Lines of credit payable	–	–	9,000,000	9,000,000
Asset retirement obligation	365,944	60,374	44,621	470,939
Total current liabilities	24,619,563	2,349,876	10,596,443	37,565,882
Noncurrent liabilities:				
Advances from the Gas Authority	107,191,796	69,995,332	49,973,040	227,160,168
Advance billings – FMPA	62,276,781	23,990,659	–	86,267,440
Fair value of derivative instruments	549,614	–	–	549,614
Long-term debt	94,340,723	–	–	94,340,723
Asset retirement obligation	5,091,901	687,677	577,628	6,357,206
Total noncurrent liabilities	269,450,815	94,673,668	50,550,668	414,675,151
Total liabilities	294,070,378	97,023,544	61,147,111	452,241,033
Deferred inflows of resources - unrealized gain on derivative instruments	20,335,148	4,846,930	2,226,934	27,409,012
Net position	–	–	–	–
Total liabilities, deferred inflows of resources, and net position	\$ 314,405,526	\$ 101,870,474	\$ 63,374,045	\$ 479,650,045

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

	Year Ended June 30, 2012			
	Pool 1 <i>(unaudited)</i>	Pool 2 <i>(unaudited)</i>	Pool 3 <i>(unaudited)</i>	Total
Operating revenues:				
From customers	\$ 64,795,272	\$ 6,856,837	\$ 7,673,308	\$ 79,325,417
From members	20,225,079	8,178,031	3,408,097	31,811,207
Total operating revenues	<u>85,020,351</u>	<u>15,034,868</u>	<u>11,081,405</u>	<u>111,136,624</u>
Operating expenses:				
Oil and gas operations	23,108,876	3,924,456	3,725,066	30,758,398
Gas supplies delivered to members	12,314,516	5,514,716	3,262,896	21,092,128
Depletion of oil and gas properties	22,592,578	3,174,469	17,818,142	43,585,189
General and administrative	1,890,752	504,947	245,888	2,641,587
Total operating expenses	<u>59,906,722</u>	<u>13,118,588</u>	<u>25,051,992</u>	<u>98,077,302</u>
Operating income	<u>25,113,629</u>	<u>1,916,280</u>	<u>(13,970,587)</u>	<u>13,059,322</u>
Nonoperating income (expense):				
Interest expense	(6,823,490)	(1,441,653)	(1,089,199)	(9,354,342)
Interest and other income, net	130	11	12	153
Equity in earnings (losses) of affiliates	–	6,462,879	–	6,462,879
Costs recoverable in future billings	(18,290,269)	(6,937,517)	15,059,774	(10,168,012)
Total nonoperating loss	<u>(25,113,629)</u>	<u>(1,916,280)</u>	<u>13,970,587</u>	<u>(13,059,322)</u>
Change in net position	–	–	–	–
Net position:				
Beginning of year	–	–	–	–
End of year	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

Public Gas Partners, Inc. Statement of Cash Flows

	Year Ended June 30, 2012			
	Pool 1 <i>(unaudited)</i>	Pool 2 <i>(unaudited)</i>	Pool 3 <i>(unaudited)</i>	Total
Operating activities				
Receipts from customers and Members	\$ 85,025,185	\$ 14,030,649	\$ 9,161,589	\$ 108,217,423
Payments to Members	(1,910,096)	(1,765,186)	1,684,598	(1,990,684)
Payments to suppliers	(38,508,471)	(10,162,984)	(5,886,145)	(54,557,600)
Payments from oil and gas derivative counterparties, net	3,436,167	1,773,352	303,157	5,512,676
Net cash provided by operating activities	48,042,785	3,875,831	5,263,199	57,181,815
Capital and related financing activities				
Acquisition of oil and gas reserves	(313,425)	(1,009,662)	(12,557,619)	(13,880,706)
Sale of oil and gas reserves	960,981	47,894	–	1,008,875
Capital expenditures	(21,652,922)	(1,248,169)	(4,881,029)	(27,782,120)
Repayments of gas revenue bonds	(12,250,000)	–	–	(12,250,000)
Proceeds from lines of credit	–	–	19,000,000	19,000,000
Repayments on lines of credit	–	–	(24,602,454)	(24,602,454)
Advances from (repayments to) the Gas Authority	(7,754,300)	(2,087,011)	19,483,347	9,642,036
Interest payments and debt issuance costs	(8,388,156)	(1,441,652)	(1,137,308)	(10,967,116)
Net cash used in capital and related financing activities	(49,397,822)	(5,738,600)	(4,695,063)	(59,831,485)
Investing activities				
Investment distributions	–	1,256,250	–	1,256,250
Interest receipts	130	11	12	153
Net cash provided by investing activities	130	1,256,261	12	1,256,403
Net (decrease) increase in cash and cash equivalents	(1,354,907)	(606,508)	568,148	(1,393,267)
Cash and cash equivalents:				
Beginning of year	5,481,800	1,885,111	704,255	8,071,166
End of year	<u>\$ 4,126,893</u>	<u>\$ 1,278,603</u>	<u>\$ 1,272,403</u>	<u>\$ 6,677,899</u>
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:				
Operating income	\$ 25,113,629	\$ 1,916,280	\$ (13,970,587)	\$ 13,059,322
Adjustments to reconcile net cash flows provided by (used in) operating activities:				
Accretion of asset retirement obligation	262,223	38,762	–	300,985
Depletion of oil and gas reserves	22,592,578	3,174,469	17,818,142	43,585,189
Changes in certain assets and liabilities:				
Accounts receivable – Members	651,222	450,310	(871,200)	230,332
Accounts receivable – other	2,789,779	318,823	(745,459)	2,363,143
Accounts payable and accrued expenses	(1,381,323)	(2,020,665)	3,032,303	(369,685)
Advance billings – FMPA	(1,985,323)	(2,148)	–	(1,987,471)
Net cash provided by operating activities	<u>\$ 48,042,785</u>	<u>\$ 3,875,831</u>	<u>\$ 5,263,199</u>	<u>\$ 57,181,815</u>

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