Public Gas Partners, Inc.

Financial Statements and
Supplemental Schedules
As of and for the Years Ended June 30, 2016
and 2015

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As of and for the Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2016 and 2015

Contents

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Independent Auditor's Report

Board of Directors
Public Gas Partners, Inc.
Kennesaw, Georgia

We have audited the accompanying financial statements of Public Gas Partners, Inc., which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements referred to above present fairly, in all material respects, the financial position of Public Gas Partners, Inc. as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management's discussion and analysis on pages 3-10 are 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, which 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplemental pool level schedules presented in the following section of this report are presented for purposes of additional analysis and are not a required part of the 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 audits of the 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

Atlanta, Georgia
September 21, 2016

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.

Administrative Management

The Gas Authority manages PGP's day-to-day administrative operations under a contract that ends on November 1, 2018. This contract renews automatically for two-year periods 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.

Financial Analysis – 2016 Compared to 2015

Following are the condensed statements of net position as of June 30, 2016 and 2015:

	2016	**2015**
Capital assets	**$ 118,020,662**	$ 255,143,425
Noncapital assets	**55,736,953**	125,916,429
Deferred outflows of resources – costs recoverable	**274,005,550**	224,847,797
Deferred outflows of resources – unrealized loss on derivative instruments	**1,994,254**	–
Total assets and deferred outflows of resources	**$449,757,419**	$ 605,907,651
Current liabilities	**$ 26,711,061**	$ 28,266,922
Long-term liabilities	**409,076,289**	507,833,958
Total liabilities	**435,787,350**	536,100,880
Deferred inflows of resources – unrealized gain on derivative instruments	**13,970,069**	69,806,771
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 449,757,419**	$ 605,907,651

The decrease in total assets and deferred outflows of resources of $156,150,232 was due to a net decrease in market values of derivative instruments of $55,738,579, which included early hedge terminations of $14,109,213 in Pool 1, $2,855,102 in Pool 2, and $45,438,367 in Pool 3; a decrease to accounts receivable by $7,922,432 due to lower market pricing in oil and natural gas; a decrease in the value of an equity method investment by $8,582,088, which included a full cost ceiling test impairment of $6,679,766; and a decrease in capital assets by $137,122,763, which included ordinary annual depletion of $31,739,464 and a full-cost ceiling impairment of $106,629,030. Additional drilling and completion costs during the year in the amount of $5,392,447 offset the depletion expenses and the full-cost ceiling impairment charges. These decreases were offset by an increase to deferred outflows of resources – costs recoverable by $49,157,753.

Financial Analysis – 2016 Compared to 2015 (continued)

The decrease in total liabilities, deferred inflows of resources, and net position of $156,150,232 was due to a net decrease in the deferred inflows of resources – unrealized gain on derivative instruments of $55,836,702, net decreases in advances from the Gas Authority of $78,867,744; a principal payment of Series A debt of $11,000,000; payments to FMPA totaling $7,177,605; and reductions in accrued expenses and accounts payable totaling $3,875,710; offset by increases in hedge liabilities of $2,025,269.

Following is a summary of operations for the years ended June 30, 2016 and 2015:

	2016	**2015**
Operating revenues:		
Production sold to customers and Members	**$ 72,742,056**	$ 107,185,893
Gas acquired and sold to Members	**27,289,258**	65,358,234
Total operating revenues	**100,031,314**	172,544,127
Operating expenses:		
Oil and gas field operations	**33,447,261**	46,954,735
Gas supplies delivered to Members	**20,938,017**	64,895,688
Depletion of oil and gas properties	**31,739,464**	42,978,853
Impairment of oil and gas properties	**106,629,030**	63,377,760
Depreciation of property and equipment	**426,296**	393,195
General and administrative	**2,189,335**	3,584,939
Total operating expenses	**195,369,403**	222,185,170
Operating loss	**(95,338,089)**	(49,641,043)
Nonoperating income (expense):		
Interest expense and other, net	**(7,646,581)**	(8,676,073)
Investment income (loss)	**62,258,484**	(128,065)
Equity in losses of affiliates	**(8,431,567)**	(8,560,427)
Deferred outflows of resources – costs recoverable in future billings	**49,157,753**	67,005,608
Total nonoperating income	**95,338,089**	49,641,043
Changes in net position	**–**	–
Net position:		
Beginning of year	**–**	–
End of year	**$ –**	$ –

Financial Analysis – 2016 Compared to 2015 (continued)

Operating Revenues

Operating revenues from production sold to customers and Members decreased $34,443,837, or 32.1%, due to lower average pricing of oil and gas year over year. This reduction of production revenues was net of hedge settlement gains of $25,587,459. Gas acquired and resold to Members decreased $38,068,976, or 58.2%, due to lower average pricing of oil and gas year over year and seasonal sculpting of physical delivery volumes due to normal production declines.

Operating Expenses

Operating expenses decreased $26,815,767, or 12.1%, primarily due to decreases in oil and gas field operations expenses of $13,507,474, gas supplies delivered to Members of $43,957,671, and depletion of oil and gas properties of $11,239,389. These decreases were offset by an increase in the full-cost ceiling impairment of oil and gas properties of $43,251,270. These changes were driven by lower than average oil and gas pricing year over year. General and administrative expenses decreased by $1,395,604, or 38.9%, primarily due to cost controls in PGP Operating, a wholly-owned subsidiary of PGP which operates approximately 1,370 wells in the Black Warrior Basin of Alabama.

Liquidity and Capital Resources

PGP's cash balance increased $4,113,629 to $21,555,214 at June 30, 2016. See the accompanying statements of cash flows for details of cash activity during fiscal year 2016.

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.

Financial Analysis – 2015 Compared to 2014

Following are the condensed statements of net position as of June 30, 2015 and 2014:

	2015	**2014**
Capital assets	**$ 255,143,425**	$ 345,656,530
Noncapital assets	**125,916,429**	81,335,377
Deferred outflows of resources – costs recoverable	**224,847,797**	157,842,189
Deferred outflows of resources - unrealized loss on derivative instruments	**-**	7,650,179
Total assets and deferred outflows of resources	**$ 605,907,651**	$ 592,484,275
Current liabilities	**$ 28,266,922**	$ 41,497,834
Long-term liabilities	**507,833,958**	550,986,441
Total liabilities	**536,100,880**	592,484,275
Deferred inflows of resources – unrealized gain on derivative instruments	**69,806,771**	-
Net position	**-**	-
Total liabilities, deferred inflows of resources, and net position	**$ 605,907,651**	$ 592,484,275

The increase in total assets and deferred outflows of resources of $13,423,376 was primarily due to an increase in market values of derivative instruments of $67,734,346 and deferred outflows of resources – costs recoverable by $67,005,608. These increases were offset by decreases to accounts receivable by $11,971,154, investments by $12,925,409, and capital assets by $90,513,105; which included ordinary annual depletion of $42,978,853 and a full-cost ceiling impairment of $63,377,760. Additional capital expenditures during the year in the amount of $16,156,334 offset the depletion expenses and the full-cost ceiling impairment charges.

The increase in total liabilities, deferred inflows of resources, and net position of $13,423,376 was due to a net increase in the deferred inflows of resources – unrealized gain on derivative instruments of $69,806,771, offset by net decreases in the advances from the Gas Authority by $25,906,473; a principal payment of Series A debt of $12,250,000; hedging positions moving from net liabilities to net assets in the amount of $9,746,074; and other reductions in accrued expenses and accounts payable totaling $10,925,465.

Financial Analysis – 2015 Compared to 2014 (continued)

Following is a summary of operations for the years ended June 30, 2015 and 2014:

	2015	2014
Operating revenues:		
Production sold to customers and Members	**$ 107,185,893**	$ 117,046,449
Gas acquired and sold to Members	**65,358,234**	62,787,221
Total operating revenues	**172,544,127**	179,833,670
Operating expenses:		
Oil and gas field operations	**46,954,735**	45,990,477
Gas supplies delivered to Members	**64,895,688**	58,969,028
Depletion of oil and gas properties	**42,978,853**	41,356,035
Impairment of oil and gas properties	**63,377,760**	–
Depreciation of property and equipment	**393,195**	228,389
General and administrative	**3,584,939**	5,214,477
Total operating expenses	**222,185,170**	151,758,406
Operating income (loss)	**(49,641,043)**	28,075,264
Nonoperating income (expense):		
Interest expense and other, net	**(8,824,289)**	(9,466,381)
Gain/loss on disposition or property and equipment	**20,151**	–
Equity in earnings of affiliates	**(8,560,427)**	1,592,331
Costs recoverable / (refundable) in future billings	**67,005,608**	(20,201,214)
Total nonoperating income (expense)	**49,641,043**	(28,075,264)
Changes in net position	**–**	–
Net position:		
Beginning of year	**–**	–
End of year	**$ –**	$ –

Operating Revenues

Operating revenues from production sold to customers and Members decreased $9,860,556, or 8.4%, due to lower average pricing of oil and gas year over year. Gas acquired and resold to Members increased $2,571,013, or 4.1%, due to Members increasing their physical delivery requirements in relation to the additional production acquired.

Financial Analysis – 2015 Compared to 2014 (continued)

Operating Expenses

Operating expenses increased $70,426,764, or 46.4%, primarily due to a full-cost ceiling impairment of oil and gas properties of $63,377,760. Oil and gas field operations expenses and gas supplies delivered to Members increased by $6,890,918, or 6.6%, as a result of Members increasing their physical delivery requirements. General and administrative expenses decreased by $1,629,538, or 31.3%, due to reduced legal expenses and improved operating margins in PGP Operating.

Public Gas Partners, Inc.

Statements of Net Position

	June 30 2016	June 30 2015
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	**$ 12,201,559**	$ 9,055,498
Restricted cash	**9,353,655**	8,386,087
Accounts receivable	**11,190,309**	19,112,741
Fair value of derivative instruments	**5,661,424**	22,311,412
Other assets	**1,688,109**	3,738,115
Total current assets	**40,095,056**	62,603,853
Noncurrent assets:		
Oil and gas properties – net	**115,481,096**	252,065,475
Property and equipment — net	**2,539,566**	3,077,950
Partnership Investment	**6,774,278**	15,356,366
Fair value of derivative instruments	**8,267,619**	47,356,210
Other assets	**600,000**	600,000
Total noncurrent assets	**133,662,559**	318,456,001
Deferred outflows of resources - costs recoverable	**274,005,550**	224,847,797
Deferred outflows of resources - unrealized loss on derivative instruments	**1,994,254**	–
Total assets and deferred outflows of resources	**$ 449,757,419**	$ 605,907,651
Liabilities, deferred inflows of resources, and net position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 8,512,961**	$ 12,388,671
Advance billings — FMPA	**3,606,985**	3,965,866
Fair value of derivative instruments	**1,721,240**	–
Current portion of long-term debt	**11,747,568**	11,912,385
Asset retirement obligations	**1,122,307**	–
Total current liabilities	**26,711,061**	28,266,922
Noncurrent liabilities:		
Advances from the Gas Authority	**275,116,765**	353,984,509
Advance billings — FMPA	**68,532,725**	75,351,448
Fair value of derivative instruments	**304,029**	–
Long-term debt	**43,864,952**	55,612,520
Asset retirement obligations	**21,257,818**	22,885,481
Total noncurrent liabilities	**409,076,289**	507,833,958
Total liabilities	**435,787,350**	536,100,880
Deferred inflows of resources - unrealized gain on derivative instruments	**13,970,069**	69,806,771
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 449,757,419**	$ 605,907,651

See accompanying notes to the financial statements.

Public Gas Partners, Inc.

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2016	**2015**
Operating revenues:		
Production sold to customers and Members	**$ 72,742,056**	$ 107,185,893
Gas acquired and sold to Members	**27,289,258**	65,358,234
Total operating revenues	**100,031,314**	172,544,127
Operating expenses:		
Oil and gas field operations	**33,447,261**	46,954,735
Gas supplies delivered to Members	**20,938,017**	64,895,688
Depletion of oil and gas properties	**31,739,464**	42,978,853
Impairment of oil and gas properties	**106,629,030**	63,377,760
Depreciation of property and equipment	**426,296**	393,195
General and administrative	**2,189,335**	3,584,939
Total operating expenses	**195,369,403**	222,185,170
Operating loss	**(95,338,089)**	(49,641,043)
Nonoperating income (expense):		
Interest expense, net	**(7,646,581)**	(8,676,073)
Investment income (loss)	**62,258,484**	(128,065)
Equity in losses of affiliates	**(8,431,567)**	(8,560,427)
Deferred outflows of resources - costs recoverable	**49,157,753**	67,005,608
Total nonoperating income	**95,338,089**	49,641,043
Change 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	
	2016	2015
Operating activities		
Receipts from customers and Members	**$ 80,509,284**	$ 165,209,208
Payments to Members	**(13,865,607)**	(12,190,151)
Payments to operators and suppliers	**(48,346,221)**	(112,993,972)
Payments from (to) oil and gas derivative counterparties, net	**88,892,778**	17,504,666
Net cash provided by operating activities	**107,190,234**	57,529,751
Capital and related financing activities		
Sales of oil and gas properties	**689,048**	3,902,974
Capital expenditures of property and equipment	**(55,467)**	(835,642)
Sale of property and equipment	**161,554**	200,418
Drilling and completion costs, net of refunds	**(5,392,447)**	(16,156,334)
Repayments of gas revenue bonds	**(11,000,000)**	(12,250,000)
Advances from (repayments to) the Gas Authority	**(78,867,744)**	(25,906,472)
Interest payments and debt issuance costs	**(8,597,824)**	(10,526,811)
Net cash used in capital and related financing activities	**(103,062,880)**	(61,571,867)
Investing activities		
Investment distributions / (additions)	**(13,725)**	4,252,374
Net cash provided by (used in) investing activities	**(13,725)**	4,252,374
Net increase / (decrease) in cash equivalents	**4,113,629**	210,258
Cash and cash equivalents:		
Beginning of year	**17,441,585**	17,231,327
End of year	**$ 21,555,214**	$ 17,441,585
Reconciliation of revenues in excess of operating expenses to net cash provided by (used in) operating activities:		
Operating loss	**$ (95,338,089)**	$ (49,641,043)
Adjustments to reconcile to net cash flows provided by (used in) operating activities:		
Accretion of asset retirement obligation	**777,171**	840,757
Depreciation of property and equipment	**426,296**	393,195
Depletion of oil and gas properties	**31,739,464**	42,978,853
Impairment of oil and gas properties	**106,629,030**	63,377,760
Changes in certain assets and liabilities:		
Accounts receivable	**7,922,432**	11,971,154
Fair value of terminated hedges	**62,402,682**	–
Other assets	**2,052,105**	(1,535,111)
Accounts payable and accrued expenses	**(2,243,252)**	(6,319,171)
Advance billings — FMPA	**(7,177,605)**	(4,536,643)
Net cash provided by operating activities	**$ 107,190,234**	$ 57,529,751

See accompanying notes to the financial statements.

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, 2016 (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.

1. Summary of Significant Accounting Policies (continued)

Additionally, Pool 3 has a wholly-owned subsidiary, PGP Operating, LLC (PGP Operating), which operates approximately 1,370 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, 2018, and renews automatically for two-year periods unless either party gives 180 days' notice. Under this agreement, PGP paid the Gas Authority $1,996,770 and $2,039,227 for management fees for the years ended June 30, 2016 and 2015, respectively. Also, PGP Operating paid $6,688,002 and $7,653,509 for the years ended June 30, 2016 and 2015, respectively, 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, 2016, and through September 21, 2016, 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.

1. Summary of Significant Accounting Policies (continued)

At June 30, 2016 and 2015, PGP's significant regulatory assets and liabilities are included in the accompanying statements of net position as deferred outflows of resources – costs recoverable / (refundable).

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, 2016, $750,000 of PGP's cash balances was covered by federal depository insurance, $8,923,748 was collateralized with securities held by a third-party bank's trust department, and $12,782,798 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2015, $750,000 of PGP's cash balances was covered by federal depository insurance, $8,010,250 was collateralized with securities held by a third-party bank's trust department, and $10,594,792 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, 2016 and 2015, PGP restricted $8,923,748 and $7,868,128, respectively, for debt service, $0 and $25,000, respectively, for security against a letter of credit, and $429,907 and $492,959, respectively, for legal and administrative suspense for future royalty payments related to its oil and gas operations in Alabama.

1. Summary of Significant Accounting Policies (continued)

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 statements of net position.

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 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:	**2016**	**2015**
Proved properties	$ 918,275,880	$ 916,491,766
Total oil and gas properties	918,275,880	916,491,766
Accumulated depletion of proved properties	(802,794,784)	(664,426,291)
Total oil and gas properties, net	$ 115,481,096	$ 252,065,475

Accumulated depletion was $484,467,016 for Pool 1, $157,645,268 for Pool 2, and $160,682,500 for Pool 3 as of June 30, 2016, and $423,305,364 for Pool 1, $149,481,554 for Pool 2, and $91,639,373 for Pool 3 as of June 30, 2015.

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.

1. Summary of Significant Accounting Policies (continued)

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. A full-cost ceiling impairment of $106,629,030 was recognized during the current fiscal year as a result of the reduction in the average market index prices for natural gas from $3.42/mcf to $2.27/mcf, and for oil from $69.22/bbl to $41.82/bbl, from 2015 to 2016. A full-cost ceiling impairment of $63,377,760 was recognized during the year ended of June 30, 2015. Hedging transactions cover approximately 14% and 32% of expected future production from proved reserves for the years ended June 30, 2016 and 2015, respectively. If hedging transactions had not been considered in the impairment tests, additional impairment loss of $27,690,208 and $53,205,609 for the years ended June 30, 2016 and 2015, respectively, would have been recognized.

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 and Equipment

PGP acquires and maintains property and equipment in relation to its coalbed methane field operations in Alabama. All property and equipment are stated at cost less accumulated depreciation on the statements 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

Partnership Investment

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

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-term 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

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 Production sold to customers and Members in the statements of revenues, expenses, and changes in net position. PGP acquires comparable volumes of produced gas in its Members' service areas and delivers that gas to the Members, shown as Gas acquired and sold to Members in the statements of revenues, expenses, and changes in net position. 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, restricted cash, 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.

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 Pronouncements

On February 27, 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This statement establishes accounting and financial reporting standards for fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB 72 is effective for PGP for the fiscal year ended June 30, 2016. As of the current fiscal year end, PGP does not own any investments that fall within the scope of this Statement.

2. Partnership Investment

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, 2016 and 2015, is as follows:

	2016	2015
Assets	$ 10,834,510	$ 23,290,052
Liabilities	$ 154,073	$ 527,433
Revenues	$ 5,078,201	$ 9,476,682
Expenses	(7,614,631)	(10,862,017)
Impairment loss	(8,906,354)	(10,098,543)
Net loss	$ (11,442,784)	$ (11,483,878)

2. Partnership Investment (continued)

Partnership interest assets are shown net of full-cost ceiling impairments of $8,906,354 and $10,098,543, 2016 and 2015, respectively.

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2016 and 2015, primarily relates to the acquisition of additional interests from other partners.

3. Property and Equipment

Property and equipment activity for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Disposals	Depreciation	Balance at June 30, 2016
Buildings	$ 1,266,888	$ -	$ -	$ -	$ 1,266,888
Vehicles	1,570,304	46,219	(256,320)	-	1,360,203
Computer hardware and software	657,653	9,248	-	-	666,901
Land	100,000	-	-	-	100,000
Machinery and equipment	37,563	-	-	-	37,563
Accumulated depreciation	(554,458)	-	88,765	(426,296)	(891,989)
Total property and equipment, net	$ 3,077,950	$ 55,467	$ (167,555)	$ (426,296)	$ 2,539,566

Depreciation expense relating to property and equipment was $426,296 and $393,195 for 2016 and 2015, respectively.

4. Debt and Advances from the Gas Authority

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, 2019.

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

	June 30, 2015	Proceeds	Payments	June 30, 2016
Series A Bonds	$ 65,000,000	$ –	$ 11,000,000	$ 54,000,000

	June 30, 2014	Proceeds	Payments	June 30, 2015
Series A Bonds	$ 77,250,000	$ –	$ 12,250,000	$ 65,000,000

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:

	Principal	Interest	Total Debt Service
Years Ending June 30:			
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	54,000,000	$ 5,542,900	$ 59,542,900
Unamortized bond premium	1,612,520		
Total per statement of net position	$ 55,612,520		

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, 2016, the weighted-average rate charged to PGP was approximately 1.82%. PGP made interest payments to the Gas Authority totaling $5,736,786 and $6,338,209 for fiscal years 2016 and 2015, 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.

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.

5. 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, 2016, 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, 2016 and 2015, 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).

As of and for the year ended June 30, 2016:

	Notional Amount at June 30, 2015*		**Fair Value at June 30, 2015**		**Change in Fair Value**		**Fair Value at June 30, 2016**	**Notional Amount at June 30, 2016***
Hedging derivatives								
Henry Hub Swaps – Gas – Receive fixed	44,380,000	$	48,202,249	$	(50,655,626)	$	(2,453,377)	14,332,800
Henry Hub Options – Bought put	807,800	$	2,412,302	$	(2,412,302)	$	-	-
Henry Hub Options – Sold call	807,800	$	(4,460)	$	4,460	$	-	-
WTI Swaps – Oil – Receive fixed	884,040	$	19,176,506	$	(4,747,315)	$	14,429,191	507,575
WTI Options – Bought put	6,000	$	90,109	$	(90,109)	$	-	-
WTI Options – Bought call	6,000	$	146	$	(146)	$	-	-
WTI Options – Sold call	6,000$	$	(289)	$	289	$	-	-
Basis Swaps – Gas – Receive fixed	2,183,200	$	(208,941)	$	136,901	$	(72,040)	588,800

5. Derivative Instruments (continued)

As of and for the year ended June 30, 2015:

	Notional Amount at June 30, 2014*		Fair Value at June 30, 2014		Change in Fair Value		Fair Value at June 30, 2015	Notional Amount at June 30, 2015*
Hedging derivatives								
Henry Hub Swaps – Gas – Receive fixed	54,402,600	$	(432,399)	$	48,634,648	$	48,202,249	44,380,000
Henry Hub Options – Bought put	1,388,800	$	2,455,543	$	(43,241)	$	2,412,302	807,800
Henry Hub Options – Sold call	1,388,800	$	(41,331)	$	36,871	$	(4,460)	807,800
WTI Swaps – Oil – Receive fixed	1,275,760	$	(9,089,900)	$	28,266,406	$	19,176,506	884,040
WTI Options – Bought put	36,400	$	7,822	$	82,287	$	90,109	6,000
WTI Options – Bought put	-	$	-	$	146	$	146	6,000
WTI Options – Sold call	36,400	$	(388,545)	$	388,256	$	(289)	6,000
Basis Swaps – Gas – Receive fixed	2,835,500	$	(323,987)	$	115,046	$	(208,941)	2,183,200

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

Following are key terms of PGP's derivative instruments as of June 30, 2016:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps – Gas – Receive fixed	2016 – 2018	14,332,800	$2.60 - $3.10
WTI Swaps – Oil – Receive fixed	2016 – 2020	507,575	$65.40 - $101.03
Basis Swaps – Gas – Receive fixed	2016 – 2016	588,800	NYMEX minus ($0.17 - $0.35)

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

Derivative Instrument Termination

In fiscal year 2016, PGP negotiated terminations of certain oil and natural gas swaps in order to reduce counterparty credit risk that existed as a result of a significant decline in the futures prices for natural gas and oil. The terminations resulted in payments to Pools 1, 2, and 3 in the amounts of $14,109,213, $2,855,102, and $45,438,367, respectively. The total gain on termination of $62,402,682 is recorded in Investment Income on the Statement of Revenues, Expenses, and Changes in Net Position.

5. 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. 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.

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2016, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2016 Asset (Liability)
JP Morgan Chase Bank, N.A.	A+/Aa2	$ 6,191,874
Royal Bank of Canada	AA-/Aa3	$ 6,319,184
Wells Fargo Bank, N.A.	AA-/Aa1	$ (607,284)

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, 2016 and 2015, as follows:

	June 30	
	2016	**2015**
Balance of ARO – beginning of year	$ 22,885,481	$ 19,372,713
Additions from acquisitions and drilling	36,906	44,534
Changes in cost estimates	-	2,778,249
Accretion expense	777,171	840,757
Subtractions from sales and property assignments	(1,187,371)	-
ARO settled	(132,062)	(150,772)
Balance of ARO – end of year	$ 22,380,125	$ 22,885,481

7. 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 2016, PGP Operating recognized gross sales of natural gas to MGMS totaling $12,296,062. On a net working interest basis to Pool 3, this resulted in $1,890,762 of fiscal 2016 revenues recorded in production sold to customers and Members. As of June 30, 2016, PGP held $859,039 in accounts receivable for amounts owed by MGMS.

8. 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, 2016			
	Pool 1	Pool 2	Pool 3	Total
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	$ 1,841,817	$ 1,050,230	$ 9,309,512	$ 12,201,559
Restricted cash	8,923,748	–	429,907	9,353,655
Accounts receivable	2,463,942	631,587	8,094,780	11,190,309
Fair value of derivative instruments	4,918,684	742,740	–	5,661,424
Other assets	645,236	19,146	1,023,727	1,688,109
Interproject receivables (payables)	49,292	(3,737)	(45,555)	–
Total current assets	18,842,719	2,439,966	18,812,371	40,095,056
Noncurrent assets:				
Oil and gas properties – net	50,141,534	4,116,275	61,223,287	115,481,096
Property and equipment — net	–	–	2,539,566	2,539,566
Partnership Investment	–	6,774,278	–	6,774,278
Fair value of derivative instruments	7,115,888	1,151,731	–	8,267,619
Other assets	–	–	600,000	600,000
Total noncurrent assets	57,257,422	12,042,284	64,362,853	133,662,559
Deferred outflows of resources - costs recoverable	150,639,496	66,742,653	56,623,401	274,005,550
Deferred outflows of resources - unrealized loss on derivative instruments	–	–	1,994,254	1,994,254
Total assets and deferred outflows of resources	$226,739,637	$ 81,224,903	$141,792,879	$ 449,757,419
Liabilities, deferred inflows of resources, and net position				
Current liabilities:				
Accounts payable and accrued expenses	$ 2,248,028	$ 201,178	$ 6,063,755	$ 8,512,961
Advance billings — FMPA	2,504,643	1,102,342	–	3,606,985
Fair value of derivative instruments	–	31,015	1,690,225	1,721,240
Current portion of long-term debt	11,747,568	–	–	11,747,568
Asset retirement obligations	645,094	45,808	431,405	1,122,307
Total current liabilities	17,145,333	1,380,343	8,185,385	26,711,061
Noncurrent liabilities:				
Advances from the Gas Authority	93,680,034	56,144,361	125,292,370	275,116,765
Advance billings — FMPA	47,588,225	20,944,500	–	68,532,725
Fair value of derivative instruments	–	–	304,029	304,029
Long-term debt	43,864,952	–	–	43,864,952
Asset retirement obligations	12,376,377	870,346	8,011,095	21,257,818
Total noncurrent liabilities	197,509,588	77,959,207	133,607,494	409,076,289
Total liabilities	214,654,921	79,339,550	141,792,879	435,787,350
Deferred inflows of resources - unrealized gain on derivative instruments	12,084,716	1,885,353	–	13,970,069
Net position	–	–	–	–
Total liabilities, deferred inflows of resources, and net position	$226,739,637	$ 81,224,903	$141,792,879	$ 449,757,419

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

	Year Ended June 30, 2016			
	Pool 1	Pool 2	Pool 3	Total
Operating revenues:				
Production sold to customers and Members	$ 33,606,717	$ 4,013,733	$ 35,121,606	$ 72,742,056
Gas acquired and sold to Members	11,220,809	4,841,908	11,226,541	27,289,258
Total operating revenues	44,827,526	8,855,641	46,348,147	100,031,314
Operating expenses:				
Oil and gas field operations	17,114,524	2,222,594	14,110,143	33,447,261
Gas supplies delivered to Members	6,177,067	2,371,736	12,389,214	20,938,017
Depletion of oil and gas properties	17,474,010	323,503	13,941,951	31,739,464
Impairment of oil and gas properties	43,687,643	7,840,212	55,101,175	106,629,030
Depreciation of property and equipment	–	–	426,296	426,296
General and administrative	1,102,750	182,551	904,034	2,189,335
Total operating expenses	85,555,994	12,940,596	96,872,813	195,369,403
Operating loss	(40,728,468)	(4,084,955)	(50,524,666)	(95,338,089)
Nonoperating income (expense):				
Interest expense, net	(4,178,426)	(1,159,544)	(2,308,611)	(7,646,581)
Investment income (loss)	14,009,390	2,810,727	45,438,367	62,258,484
Equity in losses of affiliates	–	(8,431,567)	–	(8,431,567)
Deferred outflows of resources - costs recoverable	30,897,504	10,865,339	7,394,910	49,157,753
Total nonoperating income	40,728,468	4,084,955	50,524,666	95,338,089
Change in net position	–	–	–	–
Net position:				
Beginning of year	–	–	–	–
End of year	$ –	$ –	$ –	$ –

Public Gas Partners, Inc.
Statement of Cash Flows

	Year Ended June 30, 2016			
	Pool 1	Pool 2	Pool 3	Total
Operating activities				
Receipts from customers and Members	$ 34,996,954	$ 6,285,634	$ 39,226,696	$ 80,509,284
Payments to Members	(6,206,848)	(970,757)	(6,688,002)	(13,865,607)
Payments to operators and suppliers	(23,090,923)	(4,685,470)	(20,569,828)	(48,346,221)
Payments from (to) oil and gas derivative counterparties, net	28,841,714	5,517,828	54,533,236	88,892,778
Internal activity — payments from (to) other pools	(16,609)	203	16,406	–
Net cash provided by operating activities	34,524,288	6,147,438	66,518,508	107,190,234
Capital and related financing activities				
Sales of oil and gas properties	963,894	15,328	(290,174)	689,048
Capital expenditures of property and equipment	–	–	(55,467)	(55,467)
Sale of property and equipment	–	–	161,554	161,554
Drilling and completion costs, net of refunds	(5,365,257)	(31,878)	4,688	(5,392,447)
Repayments of gas revenue bonds	(11,000,000)	–	–	(11,000,000)
Advances from (repayments to) the Gas Authority	(13,641,307)	(5,305,123)	(59,921,314)	(78,867,744)
Interest payments and debt issuance costs	(5,229,467)	(1,159,565)	(2,208,792)	(8,597,824)
Net cash used in capital and related financing activities	(34,272,137)	(6,481,238)	(62,309,505)	(103,062,880)
Investing activities				
Investment distributions / (additions)	(141,581)	86,323	41,533	(13,725)
Net cash provided by (used in) investing activities	(141,581)	86,323	41,533	(13,725)
Net increase / (decrease) in cash equivalents	110,570	(247,477)	4,250,536	4,113,629
Cash and cash equivalents:				
Beginning of period	10,654,995	1,297,707	5,488,883	17,441,585
End of period	$ 10,765,565	$ 1,050,230	$ 9,739,419	$ 21,555,214
Reconciliation of revenues in excess of operating expenses to net cash provided by (used in) operating activities:				
Operating loss	$ (40,728,468)	$ (4,084,955)	$ (50,524,666)	$ (95,338,089)
Adjustments to reconcile to net cash flows provided by (used in) operating activities:				
Accretion of asset retirement obligation	462,459	38,772	275,940	777,171
Depreciation of property and equipment	–	–	426,296	426,296
Depletion of oil and gas properties	17,474,010	323,503	13,941,951	31,739,464
Impairment of oil and gas properties	43,687,643	7,840,212	55,101,175	106,629,030
Changes in certain assets and liabilities:				
Accounts receivable	4,901,929	92,719	2,927,784	7,922,432
Fair value of terminated hedges	14,109,213	2,855,102	45,438,367	62,402,682
Other assets	1,408,518	75,565	568,022	2,052,105
Accounts payable and accrued expenses	(567,559)	(22,926)	(1,652,767)	(2,243,252)
Advance billings — FMPA	(6,206,848)	(970,757)	–	(7,177,605)
Interproject receivables (payables)	(16,609)	203	16,406	–
Net cash provided by operating activities	$ 34,524,288	$ 6,147,438	$ 66,518,508	$ 107,190,234