Public Gas Partners, Inc.

Financial Statements and

Supplemental Schedules

As of and for the Years Ended June 30, 2017 and 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Financial Statements and Supplemental Schedules

Public Gas Partners, Inc.
As of and for the Years Ended June 30, 2017 and 2016
With Report of Independent Auditors

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2017 and 2016

Contents

Tel: 404-688-6841
Fax: 404-688-1075
www.bdo.com

1100 Peachtree Street NE, Suite 700
Atlanta, GA 30309

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Public Gas Partners, Inc., which comprise the statements of net position as of June 30, 2017 and 2016, 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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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, 2017 and 2016, 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

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental pool level schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplemental pool level schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental pool level schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BDO USA, LLP

Atlanta, Georgia
September 21, 2017

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. Specifically, Pool 3’s subsidiary, PGP Operating, LLC (PGP Operating), operates approximately 1,354 wells in the Black Warrior Basin of Alabama.

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 – 2017 Compared to 2016

Following are the condensed statements of net position as of June 30, 2017 and 2016:

	2017	**2016**
Capital assets	**$ 109,022,554**	$ 118,020,662
Noncapital assets	**53,556,546**	55,736,953
Deferred outflows of resources – costs recoverable	**251,368,756**	274,005,550
Deferred outflows of resources – unrealized loss on derivative instruments	**–**	1,994,254
Total assets and deferred outflows of resources	**$413,947,856**	$ 449,757,419
Current liabilities	**$ 35,127,930**	$ 26,711,061
Long-term liabilities	**367,434,207**	409,076,289
Total liabilities	**402,562,137**	435,787,350
Deferred inflows of resources – unrealized gain on derivative instruments	**11,385,719**	13,970,069
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 413,947,856**	$ 449,757,419

The decrease in total assets and deferred outflows of resources of $35,809,563 was due to a net decrease in market values of derivative instruments of $2,267,979, a decrease in deferred outflows – costs recoverable of $22,636,794, and a decrease in capital assets by $8,998,108, which included ordinary annual depletion of $10,499,023 and depreciation of property and equipment of $429,383, offset by additional drilling and completion costs of $1,739,860.

The decrease in total liabilities, deferred inflows of resources, and net position of $35,809,563 was due to a net decrease in deferred inflows of resources – unrealized gain on derivative instruments of $2,584,350, net decreases in advances from the Gas Authority of $23,771,609, a principal payment of Series A debt of $11,000,000, and payments to FMPA totaling $1,563,384, offset by increases in accounts payable and accrued expenses totaling $5,165,576.

Financial Analysis – 2017 Compared to 2016 (continued)

Following is a summary of operations for the years ended June 30, 2017 and 2016:

	2017	2016
Operating revenues:		
Production sold to customers and Members	**$ 59,045,601**	$ 72,742,056
Gas acquired and sold to Members	**58,914,948**	27,289,258
Total operating revenues	**117,960,549**	100,031,314
Operating expenses:		
Oil and gas field operations	**27,592,329**	33,447,261
Gas supplies delivered to Members	**47,388,717**	20,938,017
Depletion of oil and gas properties	**10,499,023**	31,739,464
Impairment of oil and gas properties	**-**	106,629,030
Depreciation of property and equipment	**429,383**	426,296
General and administrative	**2,508,787**	2,189,335
Total operating expenses	**88,418,239**	195,369,403
Operating income / (loss)	**29,542,310**	(95,338,089)
Nonoperating income / (expense):		
Interest expense and other, net	**(7,291,625)**	(7,646,581)
Investment income	**42,480**	62,258,484
Equity in earnings / (losses) of affiliates	**343,629**	(8,431,567)
Deferred outflows of resources – costs recoverable / (refundable) in future billings	**(22,636,794)**	49,157,753
Total nonoperating income / (expense)	**(29,542,310)**	95,338,089
Changes in net position	**–**	–
Net position:		
Beginning of year	**–**	–
End of year	**$ –**	$ –

Financial Analysis – 2017 Compared to 2016 (continued)

Operating Revenues

Operating revenues from production sold to customers and Members decreased $13,696,455, or 18.8%, due to hedge terminations in fiscal year 2016. The hedge contracts which were terminated were substantially in-the-money and monthly settlements were supplementing operating revenues until the time of termination. Fiscal year 2017 operating revenues were not supplemented by hedging settlements, the effect of which more than offset higher market prices for oil and gas in the current fiscal year. Gas acquired and resold to Members increased $31,625,690, or 115.9%, due to higher billing rates in the current fiscal year for natural gas sales to PGP Members.

Operating Expenses

Operating expenses decreased $106,951,164, or 54.7%, primarily due to decreases in oil and gas field operations expenses of $5,854,932, depletion of oil and gas properties of $21,240,441, and full-cost ceiling impairment of oil and gas properties of $106,629,030. These decreases were offset by an increase in gas supplies delivered to Members of $26,450,700, which were driven by higher than average oil and gas pricing year over year. General and administrative expenses increased by $319,452, or 14.6%, primarily due to an increase in incentive compensation for PGP Operating employees.

Liquidity and Capital Resources

PGP's cash balance decreased $3,998,275 to $17,556,939 at June 30, 2017. See the accompanying statements of cash flows for details of cash activity during fiscal year 2017.

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, specifically commodity swaps, to hedge its commodity price risk associated with short and long-term changes in oil and natural gas prices.

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	**$ 118,020,661**	$ 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.

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 accounts payable and accrued expenses totaling $3,875,710; offset by increases in hedge liabilities of $2,025,269.

Financial Analysis – 2016 Compared to 2015 (continued)

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 earnings of affiliates	**(8,431,567)**	(8,560,427)
Deferred outflows of resources - costs recoverable / (refundable) 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	**$ –**	$ –

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 elected by Members.

Financial Analysis – 2016 Compared to 2015 (continued)

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.

Public Gas Partners, Inc.

Statements of Net Position

	June 30	
	2017	**2016**
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	**$ 4,760,419**	$ 12,201,559
Restricted cash	**12,796,520**	9,353,655
Accounts receivable	**16,140,769**	11,190,309
Fair value of derivative instruments	**5,279,967**	5,661,424
Other assets	**1,113,111**	1,688,109
Total current assets	**40,090,786**	40,095,056
Noncurrent assets:		
Oil and gas properties – net	**106,564,868**	115,481,096
Property and equipment — net	**2,457,686**	2,539,566
Partnership Investment	**6,484,662**	6,774,278
Fair value of derivative instruments	**6,381,098**	8,267,619
Other assets	**600,000**	600,000
Total noncurrent assets	**122,488,314**	133,662,559
Deferred outflows of resources - costs recoverable	**251,368,756**	274,005,550
Deferred outflows of resources - unrealized loss on derivative instruments	**–**	1,994,254
Total assets and deferred outflows of resources	**$ 413,947,856**	$ 449,757,419
Liabilities, deferred inflows of resources, and net position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 13,678,537**	$ 8,512,961
Advance billings — FMPA	**3,528,816**	3,606,985
Fair value of derivative instruments	**275,346**	1,721,240
Current portion of long-term bonds	**16,504,140**	11,747,568
Asset retirement obligations	**1,141,091**	1,122,307
Total current liabilities	**35,127,930**	26,711,061
Noncurrent liabilities:		
Advances from the Gas Authority	**251,345,157**	275,116,765
Advance billings — FMPA	**67,047,510**	68,532,725
Fair value of derivative instruments	**–**	304,029
Long-term bonds	**27,360,812**	43,864,952
Asset retirement obligations	**21,680,728**	21,257,818
Total noncurrent liabilities	**367,434,207**	409,076,289
Total liabilities	**402,562,137**	435,787,350
Deferred inflows of resources - unrealized gain on derivative instruments	**11,385,719**	13,970,069
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 413,947,856**	$ 449,757,419

See accompanying notes to the financial statements.

Public Gas Partners, Inc.

Statements of Revenues,
Expenses, and Changes in Net Position

	Year Ended June 30	
	2017	**2016**
Operating revenues:		
Production sold to customers and Members	**$ 59,045,601**	$ 72,742,056
Gas acquired and sold to Members	**58,914,948**	27,289,258
Total operating revenues	**117,960,549**	100,031,314
Operating expenses:		
Oil and gas field operations	**27,592,329**	33,447,261
Gas supplies delivered to Members	**47,388,717**	20,938,017
Depletion of oil and gas properties	**10,499,023**	31,739,464
Impairment of oil and gas properties	**–**	106,629,030
Depreciation of property and equipment	**429,383**	426,296
General and administrative	**2,508,787**	2,189,335
Total operating expenses	**88,418,239**	195,369,403
Operating income / (loss)	**29,542,310**	(95,338,089)
Nonoperating income / (expense):		
Interest expense and other, net	**(7,291,625)**	(7,646,581)
Investment income	**42,480**	62,258,484
Equity in earnings / (losses) of affiliates	**343,629**	(8,431,567)
Deferred outflows of resources - costs recoverable / (refundable)	**(22,636,794)**	49,157,753
Total nonoperating income / (expense)	**(29,542,310)**	95,338,089
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 2017	2016
Operating activities		
Receipts from customers and Members	**$ 108,028,455**	$ 80,509,284
Payments to Members	**(9,244,845)**	(15,862,378)
Payments to operators and suppliers	**(64,330,694)**	(46,349,450)
Payments from / (to) oil and gas derivative counterparties, net	**5,811,220**	88,892,778
Net cash provided by operating activities	**40,264,136**	107,190,234
Capital and related financing activities		
Sales of oil and gas properties	**511,941**	689,048
Capital expenditures of property and equipment	**(386,081)**	(55,467)
Sale of property and equipment	**55,608**	161,554
Drilling and completion costs, net of refunds	**(2,082,230)**	(5,392,447)
Repayments of gas revenue bonds	**(11,000,000)**	(11,000,000)
Repayments to the Gas Authority	**(23,771,609)**	(78,867,744)
Interest payments and debt issuance costs	**(8,193,724)**	(8,597,824)
Net cash used in capital and related financing activities	**(44,866,095)**	(103,062,880)
Investing activities		
Investment distributions / (additions)	**603,684**	(13,725)
Net cash provided by / (used in) investing activities	**603,684**	(13,725)
Net increase / (decrease) in cash equivalents	**(3,998,275)**	4,113,629
Cash and cash equivalents:		
Beginning of year	**21,555,214**	17,441,585
End of year	**$ 17,556,939**	$ 21,555,214
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:		
Operating income / (loss)	**$ 29,542,310**	$ (95,338,089)
Adjustments to reconcile to net cash flows provided by operating activities:		
Accretion of asset retirement obligation	**761,652**	777,171
Depreciation of property and equipment	**429,383**	426,296
Depletion of oil and gas properties	**10,499,023**	31,739,464
Impairment of oil and gas properties	**–**	106,629,030
Changes in certain assets and liabilities:		
Accounts receivable	**(4,950,462)**	7,922,432
Fair value of terminated hedges	**–**	62,402,682
Other assets	**574,999**	2,052,105
Accounts payable and accrued expenses	**4,970,615**	(2,243,252)
Advance billings — FMPA	**(1,563,384)**	(7,177,605)
Net cash provided by operating activities	**$ 40,264,136**	$ 107,190,234

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, 2017 (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%
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, which operates approximately 1,354 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 $1,923,308 and $1,996,770 for management fees for the years ended June 30, 2017 and 2016, respectively. Also, PGP Operating paid $5,758,153 and $6,688,002 for the years ended June 30, 2017 and 2016, respectively, to the Gas Authority in salaries and benefits costs for field personnel who are employees of the Gas Authority. These amounts are shown within Payments to Members on the Statements of Cash Flows.

Subsequent Events

In preparing the accompanying financial statements, management reviewed all known events that have occurred after June 30, 2017, and through September 21, 2017, 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, 2017 and 2016, 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. 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, 2017, $750,000 of PGP's cash bank balances was covered by federal depository insurance, $12,562,199 was collateralized with securities held by a third-party bank's trust department, and $5,150,020 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2016, $750,000 of PGP's cash bank 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.

Restricted Cash

Restricted cash represents funds held by a trustee restricted for future debt service pursuant to a bond resolution. As of June 30, 2017, and 2016, PGP restricted $12,562,199 and $8,923,748, respectively, for debt service, and $234,321 and $429,907, 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.

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:	**2017**	**2016**
Proved properties	$ 919,858,675	$ 918,275,880
Total oil and gas properties	919,858,675	918,275,880
Accumulated depletion of proved properties	(813,293,807)	(802,794,784)
Total oil and gas properties, net	$ 106,564,868	$ 115,481,096

Accumulated depletion was $490,723,652 for Pool 1, $157,732,003 for Pool 2, and $164,838,152 for Pool 3 as of June 30, 2017, and $484,467,016 for Pool 1, $157,645,268 for Pool 2, and $160,682,500 for Pool 3 as of June 30, 2016.

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. No full-cost ceiling impairment occurred during the current fiscal year as a result of the increase in the average market index prices for natural gas from $2.27/mcf to $3.07/mcf, and for oil from $41.82/bbl to $48.61/bbl, from 2016 to 2017. A full-cost ceiling impairment of $106,629,030 was recognized during the year ended June 30, 2016. Hedging transactions cover approximately 8% and 14% of expected future production from proved reserves for the years ended June 30, 2017 and 2016, respectively. If hedging transactions had not been considered in the impairment test, additional depletion expense of $2,068,239 and $27,690,208 would have been recognized for the years ended June 30, 2017 and 2016, respectively.

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 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.

1. Summary of Significant Accounting Policies (continued)

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/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.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

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.

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, 2017 and 2016, is as follows:

	2017	**2016**
Assets	$ 14,751,982	$ 10,834,510
Liabilities	$ 1,633,972	$ 154,073
Revenues	$ 4,250,645	$ 5,078,201
Expenses	(3,782,969)	(7,614,631)
Impairment loss	-	(8,906,354)
Net income / (loss)	$ 467,676	$ (11,442,784)

Partnership interest assets are shown net of full-cost ceiling impairments of $0 and $8,906,354, for 2017 and 2016, respectively.

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2017 and 2016, primarily relates to the contribution of cash into the partnership by TGP's general partner and a corresponding change in the interest owned by PGP.

3. Property and Equipment

Property and equipment activity for the year ended June 30, 2017 was as follows:

	Balance at June 30, 2016	Additions	Disposals	Depreciation	Balance at June 30, 2017
Buildings	$ 1,266,888	$ -	$ -	$ -	$ 1,266,888
Vehicles	1,360,203	367,342	(127,085)	-	1,600,460
Computer hardware and software	666,901	18,739	-	-	685,640
Land	100,000	-	-	-	100,000
Machinery and equipment	37,563	-	-	-	37,563
Accumulated depreciation	(891,989)	-	88,507	(429,383)	(1,232,865)
Total property and equipment, net	$ 2,539,566	$ 386,081	$ (38,578)	$ (429,383)	$ 2,457,686

Depreciation expense relating to property and equipment was $429,383 and $426,296 for 2017 and 2016, 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, 2016	Proceeds	Payments	June 30, 2017
Series A Bonds	$ 54,000,000	$ –	$ 11,000,000	$ 43,000,000

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

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:			
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	43,000,000	$ 3,148,500	$ 46,148,500
Unamortized bond premium	864,952		
Total per statement of net position	$ 43,864,952		

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, 2017, the weighted-average rate charged to PGP was approximately 1.98%. PGP made interest payments to the Gas Authority totaling $5,211,921 and $5,736,786 for fiscal years 2017 and 2016, 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. PGP did not hold any option contracts in its derivatives portfolio for fiscal year 2017.

The fair value balances of derivative instruments outstanding at June 30, 2017 and 2016, 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).

The fair values presented have not been comprehensively revalued for purposes of these financial statements since June 30, 2017, and current estimates of fair value may differ significantly from the amounts presented herein.

As of and for the year ended June 30, 2017:

	Notional Amount at June 30, 2016*	Fair Value at June 30, 2016	Change in Fair Value	Fair Value at June 30, 2017	Notional Amount at June 30, 2017*
Hedging derivatives					
Henry Hub Swaps – Gas – Receive fixed	14,332,800	$ (2,453,377)	$ (2,746,412)	$ 293,036	10,057,500
WTI Swaps – Oil – Receive fixed	507,575	$ 14,429,191	$ (3,336,508)	$ 11,092,683	505,787
Basis Swaps – Gas – Receive fixed	588,800	$ (72,040)	$ 72,040	$ -	-

5. Derivative Instruments (continued)

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 put	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

* 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, 2017:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps – Gas – Receive fixed	2017 – 2018	10,057,500	$2.87 - $3.44
WTI Swaps – Oil – Receive fixed	2017 – 2020	505,787	$53.68 - $86.00

* 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. No derivative instrument terminations occurred in fiscal year 2017.

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, 2017, are as follows:

Counterparty	**Counterparty Credit Ratings S&P/Moody's**	**Fair Market Value of Derivative Instruments June 30, 2017 Asset (Liability)**
JP Morgan Chase Bank, N.A.	A+/Aa2	$ 4,565,778
Macquarie Bank Ltd.	A/A1	$ 561,485
Royal Bank of Canada	AA-/Aa3	$ 6,361,808
Wells Fargo Bank, N.A.	AA-/Aa1	$ (103,352)

5. Derivative Instruments (continued)

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, 2017 and 2016, as follows:

	June 30	
	2017	2016
Balance of ARO – beginning of year	$ 22,380,125	$ 22,885,481
Additions from acquisitions and drilling	7,564	36,906
Accretion expense	761,652	777,171
Subtractions from sales and property assignments	(351,447)	(1,187,371)
ARO settlements, net	23,925	(132,062)
Balance of ARO – end of year	$ 22,821,819	$ 22,380,125

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 2017, PGP Operating recognized gross sales of natural gas to MGMS totaling $16,470,150. On a net working interest basis to Pool 3, this resulted in $2,540,042 of fiscal 2017 revenues recorded in production sold to customers and Members. As of June 30, 2017, PGP held $1,422,000 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.
Statements of Net Position

	June 30, 2017			
	Pool 1	Pool 2	Pool 3	Total
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	$ 1,230,526	$ 1,117,229	$ 2,412,664	$ 4,760,419
Restricted cash	12,562,199	–	234,321	12,796,520
Accounts receivable	2,024,288	837,505	13,278,976	16,140,769
Fair value of derivative instruments	4,443,023	739,014	97,930	5,279,967
Other assets	77,083	21,355	1,014,673	1,113,111
Interproject receivables / (payables)	52,706	2,149	(54,855)	–
Total current assets	20,389,825	2,717,252	16,983,709	40,090,786
Noncurrent assets:				
Oil and gas properties – net	45,615,461	3,905,443	57,043,964	106,564,868
Property and equipment — net	–	–	2,457,686	2,457,686
Partnership Investment	–	6,484,662	–	6,484,662
Fair value of derivative instruments	5,058,297	912,392	410,409	6,381,098
Other assets	–	–	600,000	600,000
Total noncurrent assets	50,673,758	11,302,497	60,512,059	122,488,314
Deferred outflows of resources - costs recoverable	138,844,469	61,978,355	50,545,932	251,368,756
Deferred outflows of resources - unrealized loss on derivative instruments	–	–	–	–
Total assets and deferred outflows of resources	$209,908,052	$ 75,998,104	$128,041,700	$ 413,947,856
Liabilities, deferred inflows of resources, and net position				
Current liabilities:				
Accounts payable and accrued expenses	$ 1,984,940	$ 148,870	$ 11,544,727	$ 13,678,537
Advance billings — FMPA	2,434,842	1,093,974	–	3,528,816
Fair value of derivative instruments	–	–	275,346	275,346
Current portion of long-term bonds	16,504,140	–	–	16,504,140
Asset retirement obligations	662,723	45,797	432,571	1,141,091
Total current liabilities	21,586,645	1,288,641	12,252,644	35,127,930
Noncurrent liabilities:				
Advances from the Gas Authority	92,605,544	51,402,403	107,337,210	251,345,157
Advance billings — FMPA	46,261,998	20,785,512	–	67,047,510
Long-term bonds	27,360,812	–	–	27,360,812
Asset retirement obligations	12,591,733	870,142	8,218,853	21,680,728
Total noncurrent liabilities	178,820,087	73,058,057	115,556,063	367,434,207
Total liabilities	200,406,732	74,346,698	127,808,707	402,562,137
Deferred inflows of resources - unrealized gain on derivative instruments	9,501,320	1,651,406	232,993	11,385,719
Net position	–	–	–	–
Total liabilities, deferred inflows of resources, and net position	$209,908,052	$ 75,998,104	$128,041,700	$ 413,947,856

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

	Year Ended June 30, 2017			
	Pool 1	Pool 2	Pool 3	Total
Operating revenues:				
Production sold to customers and Members	$ 28,860,690	$ 2,344,721	$ 27,840,190	$ 59,045,601
Gas acquired and sold to Members	20,178,512	6,747,902	31,988,534	58,914,948
Total operating revenues	49,039,202	9,092,623	59,828,724	117,960,549
Operating expenses:				
Oil and gas field operations	14,949,846	1,242,613	11,399,870	27,592,329
Gas supplies delivered to Members	11,039,600	1,988,400	34,360,717	47,388,717
Depletion of oil and gas properties	6,256,636	86,734	4,155,653	10,499,023
Depreciation of property and equipment	–	–	429,383	429,383
General and administrative	1,093,332	171,441	1,244,014	2,508,787
Total operating expenses	33,339,414	3,489,188	51,589,637	88,418,239
Operating income	15,699,788	5,603,435	8,239,087	29,542,310
Nonoperating income / (expense):				
Interest expense and other, net	(3,939,727)	(1,190,280)	(2,161,618)	(7,291,625)
Investment income	34,966	7,514	–	42,480
Equity in earnings of affiliates	–	343,629	–	343,629
Deferred outflows of resources - costs refundable	(11,795,027)	(4,764,298)	(6,077,469)	(22,636,794)
Total nonoperating expense	(15,699,788)	(5,603,435)	(8,239,087)	(29,542,310)
Change in net position	–	–	–	–
Net position:				
Beginning of year	–	–	–	–
End of year	$ –	$ –	$ –	$ –

Public Gas Partners, Inc.
Statements of Cash Flows

	Year Ended June 30, 2017			
	Pool 1	Pool 2	Pool 3	Total
Operating activities				
Receipts from customers and Members	$ 43,741,735	$ 8,009,345	$ 56,277,375	$ 108,028,455
Payments to Members	(2,094,164)	(229,713)	(6,920,968)	(9,244,845)
Payments to operators and suppliers	(25,774,694)	(3,365,482)	(35,190,518)	(64,330,694)
Payments from / (to) oil and gas derivative counterparties, net	5,737,121	877,360	(803,261)	5,811,220
Internal activity — payments from / (to) other pools	(3,414)	(5,886)	9,300	–
Net cash provided by operating activities	21,606,584	5,285,624	13,371,928	40,264,136
Capital and related financing activities				
Sales of oil and gas properties	416,443	95,578	(80)	511,941
Capital expenditures of property and equipment	–	–	(386,081)	(386,081)
Sale of property and equipment	–	–	55,608	55,608
Drilling and completion costs, net of refunds	(2,081,404)	(826)	–	(2,082,230)
Repayments of gas revenue bonds	(11,000,000)	–	–	(11,000,000)
Repayments to the Gas Authority	(1,074,491)	(4,741,958)	(17,955,160)	(23,771,609)
Interest payments and debt issuance costs	(4,824,795)	(1,190,280)	(2,178,649)	(8,193,724)
Net cash used in capital and related financing activities	(18,564,247)	(5,837,486)	(20,464,362)	(44,866,095)
Investing activities				
Investment distributions / (additions)	(15,178)	618,861	–	603,684
Net cash provided by / (used in) investing activities	(15,178)	618,861	–	603,684
Net increase / (decrease) in cash equivalents	3,027,160	66,999	(7,092,434)	(3,998,275)
Cash and cash equivalents:				
Beginning of period	10,765,565	1,050,230	9,739,419	21,555,214
End of period	$ 13,792,725	$ 1,117,229	$ 2,646,985	$ 17,556,939
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:				
Operating income	$ 15,699,788	$ 5,603,435	$ 8,239,087	$ 29,542,310
Adjustments to reconcile to net cash flows provided by operating activities:				
Accretion of asset retirement obligation	465,470	27,003	269,179	761,652
Depreciation of property and equipment	–	–	429,383	429,383
Depletion of oil and gas properties	6,256,636	86,734	4,155,653	10,499,023
Changes in certain assets and liabilities:				
Accounts receivable	439,654	(205,918)	(5,184,198)	(4,950,462)
Other assets	568,153	(2,208)	9,054	574,999
Accounts payable and accrued expenses	(423,675)	(50,180)	5,444,470	4,970,615
Advance billings — FMPA	(1,396,028)	(167,356)	–	(1,563,384)
Interproject receivables / (payables)	(3,414)	(5,886)	9,300	–
Net cash provided by operating activities	$ 21,606,584	$ 5,285,624	$ 13,371,928	$ 40,264,136