FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Public Gas Partners, Inc.
As of and for the Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2018 and 2017

Contents

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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, 2018 and 2017, 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, 2018 and 2017, 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 11 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.

The supplemental pool level schedules have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BDO USA, LLP

Atlanta, Georgia
September 18, 2018

Corporate Structure

Public Gas Partners, Inc. (PGP) is a nonprofit corporation organized under Georgia law, formed on November 15, 2004. PGP's mission is to deliver value to its members (the Members) by acquiring and managing a portfolio of economic long-term gas supplies and using its commodity hedging and physical gas supply capabilities. PGP is organized into projects in which the Members may elect to participate. PGP has undertaken four projects: Gas Supply Pool No. 1 (Pool 1), Gas Supply Pool No. 2 (Pool 2), Gas Supply Pool No. 3 (Pool 3), and Gas Supply Pool No. 4 (Pool 4). Pool 1 was formed in 2004, Pool 2 was formed in 2005, Pool 3 was formed in 2009, and Pool 4 was formed in 2018.

PGP is comprised of seven members: Black Belt Energy Gas District, 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 (Southeast Gas), and Tennessee Energy Acquisition Corporation (collectively, the Members).

PGP has undertaken four projects: Gas Supply Pool No. 1 (Pool 1), Gas Supply Pool No. 2 (Pool 2), Gas Supply Pool No. 3 (Pool 3), and Gas Supply Pool No. 4 (Pool 4). Pool 1 was formed in 2004; Pool 2 was formed in 2005; Pool 3 was formed in 2009, and Pool 4 was formed in 2018. Five Members are participants in Pools 1 and 2; four Members are participants in Pool 3; and three Members are participants in Pool 4. 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. Pool 4 is authorized to serve as physical gas supplier and commodity swap counterparty for natural gas prepayment transactions on an ongoing basis. As physical gas supplier, Pool 4 acquires physical gas supplies and sells the gas to the prepayment supplier, typically a bank. As swap counterparty, Pool 4 enters into matched commodity swap transactions with both the issuer and supplier of the transaction to allow both parties to hedge their natural gas price risk. In 2018, Pool 4 contracted to be the physical gas supplier and swap counterparty in two natural gas prepayment transactions with Royal Bank of Canada, the prepayment supplier, and Main Street Natural Gas, Inc., the prepayment issuer. The transactions have a term of 30 years. PGP utilizes wholly owned subsidiaries that are blended component units of PGP to own the assets and manage the operations of its various projects. All intercompany transactions have been eliminated.

Pool 3's subsidiary, PGP Operating, LLC (PGP Operating), operates approximately 1,329 wells in the Black Warrior Basin of Alabama.

Each of the Members participating in Pool 1, 2, or 3 has executed a Production Sharing Agreement (PSA) for that project. Each Member participating in Pool 4 has executed a Participation Agreement (PA) for that project. Each PSA and PA 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 any related debt has been paid, all obligations have been fulfilled, 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 Pools 1, 2 and 3 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.

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, 2019. This contract renews automatically for one-year periods until either party provides notice of termination no later than 180 days from the date of expiration.

Derivative Instruments

Pools 1, 2, and 3 use derivative instruments to hedge their 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. In Pool 4, PGP serves as a physical gas supplier and the commodity swap counterparty provider to gas prepayment transaction participants. As swap counterparty, Pool 4 enters into matched commodity swap transactions with both the issuer and supplier of the gas prepayment transaction to allow both parties to effectively hedge their natural gas price risk.

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 – 2018 Compared to 2017

Following are the condensed statements of net position as of June 30, 2018 and 2017:

	2018	**2017**
Capital assets	**$ 102,065,978**	$ 109,022,554
Noncapital assets	**452,566,158**	53,556,546
Deferred outflows of resources – costs recoverable	**228,841,197**	251,368,756
Deferred outflows of resources – unrealized loss on derivative instruments	**73,436**	-
Total assets and deferred outflows of resources	**$ 783,546,769**	$ 413,947,856
Current liabilities	**$ 50,071,469**	$ 35,127,930
Long-term liabilities	**716,756,375**	367,434,207
Total liabilities	**766,827,844**	402,562,137
Deferred inflows of resources – unrealized gain on derivative instruments	**16,718,925**	11,385,719
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 783,546,769**	$ 413,947,856

The increase in total assets and deferred outflows of resources of $369,598,913 was due to a net increase in market values of derivative instruments of $401,931,549, offset by a decrease in deferred outflows – costs recoverable of $22,527,559 and a decrease in capital assets by $6,956,576, which included ordinary annual depletion of $9,846,882 and depreciation of property and equipment of $463,644.

The increase in total liabilities, deferred inflows of resources, and net position of $369,598,913 was due to a net increase in hedge liabilities of $396,671,777 and an increase in deferred inflows of resources – unrealized gain on derivative instruments of $5,333,206, offset by net decreases in advances from the Gas Authority of $14,378,128 and a principal payment of Series A debt of $16,000,000.

The increase in both derivative instrument assets and liabilities are due to the addition of hedge positions executed by Pool 4 serving in its role as swap counterparty in two gas prepayment transactions. Pool 4 has offsetting positions in the natural gas swaps entered into for natural gas prepayments. The swaps contain tear-up provisions such that they may be terminated under certain limited circumstances, including specific credit events, with no settlement payment due or payable by either party.

Financial Analysis – 2018 Compared to 2017 (continued)

Following is a summary of operations for the years ended June 30, 2018 and 2017:

	2018	2017
Operating revenues:		
Production sold to customers and Members	**$ 56,501,072**	$ 59,045,601
Gas acquired and sold to Members	**55,725,437**	58,914,948
Total operating revenues	**112,226,509**	117,960,549
Operating expenses:		
Oil and gas field operations	**27,364,203**	27,592,329
Gas supplies delivered to customers and Members	**43,413,256**	47,388,717
Depletion of oil and gas properties	**9,846,882**	10,499,023
Depreciation of property and equipment	**463,644**	429,383
General and administrative	**3,478,808**	2,508,787
Total operating expenses	**84,566,793**	88,418,239
Operating income	**27,659,716**	29,542,310
Nonoperating income / (expense):		
Interest expense and other, net	**(5,911,316)**	(7,291,625)
Investment income	-	42,480
Equity in earnings of affiliates	**779,159**	343,629
Deferred outflows of resources – costs refundable in future billings	**(22,527,559)**	(22,636,794)
Total nonoperating expense	**(27,659,716)**	(29,542,310)
Changes in net position	**–**	–
Net position:		
Beginning of year	**–**	–
End of year	**$ –**	$ –

Financial Analysis – 2018 Compared to 2017 (continued)

Operating Revenues

Operating revenues from production sold to customers and Members decreased $2,544,529, or 4.3%, due to lower average pricing of natural gas year over year and a decrease in production volumes in Pools 1, 2, and 3. Gas acquired and resold to Members decreased $3,189,511, or 5.4%, due to lower average pricing of natural gas year over year and changes in seasonal sculpting of physical delivery volumes.

Operating Expenses

Operating expenses decreased $3,851,446, or 4.4%, due to decreases in gas supplies delivered to Members of $3,975,461 driven by lower average natural gas pricing and changes in seasonal sculpting of physical delivery volumes, oil and gas field operations of $228,216, and depletion of oil and gas properties of $652,141. These decreases were offset by an increase in general and administrative expenses of $970,021, or 38.7%, primarily due to an increase in land management costs.

Liquidity and Capital Resources

PGP's cash balance decreased $3,285,338 to $14,271,601 at June 30, 2018. See the accompanying statements of cash flows for details of cash activity during fiscal year 2018.

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 – 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.

Public Gas Partners, Inc.

Statements of Net Position

	June 30 2018	June 30 2017
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	**$ 5,338,445**	$ 4,760,419
Restricted cash	**8,933,156**	12,796,520
Accounts receivable	**16,383,911**	16,140,769
Fair value of derivative instruments	**22,119,362**	5,279,967
Other assets	**987,946**	1,113,111
Total current assets	**53,762,820**	40,090,786
Noncurrent assets:		
Oil and gas properties – net	**88,442,462**	106,564,868
Property and equipment — net	**2,385,509**	2,457,686
Partnership investment	**6,730,087**	6,484,662
Fair value of derivative instruments	**391,473,251**	6,381,098
Other assets	**600,000**	600,000
Assets held for sale	**11,238,007**	–
Total noncurrent assets	**500,869,316**	122,488,314
Deferred outflows of resources - costs recoverable / (refundable)	**228,841,197**	251,368,756
Deferred outflows of resources - unrealized loss on derivative instruments	**73,436**	–
Total assets and deferred outflows of resources	**$ 783,546,769**	$ 413,947,856
Liabilities, deferred inflows of resources, and net position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 12,793,647**	$ 13,678,537
Advance billings — FMPA	**3,493,897**	3,528,816
Fair value of derivative instruments	**21,342,915**	275,346
Current portion of long-term bonds	**11,296,946**	16,504,140
Asset retirement obligations	**1,144,064**	1,141,091
Total current liabilities	**50,071,469**	35,127,930
Noncurrent liabilities:		
Advances from the Gas Authority	**236,967,029**	251,345,157
Advance billings — FMPA	**66,384,052**	67,047,510
Fair value of derivative instruments	**375,604,209**	–
Long-term bonds	**16,063,866**	27,360,812
Asset retirement obligations	**21,737,219**	21,680,728
Total noncurrent liabilities	**716,756,375**	367,434,207
Total liabilities	**766,827,844**	402,562,137
Deferred inflows of resources - unrealized gain on derivative instruments	**16,718,925**	11,385,719
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 783,546,769**	$ 413,947,856

See accompanying notes to the financial statements.

Public Gas Partners, Inc.

Statements of Revenues,
Expenses, and Changes in Net Position

	Year Ended June 30	
	2018	**2017**
Operating revenues:		
Production sold to customers and Members	**$ 56,501,072**	$ 59,045,601
Gas acquired and sold to customers and Members	**55,725,437**	58,914,948
Total operating revenues	**112,226,509**	117,960,549
Operating expenses:		
Oil and gas field operations	**27,364,203**	27,592,329
Gas supplies delivered to customers and Members	**43,413,256**	47,388,717
Depletion of oil and gas properties	**9,846,882**	10,499,023
Depreciation of property and equipment	**463,644**	429,383
General and administrative	**3,478,808**	2,508,787
Total operating expenses	**84,566,793**	88,418,239
Operating income	**27,659,716**	29,542,310
Nonoperating income / (expense):		
Interest expense and other, net	**(5,911,316)**	(7,291,625)
Investment income	**–**	42,480
Equity in earnings of affiliates	**779,159**	343,629
Deferred outflows of resources - costs refundable	**(22,527,559)**	(22,636,794)
Total nonoperating expense	**(27,659,716)**	(29,542,310)
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	
	2018	**2017**
Operating activities		
Receipts from customers and Members	**$ 107,858,645**	$ 108,028,455
Payments to Members	**(8,213,062)**	(9,244,845)
Payments to operators and suppliers	**(67,488,423)**	(64,330,694)
Payments from oil and gas derivative counterparties, net	**4,503,723**	5,811,220
Net cash provided by operating activities	**36,660,883**	40,264,136
Capital and related financing activities		
Sales of oil and gas properties	**796,189**	511,941
Capital expenditures of property and equipment	**(453,313)**	(386,081)
Sale of property and equipment	**97,251**	55,608
Drilling and completion costs, net of refunds	**(3,711,748)**	(2,082,230)
Repayments of gas revenue bonds	**(16,000,000)**	(11,000,000)
Advance repayments to the Gas Authority, net	**(14,378,128)**	(23,771,609)
Interest payments and debt issuance costs	**(6,830,206)**	(8,193,724)
Net cash used in capital and related financing activities	**(40,479,955)**	(44,866,095)
Investing activities		
Investment distributions	**533,734**	603,684
Net cash provided by investing activities	**533,734**	603,684
Net decrease in cash equivalents	**(3,285,338)**	(3,998,275)
Cash and cash equivalents:		
Beginning of year	**17,556,939**	21,555,214
End of year	**$ 14,271,601**	$ 17,556,939
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:		
Operating income	**$ 27,659,716**	$ 29,542,310
Adjustments to reconcile to net cash flows provided by operating activities:		
Accretion of asset retirement obligation	**413,059**	761,652
Depreciation of property and equipment	**463,644**	429,383
Depletion of oil and gas properties	**9,846,882**	10,499,023
Changes in certain assets and liabilities:		
Accounts receivable	**(243,142)**	(4,950,462)
Other assets	**125,166**	574,999
Accounts payable and accrued expenses	**(906,065)**	4,970,615
Advance billings — FMPA	**(698,377)**	(1,563,384)
Net cash provided by operating activities	**$ 36,660,883**	$ 40,264,136

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 deliver value to its members (the Members) by acquiring and managing a portfolio of economic long-term gas supplies and using its commodity hedging and physical gas supply capabilities. PGP is organized into projects in which the Members may elect to participate. PGP has undertaken four projects: Gas Supply Pool No. 1 (Pool 1), Gas Supply Pool No. 2 (Pool 2), Gas Supply Pool No. 3 (Pool 3), and Gas Supply Pool No. 4 (Pool 4). Pool 1 was formed in 2004, Pool 2 was formed in 2005, Pool 3 was formed in 2009, and Pool 4 was formed in 2018.

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. Pool 4 is authorized to serve as physical gas supplier and commodity swap counterparty for natural gas prepayment transactions on an ongoing basis. As physical gas supplier, Pool 4 acquires physical gas supplies and sells the gas to the prepayment supplier, typically a bank. As swap counterparty, Pool 4 enters into matched commodity swap transactions with both the issuer and supplier of the transaction to allow both parties to hedge their natural gas price risk. In 2018, Pool 4 contracted to be the physical gas supplier and swap counterparty in two natural gas prepayment transactions with Royal Bank of Canada, the prepayment supplier, and Main Street Natural Gas, Inc., the prepayment issuer. The transactions have a term of 30 years. PGP utilizes wholly owned subsidiaries that are blended component units of PGP to own the assets and manage the operations of its various projects. All intercompany transactions have been eliminated.

Each of the Members participating in Pool 1, 2, or 3 has executed a Production Sharing Agreement (PSA) for that project. Each Member participating in Pool 4 has executed a Participation Agreement (PA) for that project. Each PSA and PA 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 any related debt has been paid, all obligations have been fulfilled, 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 Pools 1, 2 and 3 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.

1. Summary of Significant Accounting Policies (continued)

The following table summarizes the Members' participation share by Pool as of June 30, 2018 (totals may not equal 100% due to rounding).

Member	Pool 1 Participation Share	Pool 2 Participation Share	Pool 3 Participation Share	Pool 4 Participation Share
Black Belt Energy Gas District	0.00%	0.00%	0.00%	33.33%
Florida Municipal Power Agency	22.04%	25.90%	0.00%	0.00%
Municipal Gas Authority of Georgia	49.74%	58.10%	85.23%	33.33%
National Public Gas Agency	0.00%	0.00%	2.20%	0.00%
Patriots Energy Group	8.29%	10.00%	2.66%	33.33%
The Southeast Alabama Gas District	17.91%	5.00%	9.91%	0.00%
Tennessee Energy Acquisition Corp.	2.02%	1.00%	0.00%	0.00%

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).

The Gas Authority manages PGP's day-to-day operations under a contract that ends on November 1, 2019 and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP paid the Gas Authority $2,007,373 and $1,923,308 for management fees for the years ended June 30, 2018 and 2017, respectively. Also, PGP Operating paid $5,534,039 and $5,758,153 for the years ended June 30, 2018 and 2017, 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, 2018, and through September 18, 2018, for inclusion in the financial statements and footnotes. In July 2018, Pool 4 contracted to be the physical gas supplier and swap counterparty on a prepayment transaction beginning September 1, 2018, with Royal Bank of Canada, the prepayment supplier, and Patriots Energy Group Financing Agency, the prepayment issuer.

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

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

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

At June 30, 2018 and 2017, 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.

1. Summary of Significant Accounting Policies (continued)

At June 30, 2018, $1,000,000 of PGP's cash balances was covered by federal depository insurance, $8,683,961 was collateralized with securities held by a third-party bank's trust department, and $5,620,639 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2017, $750,000 of PGP's cash 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.

Restricted Cash

Restricted cash represents funds held by a trustee restricted for future debt service pursuant to a bond resolution. As of June 30, 2018, and 2017, PGP restricted $8,683,961 and $12,562,199, respectively, for debt service, and $249,195 and $234,321, respectively, for legal and administrative suspense for future royalty payments related to its oil and gas operations in Alabama.

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 within Pool 3 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:	**2018**	**2017**
Proved properties	$ 922,821,158	$ 919,858,675
Total oil and gas properties	922,821,158	919,858,675
Accumulated depletion of proved properties	(823,140,689)	(813,293,807)
Total oil and gas properties, net	$ 99,680,469	$ 106,564,868

1. Summary of Significant Accounting Policies (continued)

As of June 30, 2018, $11,238,007 of the oil and gas properties, net, are held for sale and disclosed separately on the Statement of Net Position.

Accumulated depletion was $496,163,071 for Pool 1, $157,802,012 for Pool 2, and $169,175,606 for Pool 3 as of June 30, 2018, and $490,723,652 for Pool 1, $157,732,003 for Pool 2, and $164,838,152 for Pool 3 as of June 30, 2017.

Under the full-cost method, capitalized costs are limited to an amount not to exceed the value of the related oil and gas reserves (referred to as a ceiling on capitalized costs). In performing its annual ceiling test, PGP limits the capitalized costs of oil and gas properties, net of accumulated DD&A, to the present value of estimated future net cash flows, including cash flows from hedging transactions, from proved oil and gas reserves, plus the lower of cost or fair value of any unproved properties included in the costs being amortized. The full-cost method stipulates that future cash flows are discounted at 10%. If capitalized costs exceed this limit, the excess is charged as additional DD&A expense.

The full-cost method also stipulates that revenues for all future periods are calculated by applying the arithmetic average first-day-of-the-month price over the preceding 12 months, except in those instances where future oil and natural gas prices are covered by derivative contracts. Consequently, the preceding 12-month average prices could have a significant impact on the ceiling test calculation and could result in write-downs of oil and gas properties. No full-cost ceiling impairment occurred during the current or prior fiscal year as the present value of future estimated future net cash flows from proved oil and gas properties exceeded their net book values. This was due to stable or increasing average market index prices for natural gas and oil during these periods. Hedging transactions cover approximately 19% and 8% of expected future production from proved reserves for the years ended June 30, 2018 and 2017, respectively. If hedging transactions had not been considered in the impairment test, additional depletion expense of $0 and $2,068,239 would have been recognized for the years ended June 30, 2018 and 2017, 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 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:

1. Summary of Significant Accounting Policies (continued)

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).

Deferred Outflows of Resources - Costs Recoverable / (Refundable)

Under the provisions of the PSAs and the PA, 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.

1. Summary of Significant Accounting Policies (continued)

Derivative Instruments

PGP uses derivative instruments, including swaps and options, to hedge its commodity price risk associated with short-term and long-term changes in oil and natural gas prices and to enter into matched swap transactions when serving as swap counterparty in natural gas prepayment transactions. 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 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.

Fair Value Measurements

PGP's financial instruments include cash and cash equivalents, restricted cash, receivables, accrued liabilities, accounts payable, natural gas and oil supply hedging agreements, and debt. The carrying amounts of cash and cash equivalents, restricted cash, receivables, accrued liabilities, and accounts payable approximate fair value because of their short-term nature. PGP's derivative instruments to hedge its commodity price risk are recorded at estimated fair values.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and PGP's assumptions (unobservable inputs).

1. Summary of Significant Accounting Policies (continued)

Fair value measurements are classified under the following hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Pricing inputs other than Level 1 which are either directly or indirectly observable.
- Level 3: Unobservable pricing inputs developed using the entity's estimates and assumptions, which reflect those that market participants would use in pricing an asset or liability.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by PGP. PGP considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. PGP evaluates its hierarchy disclosures each reporting period and based on various factors it is possible that an asset or liability may be classified differently from period to period. However, PGP expects that changes in classifications between different levels will be infrequent.

Fair value estimates are based on pertinent information available to management at each statement of net position date. Specifically, fair value estimates for 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 (projected for periods beyond when NYMEX or WTI quotes are available), adjusted for basis differentials, multiplied by the corresponding monthly gas volume using the applicable LIBOR forward interest rate curve (or, for Matched swaps, the US Treasury) forward interest rate curve as a discount rate. These estimated fair values may be significantly impacted by changes in underlying natural gas commodity prices or the general interest rate environment. The fair values presented have not been comprehensively revalued since June 30, 2018, and current estimates of fair value may differ significantly from the amounts presented herein.

1. Summary of Significant Accounting Policies (continued)

The following table summarizes the valuation of financial instruments measured at fair value:

June 30, 2018	Level 1	Level 2	Level 3	Total
Oil and gas reserve swap agreements	$ -	$ 678,844	$ -	$ 678,844
Matched swap transactions	$ -	$ 15,966,646	$ -	$ 15,966,646

June 30, 2017	Level 1	Level 2	Level 3	Total
Oil and gas reserve swap agreements	$ -	$ 11,385,719	$ -	$ 11,385,719
Matched swap transactions	$ -	$ -	$ -	$ -

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.

Assets Held for Sale

At June 30, 2018, the company classified $11,238,007 of proved oil and gas properties, net as "Assets held for sale" on the Statement of Net Position. These assets are comprised of non-operated working and royalty interests in Oklahoma, New Mexico, and Texas.

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, 2018 and 2017, is as follows:

	2018	2017
Assets	$ 15,473,359	$ 14,751,982
Liabilities	$ 1,532,357	$ 1,633,972
Revenues	$ 6,318,670	$ 4,250,645
Expenses	(5,074,629)	(3,782,969)
Net income	$ 1,244,041	$ 467,676

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2018 and 2017, 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, 2018 was as follows:

	Balance at June 30, 2017	Additions	Disposals	Depreciation	Balance at June 30, 2018
Buildings	$ 1,266,888	$ -	$ -	$ -	$ 1,266,888
Vehicles	1,600,460	436,803	(221,964)	-	1,815,299
Computer hardware and software	685,640	16,510	-	-	702,150
Land	100,000	-	-	-	100,000
Machinery and equipment	37,563	-	-	-	37,563
Accumulated depreciation	(1,232,865)	-	160,118	(463,644)	(1,536,391)
Total property and equipment, net	$ 2,457,686	$ 453,313	$ (61,846)	$ (463,644)	$ 2,385,509

Depreciation expense relating to property and equipment was $463,644 and $429,383 for 2018 and 2017, 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, 2017	Proceeds	Payments	June 30, 2018
Series A Bonds	$ 43,000,000	$ –	$ 16,000,000	$ 27,000,000

	June 30, 2016	Proceeds	Payments	June 30, 2017
Series A Bonds	$ 54,000,000	$ –	$ 11,000,000	$ 43,000,000

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:			
2019	$ 11,000,000	$ 1,044,400	$ 12,044,400
2020	16,000,000	384,700	16,384,700
Total	27,000,000	$ 1,429,100	$ 28,429,100
Unamortized bond premium	360,812		
Total per statement of net position	$ 27,360,812		

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 Pools 1, 2, and 3 entered into Advance Payment Agreements (APAs) with the Gas Authority under which the Gas Authority provides funding to PGP. The APAs mature in 2027. In February 2018, Pool 4 entered into an Advance Prepayment Agreement (APA) to provide funding to PGP in support of its role in natural gas prepayment transactions. Interest expense is charged based on the Gas Authority's actual borrowing costs or contractual line-of-credit costs.

As of June 30, 2018, the weighted-average rate charged to PGP was approximately 2.12%. PGP made interest payments to the Gas Authority totaling $5,168,889 and $5,211,921 for fiscal years 2018 and 2017, 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 ("Henry Hub swaps" or "WTI swaps"). PGP also enters into matched swap transactions when serving as swap counterparty in natural gas prepayment transactions ("Matched swaps").

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.

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 and Matched swaps at local delivery points, the forward price curve at that delivery point), multiplied by the corresponding monthly oil or gas volume using the LIBOR (or, for Matched swaps, the US Treasury) 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 2018.

The fair value balances of derivative instruments outstanding at June 30, 2018 and 2017, 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, 2018, and current estimates of fair value may differ significantly from the amounts presented herein.

5. Derivative Instruments (continued)

As of and for the year ended June 30, 2018:

	Notional Amount at June 30, 2017*		Fair Value at June 30, 2017		Change in Fair Value		Fair Value at June 30, 2018	Notional Amount at June 30, 2018*
Hedging derivatives								
Henry Hub Swaps – Gas – Receive fixed	10,057,500	$	293,036	$	(25,700)	$	267,336	26,473,900
WTI Swaps – Oil – Receive fixed	505,787	$	11,092,683	$	(10,681,177)	$	411,506	360,228
Matched Swaps – Gas – Pay fixed	-	$	-	$	(395,226,462)	$	(395,226,462)	812,457,294
Matched Swaps – Gas – Receive fixed	-	$	-	$	411,193,109	$	411,193,109	812,457,294

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	$	-	-

* 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, 2018:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps – Gas – Receive fixed	2018 – 2022	26,473,900	$2.64 - $3.10
WTI Swaps – Oil – Receive fixed	2018 – 2020	360,228	$48.60 - $80.15
Matched Swaps – Gas – Pay fixed	2018 – 2048	812,457,294	$4.08
Matched Swaps – Gas – Receive fixed	2018 – 2048	812,457,294	$4.11

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

5. Derivative Instruments (continued)

Risks

Basis Risk

The Henry Hub and WTI swaps are subject to locational basis risk as these forward contracts are based on pricing at the Henry Hub or WTI delivery points, whereas PGP's oil and gas properties produce and deliver at various delivery points. As noted above, PGP enters into derivative instruments based on pricing at certain local delivery points to mitigate basis risk. PGP did not hold any Basis swaps in its derivatives portfolio for fiscal year 2018.

Credit and Termination 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 five 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.

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.

PGP's derivative instruments held while serving as swap counterparty in natural gas prepayment transactions contain tear-up provisions such that they may be terminated under certain limited circumstances, including specific credit events, with no settlement payment due or payable by either party.

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 within such Pool and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

5. Derivative Instruments (continued)

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2018, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2018 Asset (Liability)
JP Morgan Chase Bank, N.A.	A+/Aa2	$ 184,662
Macquarie Bank Ltd.	A/A1	$ (1,369,149)
Main Street Natural Gas, Inc.	A-/A1	$ (395,226,462)
Royal Bank of Canada	AA-/Aa2	$ 413,012,660
Wells Fargo Bank, N.A.	A+/Aa1	$ 43,778

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, 2018 and 2017, as follows:

	June 30	
	2018	2017
Balance of ARO – beginning of year	$ 22,821,819	$ 22,380,125
Additions from acquisitions and drilling	23,202	7,564
Accretion expense	413,059	761,652
Subtractions from sales and property assignments	(2,649)	(351,447)
ARO settlements, net	(374,148)	23,925
Balance of ARO – end of year	$ 22,881,283	$ 22,821,819

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 Southeast Gas. MGMS delivers volumes to both the Gas Authority and Southeast Gas. During 2018, PGP Operating recognized gross sales of natural gas to MGMS totaling $15,646,780. On a net working interest basis to Pool 3, this resulted in $2,444,442 of fiscal 2018 revenues recorded in production sold to customers and Members. As of June 30, 2018, PGP held $1,269,000 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, 2018				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents	$ 934,681	$ 1,602,144	$ 2,759,556	$ 42,064	$ 5,338,445
Restricted cash	8,683,961	–	249,195	–	8,933,156
Accounts receivable	4,515,253	524,532	8,550,523	2,793,603	16,383,911
Fair value of derivative instruments	858,180	139,365	184,155	20,937,662	22,119,362
Other assets	73,565	11,971	902,410	–	987,946
Interproject receivables / (payables)	(44,769)	(6,703)	51,472	–	–
Total current assets	15,020,871	2,271,309	12,697,311	23,773,329	53,762,820
Noncurrent assets:					
Oil and gas properties – net	32,203,920	3,846,401	52,392,141	–	88,442,462
Property and equipment — net	–	–	2,385,509	–	2,385,509
Partnership Investment	–	6,730,087	–	–	6,730,087
Fair value of derivative instruments	816,109	141,573	260,122	390,255,447	391,473,251
Other assets	–	–	600,000	–	600,000
Assets held for sale	11,238,007	–	–	–	11,238,007
Total noncurrent assets	44,258,036	10,718,061	55,637,772	390,255,447	500,869,316
Deferred outflows of resources - costs recoverable / (refundable)	127,714,292	56,771,414	44,410,917	(55,426)	228,841,197
Deferred outflows of resources - unrealized loss on derivative instruments	–	73,436	–	–	73,436
Total assets and deferred outflows of resources	$186,993,199	$ 69,834,220	$112,746,000	$413,973,350	$ 783,546,769
Liabilities, deferred inflows of resources, and net position					
Current liabilities:					
Accounts payable and accrued expenses	$ 2,599,886	$ 299,408	$ 7,114,112	$ 2,780,241	$ 12,793,647
Advance billings — FMPA	2,407,382	1,086,515	–	–	3,493,897
Fair value of derivative instruments	451,647	206,762	245,182	20,439,324	21,342,915
Current portion of long-term bonds	11,296,946	–	–	–	11,296,946
Asset retirement obligations	663,770	46,640	433,654	–	1,144,064
Total current liabilities	17,419,631	1,639,325	7,792,948	23,219,565	50,071,469
Noncurrent liabilities:					
Advances from the Gas Authority	93,935,171	46,517,329	96,514,529	–	236,967,029
Advance billings — FMPA	45,740,262	20,643,790	–	–	66,384,052
Fair value of derivative instruments	651,406	147,612	18,052	374,787,139	375,604,209
Long-term bonds	16,063,866	–	–	–	16,063,866
Asset retirement obligations	12,611,628	886,164	8,239,427	–	21,737,219
Total noncurrent liabilities	169,002,333	68,194,895	104,772,008	374,787,139	716,756,375
Total liabilities	186,421,964	69,834,220	112,564,956	398,006,704	766,827,844
Deferred inflows of resources - unrealized gain on derivative instruments	571,235	–	181,044	15,966,646	16,718,925
Net position	–	–	–	–	–
Total liabilities, deferred inflows of resources, and net position	$186,993,199	$ 69,834,220	$112,746,000	$413,973,350	$ 783,546,769

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

	Year Ended June 30, 2018				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Operating revenues:					
Production sold to customers and Members	$ 28,638,910	$ 1,422,803	$ 26,439,359	$ –	$ 56,501,072
Gas acquired and sold to customers and Members	15,453,768	6,345,907	26,237,155	7,688,607	55,725,437
Total operating revenues	44,092,678	7,768,710	52,676,514	7,688,607	112,226,509
Operating expenses:					
Oil and gas field operations	16,165,970	981,767	10,216,466	–	27,364,203
Gas supplies delivered to customers and Members	6,602,398	1,181,041	28,107,488	7,522,329	43,413,256
Depletion of oil and gas properties	5,439,419	70,009	4,337,454	–	9,846,882
Depreciation of property and equipment	–	–	463,644	–	463,644
General and administrative	1,876,238	193,036	1,298,682	110,852	3,478,808
Total operating expenses	30,084,025	2,425,853	44,423,734	7,633,181	84,566,793
Operating income	14,008,653	5,342,857	8,252,780	55,426	27,659,716
Nonoperating income / (expense):					
Interest expense and other, net	(2,878,477)	(915,074)	(2,117,765)	–	(5,911,316)
Equity in earnings of affiliates	–	779,159	–	–	779,159
Deferred outflows of resources - costs refundable	(11,130,176)	(5,206,942)	(6,135,015)	(55,426)	(22,527,559)
Total nonoperating expense	(14,008,653)	(5,342,857)	(8,252,780)	(55,426)	(27,659,716)
Change in net position	–	–	–	–	–
Net position:					
Beginning of year	–	–	–	–	–
End of year	$ –	$ –	$ –	$ –	$ –

Public Gas Partners, Inc.
Statements of Cash Flows

	Year Ended June 30, 2018				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Operating activities					
Receipts from customers and Members	$ 38,360,678	$ 7,642,879	$ 56,163,798	$ 5,691,290	$ 107,858,645
Payments to Members	(1,206,627)	(222,550)	(6,699,758)	(84,127)	(8,213,062)
Payments to operators and suppliers	(23,064,354)	(2,113,481)	(36,682,394)	(5,628,194)	(67,488,423)
Payments from oil and gas derivative counterparties, net	3,241,035	438,805	760,788	63,095	4,503,723
Internal activity — payments from / (to) other pools	97,475	8,852	(106,327)	–	–
Net cash provided by operating activities	17,428,207	5,754,505	13,436,107	42,064	36,660,883
Capital and related financing activities					
Sales of oil and gas properties	481,802	–	314,387	–	796,189
Capital expenditures of property and equipment	–	–	(453,313)	–	(453,313)
Sale of property and equipment	–	–	97,251	–	97,251
Drilling and completion costs, net of refunds	(3,708,556)	(3,174)	(18)	–	(3,711,748)
Repayments of gas revenue bonds	(16,000,000)	–	–	–	(16,000,000)
Advances from / (repayments to) the Gas Authority, net	1,329,627	(4,885,074)	(10,822,681)	–	(14,378,128)
Interest payments and debt issuance costs	(3,705,163)	(915,076)	(2,209,967)	–	(6,830,206)
Net cash used in capital and related financing activities	(21,602,290)	(5,803,324)	(13,074,341)	–	(40,479,955)
Investing activities					
Investment distributions	–	533,734	–	–	533,734
Net cash provided by investing activities	–	533,734	–	–	533,734
Net increase / (decrease) in cash equivalents	(4,174,083)	484,915	361,766	42,064	(3,285,338)
Cash and cash equivalents:					
Beginning of period	13,792,725	1,117,229	2,646,985	–	17,556,939
End of period	$ 9,618,642	$ 1,602,144	$ 3,008,751	$ 42,064	$ 14,271,601
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:					
Operating income	$ 14,008,653	$ 5,342,857	$ 8,252,780	$ 55,426	$ 27,659,716
Adjustments to reconcile to net cash flows provided by operating activities:					
Accretion of asset retirement obligation	197,895	16,865	198,299	–	413,059
Depreciation of property and equipment	–	–	463,644	–	463,644
Depletion of oil and gas properties	5,439,419	70,009	4,337,454	–	9,846,882
Changes in certain assets and liabilities:					
Accounts receivable	(2,490,965)	312,974	4,728,452	(2,793,603)	(243,142)
Other assets	3,518	9,384	112,264	–	125,166
Accounts payable and accrued expenses	721,408	142,745	(4,550,459)	2,780,241	(906,065)
Advance billings — FMPA	(549,196)	(149,181)	–	–	(698,377)
Interproject receivables / (payables)	97,475	8,852	(106,327)	–	–
Net cash provided by operating activities	$ 17,428,207	$ 5,754,505	$ 13,436,107	$ 42,064	$ 36,660,883