Financial Statements and Supplemental Schedules

Public Gas Partners, Inc.
As of and for the Years Ended June 30, 2019 and 2018
With Report of Independent Auditors

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2019 and 2018

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, 2019 and 2019, 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 basic 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, 2019 and 2018, 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 basic 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 basic 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
October 16, 2019

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'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). 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. 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. PGP utilizes wholly owned subsidiaries to own the assets and manage the operations of its various projects. Pool 3's subsidiary, PGP Operating, LLC (PGP Operating), operates approximately 1,329 wells in the Black Warrior Basin of Alabama. 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.

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 and PA 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 and PAs 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 and PAs 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, 2020. 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 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The supplemental pool-level schedules are presented immediately following the notes to the financial statements.

Financial Analysis – 2019 Compared to 2018

Following are the condensed statements of net position as of June 30, 2019 and 2018:

	2019	2018**
Capital assets	**$ 66,859,479**	$ 72,128,967
Noncapital assets	**381,784,471**	463,804,165
Regulatory asset – costs recoverable	**208,000,858**	228,841,197
Deferred outflows of resources – asset retirement obligations	**16,898,091**	18,699,004
Deferred outflows of resources – unrealized loss on derivative instruments	**-**	73,436
Total assets and deferred outflows of resources	**$ 673,542,899**	$ 783,546,769
Current liabilities	**$ 80,174,109**	$ 50,071,469
Long-term liabilities	**563,481,603**	716,756,375
Total liabilities	**643,655,712**	766,827,844
Deferred inflows of resources – unrealized gain on derivative instruments	**29,887,187**	16,718,925
Net position	**–**	–
Total liabilities, deferred inflows of resources, and net position	**$ 673,542,899**	$ 783,546,769

**Reclassifications have been made as a result of the implementation of GASB Statement No. 83, Certain Asset Retirement Obligations.

The decrease in total assets and deferred outflows of resources of $110,003,870 was due to decreases in the fair values of derivative instruments of $95,697,073, regulatory assets – costs recoverable of $20,840,339, and capital assets of $5,269,488, which included ordinary depletion of $8,203,046 and depreciation of property and equipment of $467,779, offset by an increase in cash and cash equivalents and restricted cash of $7,532,865 and an increase in accounts receivable of $14,404,607.

The decrease in total liabilities, deferred inflows of resources, and net position of $110,003,870 was due to net decreases in the fair value of derivative instruments of $108,938,770, advances from the Gas Authority of $6,730,926, and a principal payment of Series A debt of $11,000,000, offset by net increases in deferred inflows of resources – unrealized gain on derivative instruments of $13,168,262 and accounts payable of $5,709,999.

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 – 2019 Compared to 2018 (continued)

Following is a summary of operations for the years ended June 30, 2019 and 2018:

	2019	2018
Operating revenues:		
Production sold to customers and Members	**$ 47,166,801**	$ 56,501,072
Gas acquired and sold to Members	**110,617,589**	55,725,437
Total operating revenues	**157,784,390**	112,226,509
Operating expenses:		
Oil and gas field operations	**26,270,717**	27,364,203
Gas supplies delivered to customers and Members	**93,643,088**	43,413,256
Depletion of oil and gas properties	**8,203,046**	9,846,882
Depreciation of property and equipment	**467,779**	463,644
General and administrative	**3,243,288**	3,478,808
Total operating expenses	**131,827,918**	84,566,793
Operating income	**25,956,472**	27,659,716
Nonoperating income / (expense):		
Interest expense and other, net	**(5,654,534)**	(5,911,316)
Equity in earnings of affiliates	**538,401**	779,159
Costs recoverable from future billings	**(20,840,339)**	(22,527,559)
Total nonoperating expense	**(25,956,472)**	(27,659,716)
Changes in net position	**–**	–
Net position:		
Beginning of year	**–**	–
End of year	**$ –**	$ –

Financial Analysis – 2019 Compared to 2018 (continued)

Operating Revenues

Operating revenues from production sold to customers and Members decreased $9,334,271, or 16.5%, due to a decrease in production volumes in Pools 1, 2, and 3. Gas acquired and resold to Members increased $54,892,152, or 98.5%, due to additional Pool 4 physical delivery.

Operating Expenses

Operating expenses increased $47,261,125, or 55.9%, due to increases in gas supplies delivered to Members of $50,229,832, or 115.7%, driven by a full year of Pool 4 physical delivery. This increase was offset by a decrease in oil and gas field operations of $1,093,486, or 4.0%, and depletion of oil and gas properties of $1,643,836, or 16.7%.

Liquidity and Capital Resources

PGP's cash balance increased $7,532,865 to $21,804,466 at June 30, 2019. See the accompanying statements of cash flows for details of cash activity during fiscal year 2019.

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 – 2018 Compared to 2017

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

	2018**	2017**
Capital assets	**$ 72,128,967**	$ 90,346,752
Noncapital assets	**463,804,165**	53,556,546
Regulatory asset – costs recoverable	**228,841,197**	251,368,756
Deferred outflows of resources – asset retirement obligations	**18,699,004**	18,675,802
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

**Reclassifications have been made as a result of the implementation of GASB Statement No. 83, Certain Asset Retirement Obligations.

The increase in total assets and deferred outflows of resources of $369,598,913 was due to a net increase in fair values of derivative instruments of $401,931,549, offset by a decrease in regulatory assets – costs recoverable of $22,527,559 and a decrease in capital assets by $18,217,785, 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.

Financial Analysis – 2018 Compared to 2017 (continued)

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.

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
Costs recoverable from 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.

Economic Outlook

There are no known conditions or decisions that will have a significant impact on PGP's financial position in the near future.

Public Gas Partners, Inc.

Statements of Net Position

	June 30 2019		June 30 2018
Assets and deferred outflows of resources			
Current assets:			
Cash and cash equivalents	**$**	**9,207,299**	$ 5,338,445
Restricted cash		**12,597,167**	8,933,156
Accounts receivable		**30,788,518**	16,383,911
Fair value of derivative instruments		**44,899,526**	22,119,362
Other assets		**2,491,169**	987,946
Oil and gas properties held for sale		**2,186,031**	11,238,007
Total current assets		**102,169,710**	65,000,827
Noncurrent assets:			
Oil and gas properties – net		**64,633,747**	69,743,458
Property and equipment – net		**2,225,732**	2,385,509
Partnership investment		**6,018,747**	6,730,087
Fair value of derivative instruments		**272,996,014**	391,473,251
Regulatory asset – costs recoverable		**208,000,858**	228,841,197
Other assets		**600,000**	600,000
Total noncurrent assets		**554,475,098**	699,773,502
Total assets		**656,644,808**	764,774,330
Deferred outflows of resources – asset retirement obligations		**16,898,091**	18,699,004
Deferred outflows of resources – unrealized loss on derivative instruments		**–**	73,436
Total deferred outflows of resources		**16,898,091**	18,772,440
Total assets and deferred outflows of resources	**$**	**673,542,899**	$ 783,546,769
Liabilities, deferred inflows of resources, and net position			
Current liabilities:			
Accounts payable and accrued expenses	**$**	**18,503,646**	$ 12,793,647
Advance billings – FMPA		**3,500,452**	3,493,897
Fair value of derivative instruments		**41,064,410**	21,342,915
Current portion of long-term bonds		**16,063,866**	11,296,946
Asset retirement obligations		**1,041,735**	1,144,064
Total current liabilities		**80,174,109**	50,071,469
Noncurrent liabilities:			
Advances from the Gas Authority		**230,236,103**	236,967,029
Advance billings – FMPA		**66,508,578**	66,384,052
Fair value of derivative instruments		**246,943,944**	375,604,209
Long-term bonds		**–**	16,063,866
Asset retirement obligations		**19,792,978**	21,737,219
Total noncurrent liabilities		**563,481,603**	716,756,375
Total liabilities		**643,655,712**	766,827,844
Deferred inflows of resources – unrealized gain on derivative instruments		**29,887,187**	16,718,925
Net position		**–**	–
Total liabilities, deferred inflows of resources, and net position	**$**	**673,542,899**	$ 783,546,769

See accompanying notes to the financial statements.

Public Gas Partners, Inc.

Statements of Revenues,
Expenses, and Changes in Net Position

	Year Ended June 30	
	2019	**2018**
Operating revenues:		
Production sold to customers and Members	**$ 47,166,801**	$ 56,501,072
Gas acquired and sold to customers and Members	**110,617,589**	55,725,437
Total operating revenues	**157,784,390**	112,226,509
Operating expenses:		
Oil and gas field operations	**26,270,717**	27,364,203
Gas supplies delivered to customers and Members	**93,643,088**	43,413,256
Depletion of oil and gas properties	**8,203,046**	9,846,882
Depreciation of property and equipment	**467,779**	463,644
General and administrative	**3,243,288**	3,478,808
Total operating expenses	**131,827,918**	84,566,793
Operating income	**25,956,472**	27,659,716
Nonoperating income (expense):		
Interest expense and other, net	**(5,654,534)**	(5,911,316)
Equity in earnings of affiliates	**538,401**	779,159
Costs recoverable from future billings	**(20,840,339)**	(22,527,559)
Total nonoperating expense	**(25,956,472)**	(27,659,716)
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	
	2019	**2018**
Operating activities		
Receipts from customers and Members	**$ 154,256,315**	$ 107,858,645
Payments to Members	**(8,000,967)**	(8,213,062)
Payments to operators and suppliers	**(110,829,753)**	(67,488,423)
Payments from oil and gas derivative counterparties, net	**(1,377,166)**	4,503,723
Net cash provided by operating activities	**34,048,429**	36,660,883
Capital and related financing activities		
Sales of oil and gas properties	**150,543**	796,189
Capital expenditures – property and equipment	**(373,964)**	(453,313)
Sale of property and equipment	**117,957**	97,251
Drilling and completion costs, net of refunds	**(3,731,637)**	(3,711,748)
Repayments of gas revenue bonds	**(11,000,000)**	(16,000,000)
Advance repayments to the Gas Authority, net	**(6,730,924)**	(14,378,128)
Interest payments and debt issuance costs	**(6,197,279)**	(6,830,206)
Net cash used in capital and related financing activities	**(27,765,304)**	(40,479,955)
Investing activities		
Investment distributions	**1,249,740**	533,734
Net cash provided by investing activities	**1,249,740**	533,734
Net increase (decrease) in cash equivalents	**7,532,865**	(3,285,338)
Cash and cash equivalents:		
Beginning of year	**14,271,601**	17,556,939
End of year	**$ 21,804,466**	$ 14,271,601
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:		
Operating income	**$ 25,956,472**	$ 27,659,716
Adjustments to reconcile to net cash flows provided by operating activities:		
Accretion of asset retirement obligation	**412,483**	413,059
Depreciation of property and equipment	**467,779**	463,644
Depletion of oil and gas properties	**8,203,046**	9,846,882
Changes in certain assets and liabilities:		
Accounts receivable	**(4,529,431)**	(243,142)
Other assets	**(1,503,225)**	125,166
Accounts payable and accrued expenses	**4,910,223**	(906,065)
Advance billings – FMPA	**131,082**	(698,377)
Net cash provided by operating activities	**$ 34,048,429**	$ 36,660,883

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. PGP utilizes wholly owned subsidiaries 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, 2019 (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, Florida Municipal Power Agency (FMPA) prepaid for its share of acquisitions and, therefore, does not have a specific obligation with respect to PGP's debt (including advances payable to the Gas Authority).

The Gas Authority manages PGP's day-to-day operations under a contract that ends on November 1, 2020 and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP paid the Gas Authority $2,825,315 and $2,007,373 for management fees for the years ended June 30, 2019 and 2018, respectively. Also, PGP Operating paid $5,306,734 and $5,534,039 for the years ended June 30, 2019 and 2018, 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, 2019, and through October 16, 2019, for inclusion in the financial statements and footnotes.

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. Deferred inflows of resources 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, 2019 and 2018, PGP's regulatory asset is included in the accompanying statements of net position as regulatory asset – costs recoverable.

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, deferred outflows of resources, liabilities, and deferred inflows of resources 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, 2019, $1,000,000 of PGP's cash balances was covered by federal depository insurance, $12,429,923 was collateralized with securities held by a third-party bank's trust department, and $9,205,365 was subject to custodial credit risk as it was uninsured and uncollateralized. 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.

Restricted Cash

Restricted cash represents funds held by a trustee restricted for future debt service pursuant to a bond resolution. As of June 30, 2019, and 2018, PGP restricted $12,429,923 and $8,683,961, respectively, for debt service, and $167,244 and $249,195, 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 in Pool 3 and are held at 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:	**2019**	**2018**
Proved properties	$ 895,977,483	$ 892,884,147
Accumulated depletion of proved properties	(831,343,736)	(823,140,689)
Total oil and gas properties, net	$ 64,633,747	$ 69,743,458

1. Summary of Significant Accounting Policies (continued)

Accumulated depletion was $831,343,736 and $823,140,689 as of June 30, 2019 and 2018, respectively. Depletion expense was $8,203,046 and $9,846,882 for the years ended June 30, 2019 and 2018, respectively.

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 15% and 19% of expected future production from proved reserves for the years ended June 30, 2019 and 2018, respectively. If hedging transactions had not been considered in the impairment test, no additional depletion expense would have been recognized for the years ended June 30, 2019 and 2018, 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.

Oil and Gas Properties Held for Sale

At June 30, 2019 and 2018, the Company classified $2,186,031 and $11,238,007, respectively, of proved oil and gas properties, net as "Oil and gas properties held for sale" on the Statement of Net Position. These assets are comprised of non-operated working and royalty interests in Texas.

1. Summary of Significant Accounting Policies (continued)

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, Texas Gas Partners (TGP), accounted for under the equity method (see Note 2).

Regulatory Asset - Costs Recoverable

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 regulatory asset. In 2019, PGP reclassified this amount from deferred outflows of resources for all periods presented.

Asset Retirement Obligations (ARO)

ARO represents the current value of the estimated costs for well shut-ins and abandonments upon retirement of the related oil and gas properties. In identifying ARO, PGP considers the legally enforceable obligations, existing laws, and estimates of costs associated with site reclamation, facilities dismantlement, and plugging and abandonment of oil and gas wells. Such costs are amortized to expense over the estimated remaining useful life using the units-of-production method. GASB Statement No. 83, Certain Asset Retirement Obligations (GASB 83), was adopted retroactively on July 1, 2018 and resulted in the unamortized ARO asset being reclassified from oil and gas properties to deferred outflows of resources – asset retirement obligations in the amount of $16,898,091 and $18,699,004 as of June 30, 2019 and 2018, respectively. There was no impact from the reclassification on the Statements of Revenues, Expenses, and Changes in Net Position or Statements of Cash Flows.

1. Summary of Significant Accounting Policies (continued)

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 forecasted oil and gas sales from reserves. PGP also enters into matched swap transactions when serving as natural gas 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 assets 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 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.

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), projected for periods beyond when NYMEX or WTI quotes are available, multiplied by the corresponding monthly gas or oil volume, and discounted to present value using the LIBOR (or, for Matched swaps, the US Treasury) forward interest rate curve.

These estimated fair values may be significantly impacted by changes in underlying oil and natural gas commodity prices or the general interest rate environment. The fair values presented have not been comprehensively revalued since June 30, 2019, 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, 2019	Level 1	Level 2	Level 3	Total
Oil and gas reserve swap agreements	$ -	$ 4,247,486	$ -	$ 4,247,486
Matched swap transactions	$ -	$ 25,639,700	$ -	$ 25,639,700

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

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.

2. Partnership Investment

PGP owns a 60% noncontrolling interest in a partnership that owns oil and gas properties, which is accounted for under the equity method, with earnings reflected as Equity in earnings of affiliates in the Statements of Revenues, Expenses, and Changes in Net Position. Separate audited financial statements of TGP are not available. Summarized financial information for this investment as of and for the years ended June 30, 2019 and 2018, is as follows:

	2019	2018
Assets	$ 14,391,613	$ 15,473,359
Liabilities	$ 491,126	$ 1,532,357
Revenues	$ 7,047,079	$ 6,318,670
Expenses	(6,202,645)	(5,074,629)
Net income	$ 844,434	$ 1,244,041

The difference between PGP's carrying amount and its share of net assets of investees at June 30, 2019 and 2018, 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, 2019 was as follows:

	Balance at June 30, 2018	Additions	Disposals	Depreciation	Balance at June 30, 2019
Buildings	$ 1,266,888	$ -	$ -	$ -	$ 1,266,888
Vehicles	1,815,299	281,970	(311,045)	-	1,786,224
Computer hardware and software	702,150	94,748	(124,457)	-	672,441
Land	100,000	-	-	-	100,000
Machinery and equipment	37,563	-	-	-	37,563
Accumulated depreciation	(1,536,391)	-	366,286	(467,779)	(1,637,384)
Total property and equipment, net	$ 2,385,509	$ 376,718	$ (68,208)	$ (467,779)	$ 2,225,732

3. Property and Equipment (continued)

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 $467,779 and $463,644 for 2019 and 2018, 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, 2018	Proceeds	Payments	June 30, 2019
Series A Bonds	$ 27,000,000	$ –	$ 11,000,000	$ 16,000,000

	June 30, 2017	Proceeds	Payments	June 30, 2018
Series A Bonds	$ 43,000,000	$ –	$ 16,000,000	$ 27,000,000

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
Year Ending June 30, 2020	$ 16,000,000	$ 384,700	$ 16,384,700
Unamortized bond premium	63,866		
Total per statement of net position	$ 16,063,866		

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, 2019, the weighted-average rate charged by the Gas Authority to PGP was approximately 2.26%. PGP made interest payments to the Gas Authority totaling $5,274,538 and $5,168,889 for fiscal years 2019 and 2018, 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 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 natural gas 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.

5. Derivative Instruments (continued)

Fair Values of Derivatives

See Note 1 for a discussion of fair value policies and methodologies. The fair value balances of derivative instruments outstanding at June 30, 2019 and 2018, classified by type, and the changes in fair value of such derivative instruments for the years then ended, as reported in the financial statements are as follows (losses and liabilities in parentheses).

As of and for the year ended June 30, 2019:

	Notional Amount at June 30, 2018*		Fair Value at June 30, 2018		Change in Fair Value		Fair Value at June 30, 2019	Notional Amount at June 30, 2019*
Hedging derivatives								
Henry Hub Swaps - Gas- Receive fixed	26,473,900	$	267,336	$	2,812,785	$	3,080,121	21,600,200
WTI Swaps - Oil - Receive fixed	360,228	$	411,506	$	755,859	$	1,167,365	188,718
Matched Swaps – Gas – Pay fixed	812,457,294	$	(395,226,462)	$	107,559,983	$	(287,666,479)	1,138,675,517
Matched Swaps – Gas – Receive fixed	812,457,294	$	411,193,109	$	(97,886,930)	$	313,306,178	1,138,675,517

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

* 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, 2019:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps – Gas – Receive fixed	2019 – 2022	21,600,200	$2.61 - $4.08
WTI Swaps – Oil – Receive fixed	2019 – 2020	188,718	$49.30 - $80.00
Matched Swaps – Gas – Pay fixed	2019 – 2048	1,138,675,517	$4.05 - $4.08
Matched Swaps – Gas – Receive fixed	2019 – 2048	1,138,675,517	$4.08 - $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.

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, 2019, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2019 Asset (Liability)
JP Morgan Chase Bank, N.A.	A+/Aa1	$ 620,907
Macquarie Bank Ltd.	A/A1	$ 37,374
Main Street Natural Gas, Inc.	A-/Aa1	$ (223,012,062)
Patriots Energy Group Financing Agency	NR/Aa2	$ (64,654,415)
Royal Bank of Canada	AA-/Aa2	$ 316,755,221
Wells Fargo Bank, N.A.	A+/Aa1	$ 140,161

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 current value of expected future costs associated with site reclamation, facilities dismantlement, and plugging and abandonment of oil and gas wells at June 30, 2019 and 2018, as follows:

	June 30	
	2019	**2018**
Balance of ARO – beginning of year	$ 22,881,283	$ 22,821,819
Additions from acquisitions and drilling	1,200,536	23,202
Accretion expense	412,484	413,059
Subtractions from sales and property assignments	(3,022,025)	(2,649)
ARO settlements, net	(637,565)	(374,148)
Balance of ARO – end of year	$ 20,834,713	$ 22,881,283

7. Related Party Transactions

PGP Operating delivers extracted natural gas in the normal course of operations to several pipelines, marketers and other purchasers, including, through March 2019, Municipal Gas Marketing Services (MGMS), a joint venture owned equally by the Gas Authority and Southeast Gas. MGMS delivered volumes to both the Gas Authority and Southeast Gas. During the years ended June 30, 2019 and 2018, PGP Operating recognized gross sales of natural gas to MGMS totaling $13,783,995 and $15,646,780, respectively. On a net working interest basis to Pool 3, this resulted in $2,144,012 and $2,444,442 of fiscal 2019 and 2018 revenues, respectively, recorded in production sold to customers and Members. MGMS had no unpaid balances to PGP Operating as of June 30, 2019 and a balance of $1,269,000 as of June 30, 2018.

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 Pool-Level Schedules

Public Gas Partners, Inc.
Combining Statements of Net Position

	June 30, 2019				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents	$ 1,029,748	$ 3,770,399	$ 3,927,061	$ 480,091	$ 9,207,299
Restricted cash	12,429,923	–	167,244	–	12,597,167
Accounts receivable	15,042,014	671,251	7,486,154	7,589,099	30,788,518
Fair value of derivative instruments	1,093,661	186,091	1,959,467	41,660,307	44,899,526
Other assets	1,563,716	15,020	912,433	–	2,491,169
Oil and gas properties held for sale	2,186,031	–	–	–	2,186,031
Interproject receivables (payables)	64,562	(27,333)	(37,229)	–	–
Total current assets	33,409,655	4,615,428	14,415,130	49,729,497	102,169,710
Noncurrent assets:					
Oil and gas properties – net	20,647,487	3,395,498	40,590,762	–	64,633,747
Property and equipment – net	–	–	2,225,732	–	2,225,732
Partnership Investment	–	6,018,747	–	–	6,018,747
Fair value of derivative instruments	185,422	44,066	1,120,654	271,645,872	272,996,014
Regulatory asset – costs recoverable	117,975,521	52,121,133	38,421,058	(516,854)	208,000,858
Other assets	–	–	600,000	–	600,000
Total noncurrent assets	138,808,430	61,579,444	82,958,206	271,129,018	554,475,098
Total assets	172,218,086	66,194,872	97,373,336	320,858,515	656,644,808
Deferred outflows of resources - asset retirement obligations	7,435,149	489,492	8,973,450	–	16,898,091
Total assets and deferred outflows of resources	$ 179,653,234	$ 66,684,364	$ 106,346,786	$ 320,858,515	$ 673,542,899
Liabilities, deferred inflows of resources, and net position					
Current liabilities:					
Accounts payable and accrued expenses	$ 2,036,984	$ 361,059	$ 8,553,267	$ 7,552,336	$ 18,503,646
Advance billings – FMPA	2,427,006	1,073,446	–	–	3,500,452
Fair value of derivative instruments	215,510	56,783	–	40,792,117	41,064,410
Current portion of long-term bonds	16,063,866	–	–	–	16,063,866
Asset retirement obligations	507,449	38,942	495,344	–	1,041,735
Total current liabilities	21,250,815	1,530,230	9,048,611	48,344,453	80,174,109
Noncurrent liabilities:					
Advances from the Gas Authority	101,584,195	43,845,390	84,806,518	–	230,236,103
Advance billings – FMPA	46,113,112	20,395,466	–	–	66,508,578
Fair value of derivative instruments	62,649	6,934	–	246,874,361	246,943,944
Asset retirement obligations	9,641,538	739,904	9,411,536	–	19,792,978
Total noncurrent liabilities	157,401,494	64,987,694	94,218,054	246,874,361	563,481,603
Total liabilities	178,652,309	66,517,924	103,266,665	295,218,814	643,655,712
Deferred inflows of resources – unrealized gain on derivative instruments	1,000,925	166,440	3,080,121	25,639,701	29,887,187
Net position	–	–	–	–	–
Total liabilities, deferred inflows of resources, and net position	$ 179,653,234	$ 66,684,364	$ 106,346,786	$ 320,858,515	$ 673,542,899

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

	Year Ended June 30, 2019				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Operating revenues:					
Production sold to customers and Members	$19,791,828	$ 1,136,113	$26,238,860	$ –	$47,166,801
Gas acquired and sold to customers and Members	13,404,369	6,115,728	15,922,780	75,174,712	110,617,589
Total operating revenues	33,196,197	7,251,841	42,161,640	75,174,712	157,784,390
Operating expenses:					
Oil and gas field operations	13,007,531	1,101,754	12,161,432	–	26,270,717
Gas supplies delivered to customers and Members	2,311,833	1,101,918	16,438,458	73,790,879	93,643,088
Depletion of oil and gas properties	4,192,180	64,068	3,946,798	–	8,203,046
Depreciation of property and equipment	–	–	467,779	–	467,779
General and administrative	1,105,910	208,749	1,006,224	922,405	3,243,288
Total operating expenses	20,617,454	2,476,489	34,020,691	74,713,284	131,827,918
Operating income	12,578,743	4,775,352	8,140,949	461,428	25,956,472
Nonoperating income (expense):					
Interest expense and other, net	(2,839,972)	(663,472)	(2,151,090)	–	(5,654,534)
Equity in earnings of affiliates	–	538,401	–	–	538,401
Costs recoverable from future billings	(9,738,771)	(4,650,281)	(5,989,859)	(461,428)	(20,840,339)
Total nonoperating expense	(12,578,743)	(4,775,352)	(8,140,949)	(461,428)	(25,956,472)
Change in net position	–	–	–	–	–
Net position:					
Beginning of year	–	–	–	–	–
End of year	$ –	$ –	$ –	$ –	$ –

Public Gas Partners, Inc.
Combining Statements of Cash Flows

	Year Ended June 30, 2019				
	Pool 1	**Pool 2**	**Pool 3**	**Pool 4**	**Total**
Operating activities					
Receipts from customers and Members	$ 31,398,966	$ 6,990,064	$ 44,221,190	$ 71,646,095	$ 154,256,315
Payments to Members	(232,214)	(349,172)	(6,497,176)	(922,405)	(8,000,967)
Payments to operators and suppliers	(18,224,842)	(2,375,348)	(21,210,780)	(69,018,783)	(110,829,753)
Payments from oil and gas derivative counterparties, net	1,145,646	115,058	(1,370,990)	(1,266,880)	(1,377,166)
Internal activity – payments from (to) other pools	(109,331)	20,630	88,701	–	–
Net cash provided by operating activities	13,978,225	4,401,232	15,230,945	438,027	34,048,429
Capital and related financing activities					
Sales of oil and gas properties	92,119	–	58,424	–	150,543
Capital expenditures – property and equipment	–	–	(373,964)	–	(373,964)
Sale of property and equipment	–	–	117,957	–	117,957
Drilling and completion costs, net of refunds	(3,738,596)	7,024	(65)	–	(3,731,637)
Repayments of gas revenue bonds	(11,000,000)	–	–	–	(11,000,000)
Advances from (repayments to) the Gas Authority, net	7,649,025	(2,671,939)	(11,708,010)	–	(6,730,924)
Interest payments and debt issuance costs	(3,139,744)	(817,802)	(2,239,733)	–	(6,197,279)
Net cash used in capital and related financing activities	(10,137,196)	(3,482,717)	(14,145,391)	–	(27,765,304)
Investing activities					
Investment distributions	–	1,249,740	–	–	1,249,740
Net cash provided by investing activities	–	1,249,740	–	–	1,249,740
Net increase (decrease) in cash equivalents	3,841,029	2,168,255	1,085,554	438,027	7,532,865
Cash and cash equivalents:					
Beginning of period	9,618,642	1,602,144	3,008,751	42,064	14,271,601
End of period	$ 13,459,671	$ 3,770,399	$ 4,094,305	$ 480,091	$ 21,804,466
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:					
Operating income	$ 12,578,743	$ 4,775,352	$ 8,140,949	$ 461,428	$ 25,956,472
Adjustments to reconcile to net cash flows provided by operating activities:					
Accretion of asset retirement obligation	197,536	17,042	197,905	–	412,483
Depreciation of property and equipment	–	–	467,779	–	467,779
Depletion of oil and gas properties	4,192,180	64,068	3,946,798	–	8,203,046
Changes in certain assets and liabilities:					
Accounts receivable	(651,586)	(146,719)	1,064,371	(4,795,497)	(4,529,431)
Other assets	(1,490,151)	(3,049)	(10,025)	–	(1,503,225)
Accounts payable and accrued expenses	(1,131,640)	(64,700)	1,334,467	4,772,096	4,910,223
Advance billings – FMPA	392,474	(261,392)	–	–	131,082
Interproject receivables / (payables)	(109,331)	20,630	88,701	–	–
Net cash provided by operating activities	$ 13,978,225	$ 4,401,232	$ 15,230,945	$ 438,027	$ 34,048,429