

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Public Gas Partners, Inc.
As of and for the Year Ended June 30, 2020
With Report of Independent Auditor

Public Gas Partners, Inc.
Financial Statements and Supplemental Schedules
As of and for the Year Ended June 30, 2020

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Independent Auditor's Report

Board of Directors
Public Gas Partners, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Public Gas Partners, Inc. (the Company) as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and listed in the table of contents.

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, 2020, and the changes in its financial position and its cash flows for the year 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 three through eight 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental pool-level schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Morehead City, North Carolina
April 14, 2021

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.

Management's Discussion and Analysis (Unaudited)

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, 2021. 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 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).

Management's Discussion and Analysis (Unaudited)

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 statement 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 statement 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.

Management's Discussion and Analysis (Unaudited)

Financial Analysis – 2020 Compared to 2019

Following are the condensed statements of net position as of June 30, 2020 and 2019:

	2020	2019
Capital assets	\$ 55,045,085	\$ 66,859,479
Noncapital assets	1,004,254,905	381,784,471
Regulatory asset – costs recoverable	187,400,871	217,673,911
Deferred outflows of resources – asset retirement obligations	24,259,881	16,898,091
Total assets and deferred outflows of resources	\$ 1,270,960,742	\$ 683,215,952
Current liabilities	\$ 100,425,382	\$ 80,174,109
Long-term liabilities	1,165,856,857	563,481,603
Total liabilities	1,266,282,239	643,655,712
Deferred inflows of resources – unrealized gain on derivative instruments	4,678,503	39,560,240
Net position	–	–
Total liabilities, deferred inflows of resources, and net position	\$ 1,270,960,742	\$ 683,215,952

The increase in total assets and deferred outflows of resources of \$587,744,790 was primarily due to increases in the fair values of derivative instruments of \$633,828,075 due to additional matched swaps for prepayment transactions along with changes in market values, and other assets of \$16,257,958 due to two short-term prepayment transactions; offset by decreases in restricted cash of \$12,445,133 used in the final Series A bond payment, accounts receivable of \$9,273,016 due to receipt of payment for a pending asset sale, oil and gas properties (including properties held for sale) of \$13,795,835 due to asset sales and normal depletion, partnership investment of \$6,018,747 due to sale of the investment, and regulatory assets – costs recoverable of \$30,273,040.

The increase in total liabilities, deferred inflows of resources, and net position of \$587,744,790 was primarily due to net increases in the fair value of derivative instruments of \$624,081,328, advances from Patriots Energy Group of \$5,454,253 for a short-term prepayment, and asset retirement obligations of \$10,021,581 due to an increase in the estimated related costs, offset by decreases in: deferred inflows of resources – unrealized gain on derivative instruments of \$34,881,737 due to market valuation; advances from the Gas Authority of \$19,322,574 due to net repayments; advance billings – FMPA of \$2,874,610 due to net payments; and long-term debt of \$16,063,866 due to the final principal payment of Series A debt and amortization of the related remaining premium.

Management's Discussion and Analysis (Unaudited)

Financial Analysis – 2020 Compared to 2019 (continued)

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, 2020 and 2019:

	2020	2019
Operating revenues:		
Production sold to customers and Members	\$ 37,507,793	\$ 47,166,801
Gas acquired and sold to customers and Members	107,203,727	110,617,589
Total operating revenues	144,711,520	157,784,390
Operating expenses:		
Oil and gas field operations	24,785,833	26,270,717
Gas supplies delivered to customers and Members	85,273,717	93,643,088
Depletion of oil and gas properties	15,767,050	8,203,046
Depreciation of property and equipment	426,347	467,779
General and administrative	3,348,839	3,243,288
Total operating expenses	129,601,786	131,827,918
Operating income	15,109,734	25,956,472
Nonoperating income (expense):		
Interest expense and other, net	(4,524,660)	(5,654,534)
Unrealized (loss) gain on investment derivatives	(13,638,191)	9,673,053
Loss on partnership investment	(3,623,278)	538,401
Costs recoverable from future billings	6,676,395	(30,513,392)
Total nonoperating expense	(15,109,734)	(25,956,472)
Changes in net position	–	–
Net position:		
Beginning of year	–	–
End of year	\$ –	\$ –

Management's Discussion and Analysis (Unaudited)

Financial Analysis – 2020 Compared to 2019 (continued)

Operating Revenues

Operating revenues from production sold to customers and Members decreased \$9,659,008, or 20.5%, due to a decrease in production volumes in Pools 1, 2, and 3, as well as asset sales and price decreases. Gas acquired and resold to Members decreased \$3,413,862, or 3.1%, due to decreases in physical delivery in Pools 1, 2, and 3, offset somewhat by increased physical delivery in Pool 4 and by higher Member assessments in Pools 1 and 2.

Operating Expenses

Operating expenses decreased \$2,226,132, or 1.7%, due to decreases in gas supplies delivered to Members of \$8,369,371 or 8.9% due to less gas delivered as well as a decline in gas prices, and decreases in oil and gas field operations of \$1,484,884 or 5.7%, due to property sales. These decreases were offset by an increase in depletion of oil and gas properties of \$7,564,004 or 92.2% as lower estimated remaining production due to asset sales and lower commodity prices accelerated depletion.

Liquidity and Capital Resources

PGP's cash balance decreased \$10,137,805 to \$11,666,661 at June 30, 2020 primarily due to the use of restricted cash for the final Series A bond payment. See the accompanying statement of cash flows for details of cash activity.

PGP is exposed to credit risk in the normal course of business. PGP has adopted policies and procedures to minimize this risk. Borrowing arrangements, 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.

Public Gas Partners, Inc.
Statement of Net Position

	<u>June 30, 2020</u>
Assets and deferred outflows of resources	
Current assets:	
Cash and cash equivalents	\$ 11,514,627
Restricted cash	152,034
Accounts receivable	21,515,502
Fair value of derivative instruments	67,875,191
Other assets	<u>18,749,127</u>
Total current assets	<u>119,806,481</u>
Noncurrent assets:	
Oil and gas properties – net	53,023,943
Property and equipment – net	2,021,142
Fair value of derivative instruments	883,848,424
Regulatory asset – costs recoverable	187,400,871
Other assets	<u>600,000</u>
Total noncurrent assets	<u>1,126,894,380</u>
Total assets	<u>1,246,700,861</u>
Deferred outflows of resources – asset retirement obligations	24,259,881
Total assets and deferred outflows of resources	<u><u>\$ 1,270,960,742</u></u>
 Liabilities, deferred inflows of resources, and net position	
Current liabilities:	
Accounts payable and accrued expenses	\$ 18,516,822
Advances from the Gas Authority	12,316,919
Advances from Patriots Energy Group	2,845,423
Advance billings – FMPA	3,356,722
Fair value of derivative instruments	62,381,649
Asset retirement obligations	<u>1,007,847</u>
Total current liabilities	<u>100,425,382</u>
Noncurrent liabilities:	
Advances from the Gas Authority	198,596,610
Advances from Patriots Energy Group	2,608,830
Advance billings – FMPA	63,777,698
Fair value of derivative instruments	871,025,272
Asset retirement obligations	<u>29,848,447</u>
Total noncurrent liabilities	<u>1,165,856,857</u>
Total liabilities	<u>1,266,282,239</u>
Deferred inflows of resources – unrealized gain on derivative instruments	4,678,503
Net position	–
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 1,270,960,742</u></u>

See accompanying notes to the financial statements.

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

	<u>Year Ended June 30, 2020</u>
Operating revenues:	
Production sold to customers and Members	\$ 37,507,793
Gas acquired and sold to customers and Members	<u>107,203,727</u>
Total operating revenues	<u>144,711,520</u>
Operating expenses:	
Oil and gas field operations	24,785,833
Gas supplies delivered to customers and Members	85,273,717
Depletion of oil and gas properties	15,767,050
Depreciation of property and equipment	426,347
General and administrative	<u>3,348,839</u>
Total operating expenses	<u>129,601,786</u>
Operating income	<u>15,109,734</u>
Nonoperating income (expense):	
Interest expense and other, net	(4,524,660)
Unrealized (loss) gain on investment derivatives	(13,638,191)
Loss on partnership investment	(3,623,278)
Costs recoverable from future billings	<u>6,676,395</u>
Total nonoperating expense	<u>(15,109,734)</u>
Change in net position	—
Net position:	
Beginning of year	—
End of year	<u>\$ —</u>

See accompanying notes to the financial statements.

Public Gas Partners, Inc.
Statement of Cash Flows

	<u>Year Ended June 30, 2020</u>
Operating activities	
Receipts from customers and Members	\$ 139,480,446
Payments to Members	(11,694,719)
Payments to operators and suppliers	(117,411,662)
Payments from (to) oil and gas derivative counterparties, net	<u>3,633,370</u>
Net cash provided by operating activities	<u>14,007,435</u>
Capital and related financing activities	
Sales of oil and gas properties	13,425,350
Capital expenditures – property and equipment	(259,707)
Sale of property and equipment	85,176
Drilling, completion, and wellbore capital	(5,093,528)
Repayments of gas revenue bonds	(16,000,000)
Advance repayments to the Gas Authority, net	(19,322,574)
Advances from Patriots Energy Group	5,454,253
Interest payments	<u>(4,829,679)</u>
Net cash used in capital and related financing activities	<u>(26,540,709)</u>
Investing activities	
Investment distributions	<u>2,395,469</u>
Net cash provided by investing activities	<u>2,395,469</u>
Net decrease in cash equivalents	(10,137,805)
Cash and cash equivalents:	
Beginning of year	<u>21,804,466</u>
End of year	<u>\$ 11,666,661</u>
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:	
Operating income	\$ 15,109,734
Adjustments to reconcile to net cash flows provided by operating activities:	
Amortization of deferred outflows – ARO	2,823,838
Depreciation of property and equipment	426,347
Depletion of oil and gas properties	15,767,050
Changes in certain assets and liabilities:	
Accounts receivable	(1,540,945)
Other assets	(16,278,957)
Accounts payable and accrued expenses	574,978
Advance billings – FMPA	<u>(2,874,610)</u>
Net cash provided by operating activities	<u>\$ 14,007,435</u>

See accompanying notes to the financial statements.

Public Gas Partners, Inc.
Notes to 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 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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The following table summarizes the Members' participation share by Pool as of June 30, 2020 (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, 2021 and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP incurred \$3,093,924 in management fees for the years ended June 30, 2020, and had an unpaid balance to the Gas Authority of \$2,565,176 and at June 30, 2020. PGP Operating incurred expense of \$5,309,557 for the year ended June 30, 2020, to the Gas Authority for salaries and benefits costs of field personnel who are employees of the Gas Authority, and had an unpaid balance to the Gas Authority of \$785,893 at June 30, 2020. The amounts paid are shown in Payments to Members on the Statement of Cash Flows.

Subsequent Events

In preparing the accompanying financial statements, management reviewed all known events that have occurred after June 30, 2020, and through April 14, 2021, for inclusion in the financial statements and footnotes.

Basis of Accounting

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

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

PGP also complies with policies and practices prescribed by its Board of Directors and to practices common in the natural gas industry. As the Board of Directors has the authority to set rates, PGP follows GASB-regulated accounting guidance in GASB Statement 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, 2020, 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.

At June 30, 2020, \$1,000,000 of PGP's cash balances was covered by federal depository insurance, \$0 was collateralized with securities held by a third-party bank's trust department, and \$12,189,822 was subject to custodial credit risk as it was uninsured and uncollateralized. PGP does not have a formal counterparty credit risk policy.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Restricted Cash

Restricted cash represents funds held in legal and administrative suspense for future royalty payments related to its oil and gas operations in Alabama.

Other Assets

Other assets include a prepayment to a gas supplier for gas to be delivered to PGP and redelivered to the Gas Authority and Patriots Energy Group in 2020 and 2021, along with 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 PGP's total oil and gas properties consisted of the following:

	2020
Proved properties	\$ 900,134,729
Accumulated depletion of proved properties	(847,110,786)
Total oil and gas properties, net	<u>\$ 53,023,943</u>

Depletion expense was \$15,767,050 for the year ended June 30, 2020.

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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The full-cost method also stipulates that revenues for all future periods are calculated by applying the arithmetic average first-day-of-the-month price over the preceding 12 months, except in those instances where future oil and natural gas prices are covered by derivative contracts. Consequently, the preceding 12-month average prices could have a significant impact on the ceiling test calculation and could result in write-downs of oil and gas properties. No full-cost ceiling impairment occurred during the current 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. Hedging transactions cover approximately 23% of expected future production from proved reserves for the year ended June 30, 2020. If hedging transactions had not been considered in the impairment test, additional depletion expense of \$6,831,353 would have been recognized for the year ended June 30, 2020.

Given the potential 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:

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

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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 reflected in deferred outflows of resources – asset retirement obligations and amortized to expense over the assets' estimated remaining useful life.

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.

Advances from the Gas Authority

In addition to the advances discussed in Note 4, the June 30, 2020 balance includes a prepayment of \$12,316,919 by the Gas Authority to PGP for discounted gas to be delivered in 2020 and 2021 as discussed in "Other Assets" above.

Advances from Patriots Energy Group

As discussed in "Other Assets" above, this balance represents a prepayment by Patriots Energy Group to PGP for discounted gas to be delivered in 2020 and 2021.

Derivative Instruments

PGP uses derivative instruments to hedge its commodity price risk associated with forecasted oil and gas sales from reserves ("reserve hedges"). PGP also enters into matched swap transactions when serving as natural gas swap counterparty in natural gas prepayment transactions ("matched swaps"). 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) 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

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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).

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 expected cash flows of the instruments. The expected cashflows are calculated using the differences of the fixed prices in the related instruments less the NYMEX (gas) or NYMEX – WTI (oil) forward price curve (or,

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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, then multiplied by the corresponding monthly gas or oil volume. Reserve hedges are then discounted to present value using the LIBOR forward interest rate curve. Matched swap cash flows cease upon the termination of the associated prepay transaction. The expected swap cash flows therefore reflect this risk of ceasing prior to the maturity date by analyzing the observed difference between the supplier's funding rate and issuer borrowing rate over a transaction's life span. The expected cash flows are discounted to present value using the relevant credit risk curve. There is no payment upon early termination or default, so the relevant credit risk curves reflect no recovery or loss upon default.

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, 2020, and current estimates of fair value may differ significantly from the amounts presented herein.

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

June 30, 2020	Level 1	Level 2	Level 3	Total
Oil and gas reserve swap agreements	\$ -	\$ 6,315,185	\$ -	\$ 6,315,185
Matched swap transactions	\$ -	\$ 12,001,509	\$ -	\$ 12,001,509

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 organized under Georgia Law 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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In 2017, GASB issued Statement No. 87, *Leases*, effective for reporting periods beginning after June 15, 2021. PGP has not determined the impact of adopting this standard.

2. Partnership Investment

Through its sale on June 1, 2020, PGP owned a 60% noncontrolling interest in a partnership that owned oil and gas properties, which was accounted for under the equity method, with earnings or losses reflected as Loss on partnership investment in the Statement 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, 2020, is as follows:

	<u>2020</u>
Assets	\$ -
Liabilities	\$ -
Revenues	\$ 4,166,288
Expenses	\$ (3,963,783)
Net income	\$ 202,505

3. Property and Equipment

Property and equipment activity for the year ended June 30, 2020 was as follows:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Balance at June 30, 2020</u>
Buildings	\$ 1,266,888	\$ -	\$ -	\$ -	\$ 1,266,888
Vehicles	1,786,224	257,993	(193,743)	-	1,850,474
Computer hardware and software	672,441	1,713	-	-	674,154
Land	100,000	-	-	-	100,000
Machinery and equipment	37,563	-	-	-	37,563
Accumulated depreciation	(1,637,384)	-	155,794	(426,347)	(1,907,937)
Total property and equipment, net	<u>\$ 2,225,732</u>	<u>\$ 259,706</u>	<u>\$ (37,949)</u>	<u>\$ (426,347)</u>	<u>\$ 2,021,142</u>

Depreciation expense relating to property and equipment was \$426,347 for 2020.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

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 were due through October 1, 2019.

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

	<u>June 30, 2019</u>	<u>Proceeds</u>	<u>Payments</u>	<u>June 30, 2020</u>
Series A Bonds	\$ 16,000,000	\$ -	\$ 16,000,000	\$ -

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, 2020, the interest rate charged by the Gas Authority to PGP was approximately 1.94%. PGP incurred interest expense of \$4,559,391 for the year ended June 30, 2020. 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

PGP uses hedging 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"), accounted for as investment derivative instruments.

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

See Note 1 for a discussion of fair value policies and methodologies. The fair value balances of derivative instruments outstanding at June 30, 2020, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows. All swaps are for natural gas unless otherwise indicated.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

As of and for the year ended June 30, 2020:

	Notional Amount at June 30, 2019*	Fair Value at June 30, 2019	Change In Fair Value	Fair Value at June 30, 2020	Notional Amount at June 30, 2020*
Hedging derivatives					
Henry Hub Swaps - Receive Fixed	21,600,200	\$ 3,080,121	\$ 662,844	\$ 3,742,965	19,059,800
WTI Swaps - Oil - Receive Fixed (Barrels)	188,718	\$ 1,167,365	\$ 564,906	\$ 1,732,271	112,849
WTI Swaps - Oil - Pay Fixed (Barrels)	-	-	\$ 46,564	\$ 46,564	9,046
Non-Henry Hub Swaps Receive Fixed	-	-	\$ 793,385	\$ 793,385	6,690,100
Investment derivatives					
Matched Swaps - Pay Fixed	1,138,675,517	\$ (287,666,479)	\$ (645,740,442)	\$ (933,406,921)	1,347,715,246
Matched Swaps - Receive Fixed	1,138,675,517	\$ 313,306,179	\$ 632,102,251	\$ 945,408,430	1,347,715,246

* 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, 2020:

	Effective Dates	Notional Amounts*	Strike Prices
Hedging derivatives			
Henry Hub Swaps - Receive Fixed	2020 – 2023	19,059,800	\$2.37 - \$2.71
Non-Henry Hub Swaps Receive Fixed	2020 - 2021	6,690,100	\$2.53 - \$2.75
WTI Swaps - Oil Receive Fixed (Barrels)	2020 - 2021	112,849	\$49.30 - \$65.40
WTI Swaps - Oil Pay Fixed (Barrels)	2020 - 2020	9,046	\$34.40 - \$34.40
Investment derivatives			
Matched Swaps - Pay Fixed	2020 - 2050	1,347,715,246	\$4.05 - \$4.53
Matched Swaps - Receive Fixed	2020 - 2050	1,347,715,246	\$4.08 - \$4.56

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

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.

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

5. Derivative Instruments (continued)

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.

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2020, are as follows:

Counterparty	Counterparty Credit Ratings S&P/Moody's	Fair Market Value of Derivative Instruments June 30, 2020 Asset (Liability)
JP Morgan Chase Bank, N.A.	A-/A2	\$ 934,626
Macquarie Bank Ltd.	BBB+/A3	\$ 731,755
Main Street Natural Gas, Inc. 2018AB & 2018CDE	NR/Aa2	\$ (520,671,689)
Main Street Natural Gas, Inc. 2019C	NR/A3	\$ (212,257,522)
Patriots Energy Group Financing Agency	NR/Aa2	\$ (200,477,710)
Royal Bank of Canada	AA-/Aa2	\$ 754,701,406
Wells Fargo Bank, N.A.	A-/A2	\$ 100,133
BP Energy Company	A-/A2	\$ 793,386
Citigroup Inc	BBB+/A3	\$ 194,462,310

Public Gas Partners, Inc.

Notes to Financial Statements (continued)

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, 2020, as follows:

	<u>June 30, 2020</u>
Balance of ARO – beginning of year	\$ 20,834,713
Additions from acquisitions and drilling	-
Revision of estimates	11,841,668
Subtractions from sales and property assignments	(1,575,533)
ARO settlements, net	(244,554)
Balance of ARO – end of year	<u>\$ 30,856,294</u>

7. Related Party Transactions

Municipal Gas Marketing Services (MGMS) is a joint venture owned equally by the Gas Authority and Southeast Gas that formerly delivered volumes to both the Gas Authority and Southeast Gas. During the year ended June 30, 2020, PGP Operating, as agent for MGMS, used the MGMS transportation agreement to transport gas and incurred transportation expense related to that agreement of \$166,770. As of June 30, 2020, PGP had an unpaid balance to MGMS of \$26,194. See also discussion of Gas Authority services to PGP in Note 1.

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, 2020				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents	\$ 3,548,263	\$ 4,095,329	\$ 3,211,117	\$ 659,918	\$ 11,514,627
Restricted cash	-	-	152,034	-	152,034
Accounts receivable	3,912,260	539,497	4,952,210	12,111,535	21,515,502
Fair value of derivative instruments	1,214,173	226,297	2,275,306	64,159,415	67,875,191
Other assets	97,912	15,180	864,863	17,771,172	18,749,127
Interproject receivables (payables)	96,630	(9,189)	(87,441)	-	-
Total current assets	8,869,238	4,867,114	11,368,089	94,702,040	119,806,481
Noncurrent assets:					
Oil and gas properties – net	10,560,823	-	42,463,120	-	53,023,943
Property and equipment – net	-	-	2,021,142	-	2,021,142
Fair value of derivative instruments	338,365	-	1,467,660	882,042,399	883,848,424
Regulatory asset – costs recoverable (refundable)	119,025,183	54,207,450	28,527,444	(14,359,206)	187,400,871
Other assets	-	-	600,000	-	600,000
Total noncurrent assets	129,924,371	54,207,450	75,079,366	867,683,193	1,126,894,380
Total assets	138,793,609	59,074,564	86,447,455	962,385,233	1,246,700,861
Deferred outflows of resources - asset retirement obligations	5,685,145	713,017	17,861,719	-	24,259,881
Total assets and deferred outflows of resources	\$ 144,478,754	\$ 59,787,581	\$ 104,309,174	\$ 962,385,233	\$ 1,270,960,742
Liabilities, deferred inflows of resources, and net position					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,853,014	\$ 601,686	\$ 4,011,685	\$ 12,050,437	\$ 18,516,822
Advances from the Gas Authority	-	-	-	12,316,919	12,316,919
Advances from Patriots Energy Group	-	-	-	2,845,423	2,845,423
Advance billings – FMPA	2,308,008	1,048,714	-	-	3,356,722
Fair value of derivative instruments	-	-	-	62,381,649	62,381,649
Asset retirement obligations	197,503	810,344	-	-	1,007,847
Total current liabilities	4,358,525	2,460,744	4,011,685	89,594,428	100,425,382
Noncurrent liabilities:					
Advances from the Gas Authority	84,845,432	36,840,018	76,911,160	-	198,596,610
Advances from Patriots Energy Group	-	-	-	2,608,830	2,608,830
Advance billings – FMPA	43,852,142	19,925,556	-	-	63,777,698
Fair value of derivative instruments	-	-	-	871,025,272	871,025,272
Asset retirement obligations	9,870,117	334,966	19,643,364	-	29,848,447
Total noncurrent liabilities	138,567,691	57,100,540	96,554,524	873,634,102	1,165,856,857
Total liabilities	142,926,216	59,561,284	100,566,209	963,228,530	1,266,282,239
Deferred inflows of resources – unrealized gain on derivative instruments	1,552,538	226,297	3,742,965	(843,297)	4,678,503
Net position	-	-	-	-	-
Total liabilities, deferred inflows of resources, and net position	\$ 144,478,754	\$ 59,787,581	\$ 104,309,174	\$ 962,385,233	\$ 1,270,960,742

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

	Year Ended June 30, 2020				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Operating revenues:					
Production sold to customers and Members	\$ 13,326,879	\$ 999,259	\$ 23,181,655	\$ –	\$ 37,507,793
Gas acquired and sold to customers and Members	20,439,824	6,549,088	6,441,067	73,773,748	107,203,727
Total operating revenues	33,766,703	7,548,347	29,622,722	73,773,748	144,711,520
Operating expenses:					
Oil and gas field operations	11,550,339	1,103,919	12,131,575	–	24,785,833
Gas supplies delivered to customers and Members	5,940,904	592,620	6,441,067	72,299,126	85,273,717
Depletion (reallocated depletion) of oil and gas properties	14,682,181	3,385,403	(2,300,534)	–	15,767,050
Depreciation of property and equipment	–	–	426,347	–	426,347
General and administrative	838,080	106,714	1,133,585	1,270,460	3,348,839
Total operating expenses	33,011,504	5,188,656	17,832,040	73,569,586	129,601,786
Operating (loss) income	755,199	2,359,691	11,790,682	204,162	15,109,734
Nonoperating income (expense):					
Interest expense and other, net	(1,804,862)	(822,731)	(1,897,067)	–	(4,524,660)
Unrealized (loss) gain on investment derivatives	–	–	–	(13,638,191)	(13,638,191)
Loss on partnership investment	–	(3,623,278)	–	–	(3,623,278)
Costs recoverable from (refundable in) future billings	1,049,663	2,086,318	(9,893,615)	13,434,029	6,676,395
Total nonoperating income (expense)	(755,199)	(2,359,691)	(11,790,682)	(204,162)	(15,109,734)
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, 2020				
	Pool 1	Pool 2	Pool 3	Pool 4	Total
Operating activities					
Receipts from customers and Members	\$ 32,139,053	\$ 7,364,708	\$ 27,817,392	\$ 72,159,293	\$ 139,480,446
Payments to Members	(2,984,504)	(559,801)	(6,472,953)	(1,677,461)	(11,694,719)
Payments to operators and suppliers	(14,143,770)	(1,259,378)	(16,426,689)	(85,581,825)	(117,411,662)
Payments from (to) oil and gas derivative counterparties, net	1,922,437	315,394	3,886,891	(2,491,352)	3,633,370
Internal activity – payments from (to) other pools	(32,068)	(18,144)	50,212	–	–
Net cash provided by (used in) operating activities	<u>16,901,148</u>	<u>5,842,779</u>	<u>8,854,853</u>	<u>(17,591,345)</u>	<u>14,007,435</u>
Capital and related financing activities					
Sales of oil and gas properties	12,893,673	–	531,677	–	13,425,350
Capital expenditures – property and equipment	–	–	(259,707)	–	(259,707)
Sale of property and equipment	–	–	85,176	–	85,176
Drilling, completion, and wellbore capital	(4,904,812)	(85,215)	(103,501)	–	(5,093,528)
Repayments of gas revenue bonds	(16,000,000)	–	–	–	(16,000,000)
Advances from (repayments to) the Gas Authority, net	(16,738,763)	(7,005,372)	(7,895,358)	12,316,919	(19,322,574)
Advances from Patriots Energy Group	–	–	–	5,454,253	5,454,253
Interest payments	(2,062,654)	(822,731)	(1,944,294)	–	(4,829,679)
Net cash (used in) provided by capital and related financing activities	<u>(26,812,556)</u>	<u>(7,913,318)</u>	<u>(9,586,007)</u>	<u>17,771,172</u>	<u>(26,540,709)</u>
Investing activities					
Investment distributions and sales	–	2,395,469	–	–	2,395,469
Net cash provided by investing activities	<u>–</u>	<u>2,395,469</u>	<u>–</u>	<u>–</u>	<u>2,395,469</u>
Net (decrease) increase in cash equivalents	(9,911,408)	324,930	(731,154)	179,827	(10,137,805)
Cash and cash equivalents:					
Beginning of period	13,459,671	3,770,399	4,094,305	480,091	21,804,466
End of period	<u>\$ 3,548,263</u>	<u>\$ 4,095,329</u>	<u>\$ 3,363,151</u>	<u>\$ 659,918</u>	<u>\$ 11,666,661</u>
Reconciliation of revenues in excess of operating expenses to net cash provided by operating activities:					
Operating income	\$ 755,199	\$ 2,359,691	\$ 11,790,682	\$ 204,162	\$ 15,109,734
Adjustments to reconcile to net cash flows provided by operating activities:					
Amortization of deferred outflows – ARO	1,777,446	198,177	848,215	–	2,823,838
Depreciation of property and equipment	–	–	426,347	–	426,347
Depletion of oil and gas properties	14,682,181	3,385,403	(2,300,534)	–	15,767,050
Changes in certain assets and liabilities:					
Accounts receivable	294,789	131,757	2,554,944	(4,522,435)	(1,540,945)
Other assets	1,465,804	(160)	26,571	(17,771,172)	(16,278,957)
Accounts payable and accrued expenses	337,765	280,697	(4,541,584)	4,498,100	574,978
Advance billings – FMPA	(2,379,968)	(494,642)	–	–	(2,874,610)
Interproject receivables (payables)	(32,068)	(18,144)	50,212	–	–
Net cash provided by (used in) operating activities	<u>\$ 16,901,148</u>	<u>\$ 5,842,779</u>	<u>\$ 8,854,853</u>	<u>\$ (17,591,345)</u>	<u>\$ 14,007,435</u>