# Financial Statements and Supplemental Schedules

Public Gas Partners, Inc.
As of and for the Years Ended June 30, 2022 and 2021
With Report of Independent Auditor

Public Gas Partners, Inc.

Financial Statements and Supplemental Schedules

As of and for the Years Ended June 30, 2022 and 2021

## Contents

# Independent Auditor's Report

Board of Directors
Public Gas Partners, Inc.

## Report on the Audit of the Financial Statements

***Opinion***
We have audited the financial statements of the Public Gas Partners, Inc. (the Company), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Public Gas Partners, Inc. as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company's basic financial statements. The supplemental pool level schedules are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit 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 GAAS. 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.

RSM US LLP

Greensboro, North Carolina
October 28, 2022

**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 1,300 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 Pool 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, 2023. 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 – 2022 Compared to 2021**

Following are the condensed statements of net position as of June 30, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Capital assets | **$ 48,256,938** | $ 50,051,818 |
| Noncapital assets | **530,481,844** | 810,381,703 |
| Regulatory asset – costs recoverable | **107,902,456** | 198,686,999 |
| Deferred outflows of resources – asset retirement obligations | **22,969,917** | 26,334,783 |
| Deferred outflows of resources – unrealized loss on derivative instruments | **59,147,269** | 18,131,742 |
| Total assets and deferred outflows of resources | **$ 768,758,424** | $ 1,103,587,045 |
| Current liabilities | **$ 147,883,915** | $ 52,783,922 |
| Long-term liabilities | **620,874,509** | 1,050,803,123 |
| Total liabilities | **768,758,424** | 1,103,587,045 |
| Net position | **–** | – |
| Total liabilities and net position | **$ 768,758,424** | $ 1,103,587,045 |

The decrease in total assets and deferred outflows of resources of $334,828,621 was primarily due to:

- a decrease in the fair value of derivatives by $322,458,515 due to changes in market conditions
- a decrease in regulatory assets of $90,784,543

These decreases were offset by:

- an increase in accounts receivable of $44,295,673 primarily due to higher commodity prices
- an increase in deferred outflows of resources – unrealized loss on derivative instruments of $41,015,527 due to changes in market conditions

The decrease in total liabilities and net position of $334,828,621 was primarily due to net decreases in:

- the fair value of derivative instruments of $347,722,993 due to changes in market conditions
- repayment of advances from the Gas Authority of $23,995,815

These decreases were offset by an increase in accounts payable and accrued expenses of $43,521,934 primarily due to higher commodity prices

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, 2022 and 2021:

| | **2022** | 2021 |
|---|---|---|
| Operating revenues: | | |
| Gas acquired and sold to customers and Members | **$ 246,549,495** | $ 140,006,464 |
| Production sold to customers | **48,140,385** | 40,319,313 |
| Total operating revenues | **294,689,880** | 180,325,777 |
| Operating expenses: | | |
| Gas supplies delivered to customers and Members | **229,815,216** | 119,745,532 |
| Oil and gas field operations | **30,570,544** | 30,526,774 |
| Depletion of oil and gas properties | **3,474,681** | 5,364,390 |
| General and administrative | **3,709,454** | 3,873,933 |
| Depreciation of property and equipment | **316,270** | 352,216 |
| Total operating expenses | **267,886,165** | 159,862,845 |
| Operating income | **26,803,715** | 20,462,932 |
| Nonoperating income (expense): | | |
| Interest expense and other, net | **(2,299,176)** | (5,120,066) |
| Unrealized gain (loss) on investment derivatives | **66,280,005** | (26,628,995) |
| Costs recoverable from future billings | **(90,784,544)** | 11,286,129 |
| Total nonoperating expense | **(26,803,715)** | (20,462,932) |
| Changes in net position | **–** | – |
| Net position: | | |
| Beginning of year | **–** | – |
| End of year | **$ –** | $ – |

**Operating Revenues**

Gas acquired and resold to customers and Members increased $106,543,031, or 76.1%, due to commodity price increases. Operating revenues from production sold to customers increased $7,821,072, or 19.4%, due to higher commodity price increases offset by a decrease in production volumes in Pools 1, 2, and 3.

**Operating Expenses**

Operating expenses increased $108,023,320, or 67.6%, due to an increase in gas supplies delivered to customers and Members of $110,069,684 or 91.9% due to commodity price increases.

**Liquidity and Capital Resources**

PGP's cash balance increased $961,199 to $6,111,398 at June 30, 2022 primarily due to an increase in cash provided by operating activities partially offset by the use of cash to repay advances from the Gas Authority, interest payments, and use of cash to repay advances from Patriots Energy Group. See the accompanying statements 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.

**Financial Analysis – 2021 Compared to 2020**

Following are the condensed statements of net position as of June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Capital assets | **$ 50,051,818** | $ 55,045,085 |
| Noncapital assets | **810,381,703** | 1,004,254,905 |
| Regulatory asset – costs recoverable | **198,686,999** | 187,400,871 |
| Deferred outflows of resources – asset retirement obligations | **26,334,783** | 24,259,881 |
| Deferred outflows of resources – unrealized loss on derivative instruments | **18,131,742** | – |
| Total assets and deferred outflows of resources | **$ 1,103,587,045** | $ 1,270,960,742 |
| Current liabilities | **$ 52,783,922** | $ 100,425,382 |
| Long-term liabilities | **1,050,803,123** | 1,165,856,857 |
| Total liabilities | **1,103,587,045** | 1,266,282,239 |
| Deferred inflows of resources – unrealized gain on derivative instruments | **–** | 4,678,503 |
| Net position | **–** | – |
| Total liabilities, deferred inflows of resources, and net position | **$ 1,103,587,045** | $ 1,270,960,742 |

The decrease in total assets and deferred outflows of resources of $167,373,697 was primarily due to a reduction of noncapital assets of $193,873,202 driven by decreases in:

- the fair value of derivatives by $168,441,327 due to changes in market prices
- other assets of $14,981,687 primarily due to the substantial completion of short-term prepaid transactions
- cash of $6,516,462

These decreases were offset by increases in:

- deferred outflows of resources – unrealized loss on derivative instruments of $18,131,742
- regulatory assets of $11,286,128

The decrease in total liabilities, deferred inflows of resources, and net position of $167,373,697 was primarily due to net decreases in:

- the fair value of derivative instruments of $119,002,087 due to changes in market prices

- repayment of advances from the Gas Authority of $43,814,427
- repayment of advances from Patriots Energy Group of $2,845,423

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, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Operating revenues: | | |
| Gas acquired and sold to customers and Members | **$ 140,006,464** | $ 107,203,727 |
| Production sold to customers | **40,319,313** | 37,507,793 |
| Total operating revenues | **180,325,777** | 144,711,520 |
| Operating expenses: | | |
| Gas supplies delivered to customers and Members | **119,745,532** | 85,273,717 |
| Oil and gas field operations | **30,526,774** | 24,785,833 |
| Depletion of oil and gas properties | **5,364,390** | 15,767,050 |
| General and administrative | **3,873,933** | 3,348,839 |
| Depreciation of property and equipment | **352,216** | 426,347 |
| Total operating expenses | **159,862,845** | 129,601,786 |
| Operating income | **20,462,932** | 15,109,734 |
| Nonoperating income (expense): | | |
| Interest expense and other, net | **(5,120,066)** | (4,524,660) |
| Unrealized loss on investment derivatives | **(26,628,995)** | (13,638,191) |
| Loss on partnership investment | **–** | (3,623,278) |
| Costs recoverable from future billings | **11,286,129** | 6,676,395 |
| Total nonoperating expense | **(20,462,932)** | (15,109,734) |
| Changes in net position | **–** | – |
| Net position: | | |
| Beginning of year | **–** | – |
| End of year | **$ –** | $ – |

**Operating Revenues**

Operating revenues from production sold to customers increased $2,811,520, or 7.5%, due to a increase in production volumes driven by PGP taking assignment of well interests owned by the Gas Authority and Southeast Gas, as well as commodity price increases. Gas acquired and resold to Members increased $32,802,737, or 30.6%, due to a full year of two prepayments that began in fiscal 2020.

**Operating Expenses**

Operating expenses increased $30,261,059, or 23.3%, due to increases in:

- gas supplies delivered to Members of $34,471,815 or 40.4% due to a full year of two prepayments that began in fiscal 2020

- oil and gas field operations of $5,740,941 or 23.2%, due to Pool 3 taking assignment of additional interests

These increases were offset by a decrease in depletion of oil and gas properties of $10,402,660, or 66%, driven by greater production reserve estimates due to higher commodity prices

**Liquidity and Capital Resources**

PGP's cash balance decreased $6,516,462 to $5,150,199 at June 30, 2021 primarily due to the use of cash to repay advances from the Gas Authority, partially offset by increases in cash provided by operating activities. See the accompanying statements of cash flows for details of cash activity.

# Public Gas Partners, Inc.

## Statements of Net Position

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **Assets and deferred outflows of resources** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 5,694,936** | $ 4,998,164 |
| Restricted cash | **416,462** | 152,035 |
| Accounts receivable, net | **61,877,449** | 17,581,776 |
| Fair value of derivative instruments | **65,483,964** | 24,790,155 |
| Other assets | **1,069,224** | 3,767,440 |
| Total current assets | **134,542,035** | 51,289,570 |
| Noncurrent assets: | | |
| Oil and gas properties – net | **46,439,918** | 48,272,767 |
| Property and equipment – net | **1,817,020** | 1,779,051 |
| Fair value of derivative instruments | **395,339,809** | 758,492,133 |
| Regulatory asset – costs recoverable | **107,902,456** | 198,686,999 |
| Other assets | **600,000** | 600,000 |
| Total noncurrent assets | **552,099,203** | 1,007,830,950 |
| Total assets | **686,641,238** | 1,059,120,520 |
| Deferred outflows of resources – asset retirement obligations | **22,969,917** | 26,334,783 |
| Deferred outflows of resources – unrealized loss on hedging derivative instruments | **59,147,269** | 18,131,742 |
| Total deferred outflows of resources | **82,117,186** | 44,466,525 |
| Total assets and deferred outflows of resources | **$ 768,758,424** | $ 1,103,587,045 |
| **Liabilities and net position** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 57,731,515** | $ 14,209,581 |
| Advances from Patriots Energy Group | **–** | 2,608,830 |
| Advance billings – FMPA | **3,288,753** | 3,353,478 |
| Fair value of derivative instruments | **86,170,926** | 32,274,556 |
| Asset retirement obligations | **692,721** | 337,477 |
| Total current liabilities | **147,883,915** | 52,783,922 |
| Noncurrent liabilities: | | |
| Advances from the Gas Authority | **143,103,287** | 167,099,102 |
| Advance billings – FMPA | **62,486,309** | 63,716,076 |
| Fair value of derivative instruments | **380,510,915** | 782,130,278 |
| Asset retirement obligations | **34,773,998** | 37,857,667 |
| Total noncurrent liabilities | **620,874,509** | 1,050,803,123 |
| Total liabilities | **768,758,424** | 1,103,587,045 |
| Net position | **–** | – |
| Total liabilities and net position | **$ 768,758,424** | $ 1,103,587,045 |

*See accompanying notes to the financial statements.*

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

| | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Operating revenues: | | |
| Gas acquired and sold to customers and Members | **$ 246,549,495** | $ 140,006,464 |
| Production sold to customers | **48,140,385** | 40,319,313 |
| Total operating revenues | **294,689,880** | 180,325,777 |
| | | |
| Operating expenses: | | |
| Gas supplies delivered to customers and Members | **229,815,216** | 119,745,532 |
| Oil and gas field operations | **30,570,544** | 30,526,774 |
| Depletion of oil and gas properties | **3,474,681** | 5,364,390 |
| General and administrative | **3,709,454** | 3,873,933 |
| Depreciation of property and equipment | **316,270** | 352,216 |
| Total operating expenses | **267,886,165** | 159,862,845 |
| | | |
| Operating income | **26,803,715** | 20,462,932 |
| | | |
| Nonoperating income (expense): | | |
| Interest expense and other, net | **(2,299,176)** | (5,120,066) |
| Unrealized gain (loss) on investment derivatives | **66,280,005** | (26,628,995) |
| Costs recoverable from future billings | **(90,784,544)** | 11,286,129 |
| Total nonoperating expense | **(26,803,715)** | (20,462,932) |
| | | |
| 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, | |
|---|---|---|
| | **2022** | **2021** |
| **Operating activities** | | |
| Receipts from customers and Members | **$ 291,372,014** | $ 177,944,949 |
| Payments to Members | **(9,991,560)** | (8,808,833) |
| Payments to operators and suppliers | **(211,154,830)** | (129,589,805) |
| Payments (to) from oil and gas derivative counterparties, net | **(38,229,855)** | 5,849,427 |
| Net cash from operating activities | **31,995,769** | 45,395,738 |
| | | |
| **Capital and related financing activities** | | |
| Sales of oil and gas properties | **312,631** | 3,508 |
| Capital expenditures – property and equipment | **(393,823)** | (139,199) |
| Sale of property and equipment | **142,932** | 89,392 |
| Drilling, completion, and wellbore capital | **(1,632,422)** | (556,398) |
| Advance repayments to the Gas Authority, net | **(23,995,814)** | (43,814,427) |
| Advance repayments to Patriots Energy Group | **(2,608,830)** | (2,845,423) |
| Interest payments | **(2,859,245)** | (4,649,653) |
| Net cash from capital and related financing activities | **(31,034,570)** | (51,912,200) |
| | | |
| Net change in cash and cash equivalents | **961,199** | (6,516,462) |
| Cash and cash equivalents: | | |
| Beginning of year | **5,150,199** | 11,666,661 |
| End of year | **$ 6,111,398** | $ 5,150,199 |
| | | |
| Reconciliation of revenues in excess of operating expenses to net cash from operating activities: | | |
| Operating income | **$ 26,803,715** | $ 20,462,932 |
| Adjustments to reconcile to net cash flows from operating activities: | | |
| Amortization of deferred outflows – ARO | **1,810,701** | 5,407,042 |
| Depreciation of property and equipment | **316,270** | 352,216 |
| Depletion of oil and gas properties | **3,474,681** | 5,364,390 |
| Changes in certain assets and liabilities: | | |
| Accounts receivable | **(43,838,955)** | 3,392,995 |
| Other assets | **2,698,216** | 14,981,687 |
| Accounts payable and accrued expenses | **42,025,633** | (4,500,658) |
| Advance billings – FMPA | **(1,294,492)** | (64,866) |
| Net cash from operating activities | **$ 31,995,769** | $ 45,395,738 |

*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 or exchange provider, and commodity swap counterparty for natural gas prepayment transactions. 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.

The following table summarizes the Members' participation share by Pool as of June 30, 2022 (totals may not equal 100% due to rounding).

**Participation Shares by Pool:**

| Member | Pool 1 | Pool 2 | Pool 3 | Pool 4 |
|---|---|---|---|---|
| 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, 2023, and renews automatically for one-year periods unless either party gives 180 days' notice. Under this agreement, PGP incurred $3,094,969 and $3,100,672 in management fees for the years ended June 30, 2022 and 2021, respectively. PGP had an unpaid balance to the Gas Authority for management fees of $132,558 and $108,205 at June 30, 2022 and 2021, respectively. Pool 3's subsidiary, PGP Operating, LLC (PGP Operating), which operates approximately 1,300 wells in the Black Warrior Basin of Alabama, incurred expense of $5,061,655 and $5,035,889 for the years ended June 30, 2022 and 2021, respectively, 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 $778,215 and $725,996 at June 30, 2022 and 2021, respectively. The amounts paid are shown in Payments to Members on the statements of cash flows.

The Gas Authority and PGP also have monthly settlements to true up pricing of gas PGP is exchanging related to serving prepay transactions. PGP incurred $13,470,348 and $3,835,619 for such settlements for the years ended June 30, 2022 and 2012, respectively. PGP received identical amounts from the related suppliers. PGP had an unpaid balance to the Gas Authority for these settlements of $3,469,585 and $375,152, respectively.

**Subsequent Events**

In preparing the accompanying financial statements, management reviewed all known events that have occurred after June 30, 2022, and through October 28, 2022, for inclusion in the financial statements and footnotes.

**Basis of Accounting**

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

PGP also complies with policies and practices prescribed by its Board of Directors and to practices common in the natural gas industry. As the Board of Directors has the authority to set rates, PGP follows GASB-regulated accounting guidance in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which provides for the reporting of assets and liabilities consistent with the economic effect of the rate structure. Under GASB 62, regulatory assets are recorded to reflect probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. 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, 2022 and 2021, 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.

**Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported change in net position.

**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.

The carrying value of cash was $6,111,398 and $5,150,199 while the bank value of cash was $7,301,431 and $6,001,097 at June 30, 2022 and 2021, respectively. The differences between carrying value and bank value are due to checks outstanding. At June 30, 2022, $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 $6,301,431 was subject to custodial credit risk as it was uninsured and uncollateralized. At June 30, 2021, $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 $5,001,097 was subject to custodial credit risk as it was uninsured and uncollateralized. PGP does not have a formal counterparty credit risk policy.

**Restricted Cash**

Restricted cash represents funds held in legal and administrative suspense for royalty payments.

**Accounts Receivable**

Accounts Receivable represents billings to Members, swap amounts due from counterparties, gas sales to buyers, amounts due from operators for gas production, and joint interest billings to third party interest holders.

**Other Assets**

Other assets include well materials such as pumps and rotors, advances on well drilling, deposits, and in fiscal 2021, the prepayment balance with a gas supplier for gas that was delivered to PGP and redelivered to Patriots Energy Group in fiscal 2022. 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:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Proved properties | $ | 902,389,775 | $ | 900,747,943 |
| Accumulated depletion of proved properties | | (855,949,857) | | (852,475,176) |
| Total oil and gas properties, net | $ | 46,439,918 | $ | 48,272,767 |

Depletion expense was $3,474,681 and $5,364,390 for the years ended June 30, 2022 and 2021, 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. Hedging transactions cover approximately 23% and 27% of expected future production from proved reserves for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

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.

**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 Patriots Energy Group**

As discussed in "Other Assets" above, this balance represents a prepayment by Patriots Energy Group to PGP for discounted gas that was delivered in fiscal 2021 and 2022.

**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 losses) are recognized as investment income (loss) and then deferred as regulatory assets or deferred inflows 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, 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, 2022, 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, 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Oil and gas reserve swap agreements | $ - | $ (59,147,268) | $ - | $ (59,147,268) |
| Matched swap transactions | $ - | $ 53,289,200 | $ - | $ 53,289,200 |

| **June 30, 2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Oil and gas reserve swap agreements | $ - | $ (16,495,059) | $ - | $ (16,495,059) |
| Matched swap transactions | $ - | $ (14,627,487) | $ - | $ (14,627,487) |

### 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 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. Property and Equipment

Property and equipment activity for the year ended June 30, 2022 was as follows:

| | Balance at June 30, 2021 | Additions | Disposals | Depreciation | Balance at June 30, 2022 |
|---|---|---|---|---|---|
| Buildings | $ 1,266,888 | $ - | $ - | $ - | $ 1,266,888 |
| Vehicles | 1,655,293 | 205,273 | (274,329) | - | 1,586,237 |
| Computer hardware and software | 710,042 | - | - | - | 710,042 |
| Land | 100,000 | - | - | - | 100,000 |
| Machinery and equipment | 37,563 | 188,550 | - | - | 226,113 |
| Accumulated depreciation | (1,990,735) | - | 234,745 | (316,270) | (2,072,260) |
| Total property and equipment, net | $ 1,779,051 | $ 393,823 | $ (39,584) | $ (316,270) | $ 1,817,020 |

Property and equipment activity for the year ended June 30, 2021 was as follows:

| | Balance at June 30, 2020 | Additions | Disposals | Depreciation | Balance at June 30, 2021 |
|---|---|---|---|---|---|
| Buildings | $ 1,266,888 | $ - | $ - | $ - | $ 1,266,888 |
| Vehicles | 1,850,474 | 94,657 | (289,838) | - | 1,655,293 |
| Computer hardware and software | 674,154 | 44,542 | (8,654) | - | 710,042 |
| Land | 100,000 | - | - | - | 100,000 |
| Machinery and equipment | 37,563 | - | - | - | 37,563 |
| Accumulated depreciation | (1,907,937) | - | 269,418 | (352,216) | (1,990,735) |
| Total property and equipment, net | $ 2,021,142 | $139,199 | $ (29,074) | $ (352,216) | $ 1,779,051 |

Depreciation expense relating to property and equipment was $316,270 and $352,216, for 2022 and 2021, respectively.

## 3. Debt and Advances from the Gas Authority

All PGP Pools are party to Advance Payment Agreements (APAs) with the Gas Authority under which the Gas Authority provides funding to PGP. The Pool 1, 2, and 3 APAs mature in 2027. The Pool 4 APAs mature in various years from 2048 to 2052. Interest expense is charged based on the Gas Authority's actual borrowing costs or contractual line-of-credit costs.

As of June 30, 2022, and 2021, the interest rate charged by the Gas Authority to PGP was approximately 1.80% and 1.66% respectively. PGP incurred interest expense of $2,822,680 and $4,624,818 for the years ended June 30, 2022 and 2021, 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.

## 4. 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, 2022 and 2021, classified by type, and the changes in fair value of such derivative instruments for the years then ended are as follows. All swaps are for natural gas unless otherwise indicated.

Public Gas Partners, Inc.
Notes to Financial Statements (continued)

As of and for the year ended June 30, 2022:

| | Notional Amount at June 30, 2021* | Fair Value at June 30, 2021 | Change In Fair Value | Fair Value at June 30, 2022 | Notional Amount at June 30, 2022* |
|---|---|---|---|---|---|
| **Hedging derivatives** | | | | | |
| Henry Hub Swaps - Receive Fixed | 32,395,900 | $ (14,933,110) | $ (42,973,791) | $ (57,906,901) | 34,661,300 |
| WTI Swaps - Oil - Receive Fixed | 28,520 | (528,636) | (711,731) | (1,240,367) | 82,555 |
| Non-Henry Hub Swaps Receive Fixed | 1,033,200 | (1,033,313) | 1,033,313 | - | - |
| **Investment derivatives** | | | | | |
| Matched Swaps - Pay Fixed | 1,316,311,849 | (797,909,775) | 1,254,878,259 | 456,968,484 | 1,758,089,119 |
| Matched Swaps - Receive Fixed | 1,316,311,849 | 783,282,288 | (1,186,961,572) | (403,679,284) | 1,758,089,119 |

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

As of and for the year ended June 30, 2021:

| | Notional Amount at June 30, 2020* | Fair Value at June 30, 2020 | Change In Fair Value | Fair Value at June 30, 2021 | Notional Amount at June 30, 2021* |
|---|---|---|---|---|---|
| **Hedging derivatives** | | | | | |
| Henry Hub Swaps - Receive Fixed | 19,059,800 | $ 3,742,965 | $ (18,676,075) | $ (14,933,110) | 32,395,900 |
| WTI Swaps - Oil - Receive Fixed | 112,849 | 1,732,271 | (2,260,907) | (528,636) | 28,520 |
| WTI Swaps - Oil - Pay Fixed | 9,046 | 46,564 | (46,564) | - | - |
| Non-Henry Hub Swaps Receive Fixed | 6,690,100 | 793,385 | (1,826,698) | (1,033,313) | 1,033,200 |
| **Investment derivatives** | | | | | |
| Matched Swaps - Pay Fixed | 1,347,715,246 | (933,406,921) | 135,497,146 | (797,909,775) | 1,316,311,849 |
| Matched Swaps - Receive Fixed | 1,347,715,246 | 945,408,430 | (162,126,142) | 783,282,288 | 1,316,311,849 |

* 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, 2022:

| | Effective Dates | Notional Amounts* | Strike Prices |
|---|---|---|---|
| **Hedging derivatives** | | | |
| Henry Hub Swaps - Receive Fixed | 2022-2027 | 34,661,300 | $2.37-$4.31 |
| WTI Swaps - Oil Receive Fixed | 2022-2023 | 82,555 | $68.35-$97.20 |
| **Investment derivatives** | | | |
| Matched Swaps - Pay Fixed | 2022-2052 | 1,758,089,119 | $4.05-$5.09 |
| Matched Swaps - Receive Fixed | 2022-2052 | 1,758,089,119 | $4.08-$5.12 |

* 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, 2021:

| | Effective Dates | Notional Amounts* | Strike Prices |
|---|---|---|---|
| **Hedging derivatives** | | | |
| Henry Hub Swaps - Receive Fixed | 2021 – 2026 | 32,395,900 | $2.37 - $2.91 |
| Non-Henry Hub Swaps Receive Fixed | 2021 | 1,033,200 | $2.53 |
| WTI Swaps - Oil Receive Fixed | 2021 | 28,520 | $51.50 - $54.62 |
| **Investment derivatives** | | | |
| Matched Swaps - Pay Fixed | 2021 - 2050 | 1,316,311,849 | $4.05 - $4.53 |
| Matched Swaps - Receive Fixed | 2021 - 2050 | 1,316,311,849 | $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.

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 counterparties; however, PGP does not anticipate nonperformance. The counterparties in Henry Hub and WTI swaps 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 matched 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.

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, 2022, are as follows:

| Counterparty | Counterparty Credit Ratings S&P/Moody's | Fair Market Value of Derivative Instruments June 30, 2022 Asset (Liability) | |
|---|---|---|---|
| **Hedging derivatives** | | | |
| JP Morgan Chase Bank, N.A. | A-/A2 | $ | (6,528,323) |
| Macquarie Bank Ltd. | BBB+/A3 | | 1,601 |
| Royal Bank of Canada | AA-/Aa1 | | (52,620,546) |
| **Investment derivatives** | | | |
| Citadel Energy Marketing | BBB-/NR | | (5,830,234) |
| Citigroup Inc | BBB+/A3 | | (48,130,925) |
| Main Street Natural Gas, Inc. 2018AB | NR/Aa1 | | 116,200,019 |
| Main Street Natural Gas, Inc. 2018CDE | NR/Aa1 | | 137,889,261 |
| Main Street Natural Gas, Inc. 2019C | NR/A3 | | 62,674,729 |
| Main Street Natural Gas, Inc. 2021A | NR/Aa1 | | (315,990) |
| Main Street Natural Gas, Inc. 2022C | BBB-/NR | | 12,510,625 |
| Patriots Energy Group Financing Agency | NR/Aa1 | | 128,009,840 |
| Royal Bank of Canada | AA-/Aa1 | | (349,718,125) |

PGP's counterparty credit exposures from derivative transactions and counterparty credit ratings as of June 30, 2021, are as follows:

| Counterparty | Counterparty Credit Ratings S&P/Moody's | Fair Market Value of Derivative Instruments June 30, 2021 Asset (Liability) | |
|---|---|---|---|
| **Hedging derivatives** | | | |
| BP Energy Company | A-/A3 | $ | (1,033,313) |
| JP Morgan Chase Bank, N.A. | A-/A2 | | (1,504,303) |
| Macquarie Bank Ltd. | BBB+/A3 | | (167,237) |
| Royal Bank of Canada | AA-/Aa2 | | (12,805,201) |
| Wells Fargo Bank, N.A. | BBB+/A1 | | (985,005) |
| **Investment derivatives** | | | |
| Main Street Natural Gas, Inc. 2018AB & 2018CDE | NR/Aa2 | | (444,619,536) |
| Main Street Natural Gas, Inc. 2019C | NR/A3 | | (187,814,031) |
| Patriots Energy Group Financing Agency | NR/Aa2 | | (165,476,207) |
| Royal Bank of Canada | AA-/Aa2 | | 611,753,134 |
| Citigroup Inc | BBB+/A3 | | 171,529,153 |

**5. 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, 2022 and 2021, as follows:

| | June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Balance of ARO – beginning of year | $ 38,195,144 | $ 30,856,294 |
| Revision of estimates | 857,344 | 8,392,460 |
| Subtractions from sales and property assignments | (2,297,494) | (914,096) |
| ARO settlements, net | (1,288,275) | (139,514) |
| Balance of ARO – end of year | $ 35,466,719 | $ 38,195,144 |

**6. 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 years ended June 30, 2022 and 2021, PGP Operating, as agent for MGMS, used the MGMS transportation agreement to transport gas and incurred transportation expense related to that agreement of $0 and $82,962, respectively. As of June 30, 2022 and 2021, PGP had no unpaid balances to MGMS. See also discussion of Gas Authority services to PGP in Note 1.

**7. Litigation**

While PGP is not subject to any current or pending litigation, from time-to-time PGP may be subject to litigation incidental to its ownership interests in oil and gas reserves.

# Supplemental Pool-Level Schedules

# Public Gas Partners, Inc.
## Consolidating Statement of Net Position

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Pool 1 | Pool 2 | Pool 3 | Pool 4 | Total |
| **Assets and deferred outflows of resources** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 852,683 | $ 368,442 | $ 3,607,873 | $ 865,938 | $ 5,694,936 |
| Restricted cash | 73,342 | – | 343,120 | – | 416,462 |
| Accounts receivable, net | 5,411,209 | 550,640 | 8,731,734 | 47,183,866 | 61,877,449 |
| Fair value of derivative instruments | – | – | – | 65,483,964 | 65,483,964 |
| Other assets | 289,242 | 6,253 | 773,729 | – | 1,069,224 |
| Interproject receivables (payables) | 328,322 | (6,817) | (296,026) | (25,479) | – |
| Total current assets | 6,954,798 | 918,518 | 13,160,430 | 113,508,289 | 134,542,035 |
| Noncurrent assets: | | | | | |
| Oil and gas properties – net | 7,228,150 | – | 39,211,768 | – | 46,439,918 |
| Property and equipment – net | – | – | 1,817,020 | – | 1,817,020 |
| Fair value of derivative instruments | 14,831 | – | – | 395,324,978 | 395,339,809 |
| Regulatory asset – costs recoverable (refundable) | 95,188,932 | 43,454,553 | 23,472,281 | (54,213,310) | 107,902,456 |
| Other assets | – | – | 600,000 | – | 600,000 |
| Total noncurrent assets | 102,431,913 | 43,454,553 | 65,101,069 | 341,111,668 | 552,099,203 |
| Total assets | 109,386,711 | 44,373,071 | 78,261,499 | 454,619,957 | 686,641,238 |
| Deferred outflows of resources - asset retirement obligations | 3,077,831 | 203,308 | 19,688,778 | – | 22,969,917 |
| Deferred outflows of resources - unrealized loss on derivative instruments | 1,724,212 | – | 57,423,057 | – | 59,147,269 |
| Total deferred outflows of resources | 4,802,043 | 203,308 | 77,111,835 | – | 82,117,186 |
| Total assets and deferred outflows of resources | $ 114,188,754 | $ 44,576,379 | $ 155,373,334 | $ 454,619,957 | $ 768,758,424 |
| **Liabilities and net position** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 1,749,123 | $ 91,337 | $ 8,790,840 | $ 47,100,215 | $ 57,731,515 |
| Advance billings – FMPA | 2,238,992 | 1,049,761 | – | – | 3,288,753 |
| Fair value of derivative instruments | 1,350,295 | – | 21,351,949 | 63,468,682 | 86,170,926 |
| Asset retirement obligations | 521,200 | 34,501 | 137,020 | – | 692,721 |
| Total current liabilities | 5,859,610 | 1,175,599 | 30,279,809 | 110,568,897 | 147,883,915 |
| Noncurrent liabilities: | | | | | |
| Advances from the Gas Authority | 58,200,792 | 22,979,879 | 61,922,616 | – | 143,103,287 |
| Advance billings – FMPA | 42,540,844 | 19,945,465 | – | – | 62,486,309 |
| Fair value of derivative instruments | 388,749 | – | 36,071,106 | 344,051,060 | 380,510,915 |
| Asset retirement obligations | 7,198,759 | 475,436 | 27,099,803 | – | 34,773,998 |
| Total noncurrent liabilities | 108,329,144 | 43,400,780 | 125,093,525 | 344,051,060 | 620,874,509 |
| Total liabilities | 114,188,754 | 44,576,379 | 155,373,334 | 454,619,957 | 768,758,424 |
| Net position | – | – | – | – | – |
| Total liabilities and net position | $ 114,188,754 | $ 44,576,379 | $ 155,373,334 | $ 454,619,957 | $ 768,758,424 |

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

| | Twelve Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Pool 1 | Pool 2 | Pool 3 | Pool 4 | Total |
| Operating revenues: | | | | | |
| Gas acquired and sold to customers and Members | $ 11,762,645 | $ 5,653,480 | $ 14,270,826 | $ 214,862,544 | $ 246,549,495 |
| Production sold to customers | 15,640,408 | 630,060 | 31,869,917 | – | 48,140,385 |
| Total operating revenues | 27,403,053 | 6,283,540 | 46,140,743 | 214,862,544 | 294,689,880 |
| Operating expenses: | | | | | |
| Gas supplies delivered to customers and Members | 2,312,782 | – | 14,271,462 | 213,230,972 | 229,815,216 |
| Oil and gas field operations | 6,502,759 | 172,357 | 23,895,428 | – | 30,570,544 |
| Depletion of oil and gas properties | 2,916,916 | 42,021 | 515,744 | – | 3,474,681 |
| General and administrative | 668,731 | 63,489 | 1,421,509 | 1,555,725 | 3,709,454 |
| Depreciation of property and equipment | – | – | 316,270 | – | 316,270 |
| Total operating expenses | 12,401,188 | 277,867 | 40,420,413 | 214,786,697 | 267,886,165 |
| Operating income | 15,001,865 | 6,005,673 | 5,720,330 | 75,847 | 26,803,715 |
| Nonoperating income (expense): | | | | | |
| Interest expense and other, net | (600,726) | (468,859) | (1,229,591) | – | (2,299,176) |
| Unrealized gain on investment derivatives | – | – | – | 66,280,005 | 66,280,005 |
| Costs recoverable from future billings | (14,401,139) | (5,536,814) | (4,490,739) | (66,355,852) | (90,784,544) |
| Total nonoperating expense | (15,001,865) | (6,005,673) | (5,720,330) | (75,847) | (26,803,715) |
| Change in net position | – | – | – | – | – |
| Net position: | | | | | |
| Beginning of year | – | – | – | – | – |
| End of year | $ – | $ – | $ – | $ – | $ – |

# Public Gas Partners, Inc.
## Consolidating Statement of Cash Flows

| | Twelve Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Pool 1 | Pool 2 | Pool 3 | Pool 4 | Total |
| **Operating activities** | | | | | |
| Receipts from customers and Members | $ 27,019,430 | $ 6,202,657 | $ 67,786,006 | $ 190,363,921 | $ 291,372,014 |
| Payments to Members | (1,745,670) | (53,452) | (6,116,158) | (2,076,280) | (9,991,560) |
| Payments to operators and suppliers | (9,061,502) | (383,898) | (27,557,997) | (174,151,433) | (211,154,830) |
| Payments to oil and gas derivative counterparties, net | (1,794,519) | – | (24,954,255) | (11,481,081) | (38,229,855) |
| Internal activity – payments from (to) other pools | (395,730) | (45,784) | 416,035 | 25,479 | – |
| Net cash from operating activities | 14,022,009 | 5,719,523 | 9,573,631 | 2,680,606 | 31,995,769 |
| **Capital and related financing activities** | | | | | |
| Sales of oil and gas properties | (299,217) | – | 611,848 | – | 312,631 |
| Capital expenditures – property and equipment | – | – | (393,823) | – | (393,823) |
| Sale of property and equipment | – | – | 142,932 | – | 142,932 |
| Drilling, completion, and wellbore capital | (1,621,442) | (10,980) | – | – | (1,632,422) |
| Advance repayments to the Gas Authority, net | (13,152,257) | (5,239,870) | (5,603,687) | – | (23,995,814) |
| Advance repayments to Patriots Energy Group | – | – | – | (2,608,830) | (2,608,830) |
| Interest payments | (600,724) | (468,850) | (1,789,671) | – | (2,859,245) |
| Net cash from capital and related financing activities | (15,673,640) | (5,719,700) | (7,032,401) | (2,608,830) | (31,034,570) |
| Net change in cash and cash equivalents | (1,651,631) | (177) | 2,541,230 | 71,776 | 961,199 |
| Cash and cash equivalents: | | | | | |
| Beginning of period | 2,577,656 | 368,619 | 1,409,763 | 794,161 | 5,150,199 |
| End of period | $ 926,025 | $ 368,442 | $ 3,950,993 | $ 865,937 | $ 6,111,398 |
| Reconciliation of revenues in excess of operating expenses to net cash from operating activities: | | | | | |
| Operating income | $ 15,001,865 | $ 6,005,673 | $ 5,720,330 | $ 75,847 | $ 26,803,715 |
| Adjustments to reconcile to net cash flows from operating activities: | | | | | |
| Amortization of deferred outflows – ARO | 71,894 | (89,821) | 1,828,628 | – | 1,810,701 |
| Depreciation of property and equipment | – | – | 316,270 | – | 316,270 |
| Depletion of oil and gas properties | 2,916,916 | 42,021 | 515,744 | – | 3,474,681 |
| Changes in certain assets and liabilities: | | | | | |
| Accounts receivable | (2,178,140) | (80,875) | (5,007,574) | (36,572,366) | (43,838,955) |
| Other assets | 11,927 | 5,346 | 72,113 | 2,608,830 | 2,698,216 |
| Accounts payable and accrued expenses | (128,307) | (100,951) | 5,712,075 | 36,542,816 | 42,025,633 |
| Advance billings – FMPA | (1,278,414) | (16,078) | – | – | (1,294,492) |
| Interproject receivables (payables) | (395,732) | (45,792) | 416,045 | 25,479 | – |
| Net cash from operating activities | $ 14,022,009 | $ 5,719,523 | $ 9,573,631 | $ 2,680,606 | $ 31,995,769 |