National Public Gas Agency

Independent Auditor's Report and Financial Statements

March 31, 2014 and 2013

BKD LLP
CPAs & Advisors

National Public Gas Agency

March 31, 2014 and 2013

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors
National Public Gas Agency
Lincoln, Nebraska

We have audited the accompanying basic financial statements of National Public Gas Agency, which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the basic financial statements, as 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 audits. We conducted our audits 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 National Public Gas Agency as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

BKD, LLP

Lincoln, Nebraska
June 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of National Public Gas Agency's (NPGA) financial performance provides an overview of NPGA's financial activities for the years ended March 31, 2014, 2013 and 2012. This information should be read in conjunction with the accompanying financial highlights, the basic financial statements, and notes to the financial statements.

Financial Analysis

The following comparative condensed financial statements summarize NPGA's financial position and operating results for the years ended March 31, 2014, 2013 and 2012.

Condensed Balance Sheets and Financial Highlights

	March 31, 2014	March 31, 2013	March 31, 2012	Change 2014 to 2013	Change 2013 to 2012
Assets and Deferred Outflows of Resources					
Current assets	$ 7,066,765	$ 6,270,555	$ 4,667,548	$ 796,210	$ 1,603,007
Noncurrent assets	1,229,665	1,183,529	1,999,818	46,136	(816,289)
Deferred outflows of resources	-	97,480	1,674,972	(97,480)	(1,577,492)
Total assets and deferred outflows of resources	$ 8,296,430	$ 7,551,564	$ 8,342,338	$ 744,866	$ (790,774)
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 1,201,894	$ 1,334,944	$ 1,077,095	$ (133,050)	$ 257,849
Noncurrent liabilities	-	134,000	1,990,282	(134,000)	(1,856,282)
Deferred inflows of resources	32,000	-	132,731	32,000	(132,731)
Net position - unrestricted	7,062,536	6,082,620	5,142,230	979,916	940,390
Total liabilities, deferred inflows of resources, and net position	$ 8,296,430	$ 7,551,564	$ 8,342,338	$ 744,866	$ (790,774)

Current assets increased at March 31, 2014 and 2013 due to increased cash and cash equivalents as a result of an increase in net position during 2014 and 2013. The balance also increased in 2013 due to the return of the collateral deposit for commodity swaps.

Noncurrent assets fluctuate with the natural gas market. Changes in natural gas prices result in funding of or return of the collateral deposit for commodity swaps. Funds deposited as of March 31, 2012 were returned as of March 31, 2013. Costs recoverable from future billings decreased as of March 31, 2014 and 2013 as a result of the change in fair value of investment derivative instruments.

Deferred outflows of resources fluctuate annually as a result of changes in the fair value of derivative instruments.

The change in current liabilities relates to natural gas prices and volumes purchased to meet member needs.

Noncurrent liabilities fluctuate annually as a result of changes in the fair value of derivative instruments.

Deferred inflows of resources as of March 31, 2014, consist of deferred inflows from derivative instruments as a result of the change in fair value of derivative instruments. The change in deferred inflows of resources from 2012 to 2013 relates to transfers from the deferred revenue account to recognize the margins associated with terminated Gas Supply Agreements. The deferred revenue available for transfer as of March 31, 2012, was used in its entirety during 2013.

Condensed Statements of Revenues, Expenses and Changes in Net Position and Financial Highlights

	March 31, 2014	March 31, 2013	March 31, 2012	Change 2014 to 2013	Change 2013 to 2012
Sales volumes (MMBtu's)	3,241,772	2,970,220	3,066,333	271,552	(96,113)
Operating revenues	$17,274,419	$13,672,106	$ 15,022,739	$ 3,602,313	$ (1,350,633)
Operating expenses	17,045,192	13,251,531	15,447,641	3,793,661	(2,196,110)
Operating income (loss)	229,227	420,575	(424,902)	(191,348)	845,477
Net nonoperating revenues	750,689	519,815	1,057,094	230,874	(537,279)
Change in net position	$ 979,916	$ 940,390	$ 632,192	$ 39,526	$ 308,198

The fluctuation in sales volumes results from changes in demand primarily driven by weather conditions. Increased demand combined with higher natural gas prices resulted in increased operating revenues and expenses in 2014. Decreased demand along with lower natural gas prices resulted in decreased operating revenues and expenses in 2013.

Fluctuations in net nonoperating revenues relate primarily to net costs to be recovered in future periods. Net costs to be recovered in future periods are impacted by the change in fair value of investment derivative transactions, resulting in higher nonoperating revenues in 2014 and lower nonoperating revenues in 2013. The amount transferred from the deferred revenue account also declined in 2014 and 2013.

General Trends and Significant Events

Industry Trends: Nationally, wholesale natural gas market spot prices were higher in fiscal year 2014 compared to fiscal year 2013. Prices remain low compared to historical pricing due to a still recovering economy and large supply of domestic natural gas. Developing technology the last several years made it possible to access more domestic natural gas resources.

Storage levels are below average due to the colder than average winter. It will take record injections to refill storage this season. Adequate supply is expected because of the sluggish economy and available shale gas. Based on the current market outlook for 2014, NPGA expects rates to increase slightly during fiscal year 2015.

Hedging Strategies: NPGA has entered into hedging arrangements extending into fiscal year 2016 as part of NPGA's gas purchasing strategy to reduce price risk. NPGA will continue to evaluate hedging opportunities to reduce price risk for members and non-members.

Future Gas Supplies: NPGA continues to review any long-term supply programs that may create value for NPGA members. In the near term, NPGA will rely on spot market purchases to fulfill member needs.

NPGA Future Business Strategies: NPGA is continuing with its strategic focus on reliable and economical gas supplies and related services. Economies of scale and strong relationships with other municipals and groups of municipals are considered to be keys to success.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about NPGA's financial position and activities. The balance sheets present NPGA's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The statements of revenues, expenses, and changes in net position present NPGA's operating results and changes in net position. The statements of cash flows provide information about the flow of cash within NPGA by activity. The notes to the financial statements provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Report of Management

NPGA has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of NPGA in conformity with accounting principles generally accepted in the United States of America. This annual financial report is also available via the internet at www.nmppenergy.org. If you have questions about this report or need additional financial information, contact our Director of Finance and Accounting at the address shown below.

National Public Gas Agency
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National Public Gas Agency
Balance Sheets
March 31, 2014 and 2013

Assets and Deferred Outflows of Resources	2014	2013
Current Assets		
Cash and cash equivalents	$ 3,195,928	$ 2,711,712
Short-term investments	2,000,264	1,852,226
Accounts receivable	1,582,540	1,624,124
Gas production, purchase and storage	266,226	82,493
Prepaid expenses	21,807	-
Total current assets	7,066,765	6,270,555
Noncurrent Assets		
Long-term investments	1,197,665	1,147,009
Costs recoverable from future billings	-	36,520
Fair value of derivative instruments	32,000	-
Total noncurrent assets	1,229,665	1,183,529
Deferred Outflows of Resources		
Deferred ouflows from derivative instruments	-	97,480
Total assets and deferred outflows of resources	$ 8,296,430	$ 7,551,564

Liabilities, Deferred Inflows of Resources and Net Position	2014	2013
Current Liabilities		
Accounts payable and accrued expenses	$ 1,138,488	$ 1,275,187
Due to coalition members	63,406	59,757
Total current liabilities	1,201,894	1,334,944
Noncurrent Liabilities		
Fair value of derivative instruments	-	134,000
Deferred Inflows of Resources		
Deferred inflows from derivative instruments	32,000	-
Net Position		
Unrestricted	7,062,536	6,082,620
Total liabilities, deferred inflows of resources, and net position	$ 8,296,430	$ 7,551,564

National Public Gas Agency

Statements of Revenues, Expenses and Changes in Net Position

Years Ended March 31, 2014 and 2013

	2014	2013
Operating Revenue		
Gas supply	$ 17,274,419	$ 13,672,106
Operating Expenses		
Cost of gas sold	16,303,232	12,451,417
Administrative and general	741,960	800,114
Total operating expenses	17,045,192	13,251,531
Operating Income	229,227	420,575
Nonoperating Revenues (Expenses)		
Net costs to be recovered in future periods	(36,520)	(278,790)
Gas supply termination distributions	725,450	614,649
Transfer from deferred revenue	-	132,731
Investment income	61,759	51,225
Net nonoperating revenues	750,689	519,815
Increase in Net Position	979,916	940,390
Net Position, Beginning of Year	6,082,620	5,142,230
Net Position, End of Year	$ 7,062,536	$ 6,082,620

National Public Gas Agency

Statements of Cash Flows

Years Ended March 31, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from members and customers	$ 17,316,003	$ 13,309,497
Cash paid to suppliers	(16,688,202)	(11,396,750)
Cash paid to coalition members	(732,100)	(772,263)
Net cash provided by (used in) operating activities	(104,299)	1,140,484
Noncapital Financing Activities		
Gas supply termination distributions	725,450	614,649
Net cash provided by noncapital financing activities	725,450	614,649
Investing Activities		
Proceeds from sales and maturities of investments	1,850,000	1,650,000
Purchases of investments	(2,050,000)	(2,100,000)
Interest received on investments	63,065	60,078
Net cash used in investing activities	(136,935)	(389,922)
Increase in Cash and Cash Equivalents	484,216	1,365,211
Cash and Cash Equivalents, Beginning of Year	2,711,712	1,346,501
Cash and Cash Equivalents, End of Year	$ 3,195,928	$ 2,711,712
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities		
Operating Income	$ 229,227	$ 420,575
Change in fair value of investment derivative instruments	(36,520)	(278,790)
Changes in operating assets and liabilities		
Accounts receivable	41,584	(362,609)
Gas production, purchase and storage	(183,733)	423,459
Prepaid expenses	(21,807)	-
Collateral deposit for commodity swaps	-	680,000
Accounts payable and accrued expenses	(136,699)	267,616
Due to coalition members, net	3,649	(9,767)
Net Cash Provided By (Used in) Operating Activities	$ (104,299)	$ 1,140,484

National Public Gas Agency
Notes to Financial Statements
March 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

National Public Gas Agency ("NPGA" or "Agency") was established under provisions of the Interlocal Cooperation Act of Nebraska (Act) for the purpose of providing local governments the opportunity to cooperate with other localities to obtain a mutual advantage in the ability of the entity to meet its gas supply needs. NPGA sells gas to its members and others who are located in the states of Nebraska, Colorado, Illinois, Kansas, Missouri, Oklahoma and Wyoming.

Reporting Entity

In evaluating how to define the Agency, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity's fiscal dependency on the Agency.

NPGA, Nebraska Municipal Power Pool (POOL), Municipal Energy Agency of Nebraska (MEAN) and Public Alliance for Community Energy (ACE), comprise a coalition referred to by the trade name NMPP Energy. This coalition of entities provides energy-related services to member and nonmember participants while sharing facilities and management personnel. None of the organizations included in NMPP Energy are responsible for the obligations, liabilities or debts of any of the other organizations in the coalition. Based upon the above criteria, none of the organizations are considered component units of any of the other organizations.

Basis of Accounting and Presentation

NPGA's activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. NPGA's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). NPGA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). NPGA's accounting policies also follow the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

NPGA considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At March 31, 2014 and 2013, cash equivalents consisted entirely of a money market mutual fund.

Investments and Investment Income

Investments in money market mutual funds and negotiable certificates of deposit are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists of interest and the net change for the year in the fair value of investments.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are charged off as they are deemed uncollectible. NPGA does not believe an allowance for doubtful accounts is necessary at March 31, 2014 and 2013, as there were no delinquent accounts.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of net income until such costs are recoverable, in accordance with the regulated operations provisions of GASB Statement No. 62. NPGA defers the change in fair value of investment derivative instruments until the related commodity swap contract terminates and NPGA's contractual payment, if any, is considered a cost for rate making purposes.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets **-** consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. NPGA had no net capital assets at March 31, 2014 and 2013.

Restricted **-** consists of restricted assets and deferred outflows, reduced by liabilities and deferred inflows related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation. There are no components of net position at March 31, 2014 and 2013 that meet the restricted definition.

Unrestricted **-** consists of the assets and deferred outflows, and liabilities and deferred inflows that are not included in the net investment in capital assets or restricted components of net position.

Classification of Revenues

Operating revenues include revenues resulting from the purchase and delivery of gas supplies to members and customers. Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities other than capital contributions from members.

Derivative Instruments

Derivative instruments are utilized by NPGA to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas. These instruments include commodity swap agreements. Additional information regarding these instruments is shown in Note 5.

Rates

NPGA annually determines its wholesale gas supply rates to recover costs of providing natural gas service and financing obligations. Rates and charges for providing wholesale gas supply are reviewed and adopted by NPGA's Board of Directors.

NPGA's natural gas requirements are purchased through contracts with various natural gas suppliers. NPGA also contracts with various interstate pipeline suppliers for the transportation and storage of its natural gas requirements. NPGA's contracts with natural gas suppliers provide for the pricing of all natural gas primarily based on nationally publicized indices plus or minus applicable premiums and discounts. The cost of natural gas to NPGA is recovered through a monthly gas cost adjustment mechanism. Variances between the estimated gas cost and actual costs are recovered from, or returned to, NPGA's members.

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Income Taxes

In accordance with certain provisions of the Internal Revenue Code and the Act and related governing laws and regulations, NPGA, as a local government entity, is exempt from federal and state income taxes.

Implementation of New Accounting Pronouncements

In 2014, NPGA implemented the provisions of GASB Statement No. 61, *The Financial Reporting Entity-Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The requirements of GASB Statements No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this standard did not have a significant impact on NPGA's financial statements.

Note 2: Deposits, Investments, and Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. NPGA's deposit policy for custodial credit risk requires compliance with the provisions of state law. State statutes require banks either to give bond or to pledge government securities to NPGA in the amount of NPGA's deposits. The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to $250,000 per official custodian at each covered institution. NPGA's deposits were covered by FDIC insurance at March 31, 2014.

Investments

NPGA's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. NPGA may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, banker's acceptances, commercial paper, and municipal bonds. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of two of the following: the Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or the NPGA Executive Director.

Note 2: Deposits, Investments, and Investment Return - Continued

At March 31, 2014 and 2013, NPGA had the following investments, maturities, and credit ratings:

		Maturities in Years		Credit Rating
	Fair Value	Less Than 1	1-5	Moody's/S&P
March 31, 2014				
Money market mutual funds -				
US agencies	$ 5,000	$ 5,000	$ -	Aaa-mf/AAAm
Negotiable certificates of deposits	3,197,929	2,000,264	1,197,665	Not Rated
	$ 3,202,929	$ 2,005,264	$ 1,197,665	
March 31, 2013				
Money market mutual funds -				
US agencies	$ 5,000	$ 5,000	$ -	Aaa-mf/AAAm
Negotiable certificates of deposits	2,999,235	1,852,226	1,147,009	Not Rated
	$ 3,004,235	$ 1,857,226	$ 1,147,009	

Interest Rate Risk **-** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NPGA's investment policy does not place a limit on the amount that may be invested in any one maturity category. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk **-** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. NPGA's investment policy establishes requirements for certain investment securities or issuers of securities to be rated at certain rates or higher. The following investment types must be rated at the minimum rates noted below:

Commercial paper	A-1, P-1
Municipal bonds	AA-

Custodial Credit Risk **-** For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, NPGA would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. NPGA's investments are held in safekeeping in a broker account with the Agency's primary financial institution.

Note 2: Deposits, Investments, and Investment Return - Continued

Investments - Continued

Concentration of Credit Risk - Concentration of credit risk is the risk associated with the amount of investments NPGA has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. NPGA's investment policy limits the amount of its investment portfolio that may be invested in any one issuer, other than U.S. government securities, to $500,000.

Concentrations greater than 5% at March 31, 2014, are shown below:

Negotiable Certificates of Deposits	
Ally Bank Midvale, UT	7.80%
Apple Bank for Savings New York, NY	7.80%
Bank Baroda New York, NY	7.80%
Bank India New York, NY	7.80%
Bank of China New York, NY	6.24%
BMW Bank North America Salt Lake City, UT	7.80%
Community Bank Chesapeake Waldorf, MD	7.78%
Compass Bank Birmingham, AL	7.79%
Goldman Sachs Bank New York, NY	7.81%
Merrick Bank South Jordan, UT	7.81%
Privatebank & TC Chicago, IL	7.81%
Safra National Bank New York, NY	6.25%

Concentrations greater than 5% at March 31, 2013, are shown below:

Negotiable Certificates of Deposits	
Ally Bank Midvale, UT	8.28%
American Express Central Bank	6.67%
Bank of China New York, NY	8.31%
Discover Bank Greenwood, DE	6.66%
Fifth Third Bank Cincinnati, OH	8.30%
GE Capital Bank Salt Lake City, UT	5.00%
Goldman Sachs Bank New York, NY	8.30%
Merrick Bank South Jordan, UT	8.30%
Safra National Bank New York, NY	6.65%
State Bank of India, NY	6.66%

Note 2: Deposits, Investments, and Investment Return - Continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2014 and 2013, as follows:

	2014	2013
Deposits	$ 3,190,928	$ 2,706,712
Investments	3,202,929	3,004,235
	$ 6,393,857	$ 5,710,947

Included in the following balance sheet captions:

	2014	2013
Cash and cash equivalents	$ 3,195,928	$ 2,711,712
Short-term investments	2,000,264	1,852,226
Long-term investments	1,197,665	1,147,009
	$ 6,393,857	$ 5,710,947

Investment Income

Investment income for the years ended March 31, 2014 and 2013, consisted of interest income and the net increase in fair value of investments of $61,759 and $51,225, respectively.

Note 3: Credit Facilities

Line of Credit

NPGA has a $2,000,000 revolving line of credit expiring November 28, 2016. During the years ended March 31, 2014 and 2013, no funds were advanced against the line. Interest varies at two percent (2%) above the Daily One Month LIBOR in effect from time to time and is payable monthly.

Letter of Credit

As collateral for NPGA's performance under certain commodity swap contracts (See Note 5), NPGA has obtained a standby letter of credit in the amount of $300,000 at March 31, 2014 and 2013. This standby letter of credit expires November 30, 2014, and reduces the amount available under NPGA's revolving line of credit.

Note 4: Transactions with Coalition Members

NPGA, POOL, MEAN and ACE through common members and management comprise a coalition. NPGA shares personnel and facilities within this coalition, as well as enters into agreements for certain products and services.

NPGA incurred expenses of approximately $660,000 and $730,000 for administrative services and rents provided by coalition members during 2014 and 2013, respectively.

At March 31, 2014 and 2013, amounts due to coalition members consisted of $60,234 and $57,416 payable to POOL and $3,172 and $2,341 payable to MEAN, respectively.

Note 5: Derivative Instruments

Objectives and Terms of Derivative Instruments

NPGA has entered into commodity swaps to hedge changes in cash flows and reduce exposure due to fluctuations in the market price of natural gas. These commodity swaps are considered derivative instruments under the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The fair values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established interest rate indexes.

Note 5: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

Cash Flow Hedges - Cash flows hedges are derivative instruments associated with a hedgeable item that significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of the hedgeable item. At March 31, 2014, the positive fair value of commodity swaps considered cash flow hedges is classified as a noncurrent asset on the balance sheet, with an offsetting deferred inflow of resources of the same amount. At March 31, 2013, the negative fair value of commodity swaps considered cash flow hedges is classified as a noncurrent liability on the balance sheet, with an offsetting deferred outflow of resources of the same amount. The change in fair value of cash flow hedges was an increase of $129,240 for 2014 and an increase of $1,577,492 for 2013. The change in fair value is reflected within deferred inflows from derivative instruments in 2014 and deferred outflows from derivative instruments in 2013.

Investment Derivative Instruments - Investment derivative instruments consist of commodity swaps not meeting the criteria to be considered cash flow hedges. The negative fair value of commodity swaps considered investment derivative instruments is classified as a noncurrent liability on the balance sheet without an offsetting deferred outflow of resources at March 31, 2013. NPGA had no commodity swaps meeting the definition of an investment derivative instrument at March 31, 2014. The change in fair value of investment derivative instruments was an increase of $36,520 for 2014 and an increase of $278,790 for 2013. The change was recorded to cost of gas sold expense on NPGA's operating statements. NPGA has elected to defer this charge and recognize the expense in future periods in accordance with the regulated operations provisions of GASB Statement No. 62.

A summary of objectives and terms of NPGA's derivative instruments at March 31, 2014 and 2013, is found below (all contracts are structured with a quantity of 10,000 MMBtu's per contract):

March 31, 2014

Reference	Notional Amount (# of contracts)	Effective Date	Termination Date	Fixed Price per MMBtu	Fair Value	Counterparty Credit Rating S&P / Moody's
Cash Flow Hedges:						
		Monthly starting	Monthly through	Ranges from		
(C)	11	5/1/2014	3/31/2015	$3.865 to $4.230		
	1	11/1/2015	11/30/2015	$7.400		
	1	12/1/2015	12/31/2015	$7.950	$ 32,000	A / Baa1

National Public Gas Agency
Notes to Financial Statements
March 31, 2014 and 2013

Note 5: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

			March 31, 2013				
Reference	Notional Amount (# of contracts)	Effective Date	Termination Date	Fixed Price per MMBtu		Fair Value	Counterparty Credit Rating S&P / Moody's
Cash Flow Hedges:							
(A)		Monthly starting	Monthly through	Ranges from			
	6	4/1/2013	9/26/2013	\$5.09 to \$5.28			
	5	10/1/2013	2/26/2014	\$4.247 to \$4.585	\$	(48,880)	A / A2
(B)		Monthly starting	Monthly through	Ranges from			
	6	4/1/2013	9/26/2013	\$3.993 to \$4.126	\$	25,600	A / A2
(C)		Monthly starting	Monthly through	Ranges from			
	23	5/1/2013	3/31/2015	\$3.565 to \$4.230			
	6	5/1/2013	10/31/2013	\$4.230			
	5	11/1/2013	3/31/2014	\$4.670			
	6	5/1/2013	10/31/2013	\$4.985			
	1	11/1/2015	11/30/2015	\$7.400			
	1	12/1/2015	12/31/2015	\$7.950	\$	(15,700)	A / Baa1
(D)		Monthly starting	Monthly through				
	7	4/1/2013	10/31/2013	\$4.90	\$	(58,500)	AA- / Aa3
Investment Derivative Instruments:							
(E)		Monthly starting	Monthly through	Ranges from			
	6	4/1/2013	9/26/2013	\$5.09 to \$5.28	\$	(36,520)	A / A2

(A) Pay-fixed, receive-variable commodity swap with a national energy corporation. NPGA pays the predetermined fixed price, which is subject to reset if the New York Mercantile Exchange (NYMEX) natural gas settlement price on the termination date is less than the fixed price. The counterparty pays the closing NYMEX natural gas settlement price on the termination date. NPGA was required to obtain a \$300,000 letter of credit at March 31, 2014 and 2013. This collateral covers the contracts in both (A) and (B) as these contracts are with the same counterparty and are evaluated together for collateral purpose. No cash collateral was required at March 31, 2014 and 2013.

Note 5: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

(B) Pay-fixed, receive-variable commodity swap with the same national energy corporation in (A) above. The fixed price is subject to reset ("repricing level") if the NYMEX natural gas settlement price ("settlement price") is less than the fixed price. Settlement is calculated based on daily price accrual quantities, which accumulate at 50% if the closing settlement price for the day is at or above the repricing level and at 100% if the closing settlement price for the day is below the repricing level ("accumulated quantity"). NPGA pays the accumulated quantity at the accrual price (calculation based on accumulated quantity, as defined by the contract) if the closing settlement price is below the accrual price and receives the accumulated quantity at the accrual price if the closing settlement price is at or above the accrual price.

(C) Pay-fixed, receive-variable commodity swap with a national energy corporation. NPGA pays the predetermined fixed price and the counterparty pays the variable price, which is based on the NYMEX natural gas settlement price for the contractual month.

(D) Pay-fixed, receive-variable commodity swap with a financial institution. NPGA pays the predetermined fixed price and the counterparty pays the variable price, which is based on the NYMEX natural gas settlement price for the contractual month.

(E) Pay-fixed, receive-variable commodity swap which is included as a second provision to the contracts described in (A) above. Under this provision, if the NYMEX closing natural gas settlement price is below the reset price (as defined in (A) above), NPGA also pays the difference in these prices times the notional amount.

Credit risk – At March 31, 2014 and 2013, for the swaps with a positive fair value, NPGA was exposed to credit risk in the amount of the fair value of the swaps. NPGA reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents. At March 31, 2013, NPGA was not exposed to credit risk for swaps that had a negative fair value.

Termination risk - NPGA or the counterparties may terminate the swaps if either party fails to perform as outlined in the terms of the contracts. If a swap agreement is terminated, each party will make the calculations on its part, and will provide to the other party a statement showing relevant quotations and specifying any amount payable according to the applicable swap agreements.

Basis risk - NPGA is exposed to basis risk on the swaps because the variable payments on the commodity swaps are based on the Henry Hub pricing point, which is different than the varying pricing points used by NPGA for its natural gas purchases. The basis difference can vary depending on the geographical location of the pricing point.

Note 6: Sales Agreements

NPGA has agreements with various parties, including 12 member participants, to provide for the sale of gas to the parties under various terms and rate schedules.

Note 7: Natural Gas Production Sharing Agreement

NPGA has entered into a natural gas production sharing agreement with a nonprofit corporation whereby NPGA has agreed to purchase a maximum of approximately 301,000 MMBtu per year for a participation share of 2.89%. Purchase requirements are subject to production availability. Natural gas became available beginning January 2013. During the year ended March 31, 2014, NPGA purchased approximately 145,000 MMBtu for a total cost of approximately $555,000. During the year ended March 31, 2013, NPGA purchased approximately 29,000 MMBtu for a total cost of approximately $88,000.

Note 8: Risk Management

NPGA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and others; and natural disasters. NPGA carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact of claims arising from such matters. No claims have been submitted against this commercial coverage in any of the three preceding years.

Note 9: Significant Estimates and Concentrations

Major Customers

Information regarding major customers is provided for those customers who individually exceed 10% of NPGA's annual sales or accounts receivable balances at year-end.

At March 31, 2014 and 2013, approximately $543,000 or 34% and $570,000 or 36%, respectively, of total accounts receivable were owed by two customers.

For the year ended March 31, 2014 and 2013, approximately $6,423,000 or 37% and $5,063,000 or 37%, respectively, of total gas commodity sales were to two customers.