

# National Public Gas Agency

Independent Auditor's Report and Financial Statements

March 31, 2016 and 2015



**National Public Gas Agency**  
**March 31, 2016 and 2015**

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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 are comprised of balance sheets as of March 31, 2016 and 2015, 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, 2016 and 2015, 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 audits 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 6, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the following pages summarizes the financial highlights and focuses on factors that had a material effect on the financial condition of National Public Gas Agency (NPGA) and the results of operations for the years ended March 31, 2016, 2015 and 2014. This discussion should be read in conjunction with the accompanying financial highlights, the basic financial statements, and notes to the financial statements.

### ***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.

**Management's Discussion and Analysis** – provides an objective and easily readable analysis of the financial activities of NPGA based on currently known facts, decisions or conditions.

**Balance Sheets** – provide a summary of NPGA's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

**Statements of Revenues, Expenses and Changes in Net Position** – present the operating results of NPGA into various categories of operating revenues and expenses, and non-operating revenues and expenses.

**Statements of Cash Flows** – report the cash provided by and used for operating activities, as well as other cash sources such as investment income.

**Notes to the Financial Statements** – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

### ***Financial Analysis***

The following comparative condensed financial statements summarize NPGA's financial position and operating results for the years ended March 31, 2016, 2015 and 2014.

## Condensed Balance Sheets and Financial Highlights

	March 31,			Change	
	2016	2015	2014	From 2015 to 2016	From 2014 to 2015
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 6,297,860	\$ 6,831,725	\$ 7,066,765	\$ (533,865)	\$ (235,040)
Noncurrent assets	2,103,286	1,600,613	1,229,665	502,673	370,948
Deferred outflows of resources	171,000	526,000	-	(355,000)	526,000
Total assets and deferred outflows of resources	<u>\$ 8,572,146</u>	<u>\$ 8,958,338</u>	<u>\$ 8,296,430</u>	<u>\$ (386,192)</u>	<u>\$ 661,908</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>					
Current liabilities	\$ 667,903	\$ 1,031,482	\$ 1,201,894	\$ (363,579)	\$ (170,412)
Noncurrent liabilities	171,000	526,000	-	(355,000)	526,000
Deferred inflows of resources	-	-	32,000	-	(32,000)
Net position - unrestricted	7,733,243	7,400,856	7,062,536	332,387	338,320
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,572,146</u>	<u>\$ 8,958,338</u>	<u>\$ 8,296,430</u>	<u>\$ (386,192)</u>	<u>\$ 661,908</u>

### **Assets and Deferred Outflows of Resources**

Current assets decreased at March 31, 2016 due to a decrease in accounts receivable. Current assets decreased at March 31, 2015 as additional funds available for investment as a result of an increase in net position in recent years were included in long-term investments.

Noncurrent assets increased in 2016 and 2015 as additional funds were available for investment.

Deferred outflows of resources fluctuate annually as a result of the volume of and changes in the fair value of derivative instruments. The deferred outflows from derivative instruments at March 31, 2016 and 2015 result from the negative fair value of cash flow hedges.

### **Liabilities and Deferred Inflows of Resources**

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

Noncurrent liabilities fluctuate annually as a result of the volume of and changes in the fair value of derivative instruments. The fair value of derivative instruments was negative at March 31, 2016 and 2015.

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.

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

	<b>March 31,</b>			<b>Change</b>	
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>From 2015 to 2016</b>	<b>From 2014 to 2015</b>
Sales volumes (MMBtu's)	2,554,428	2,994,640	3,241,772	(440,212)	(247,132)
Operating revenues	\$ 8,141,710	\$ 12,845,617	\$ 15,260,963	\$ (4,703,907)	\$ (2,415,346)
Operating expenses	8,035,399	12,672,700	15,031,736	(4,637,301)	(2,359,036)
Operating income	106,311	172,917	229,227	(66,606)	(56,310)
Net nonoperating revenues	226,076	165,403	750,689	60,673	(585,286)
Change in net position	\$ 332,387	\$ 338,320	\$ 979,916	\$ (5,933)	\$ (641,596)

The fluctuation in sales volumes results from changes in demand primarily driven by weather conditions and changes in members and non-members. One member of NPGA stopped purchasing natural gas from NPGA effective April 1, 2015. The change in members along with decreased demand overall and lower natural gas prices resulted in decreased operating revenues and expenses in 2016. The decrease in 2015 related to decreased demand and lower natural gas prices compared to 2014.

Fluctuations in net nonoperating revenues relate primarily to gas supply termination distributions received, which vary annually.

***General Trends and Significant Events***

Nationally, wholesale natural gas market spot prices were lower for each month of fiscal year 2016 compared to the same month of fiscal year 2015. 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.

As of March 31, 2016, working gas in underground storage levels are above storage levels at the same time last year and above the five year average. Record production and the overall mild winter weather conditions in 2016 and 2015 contributed to storage being at acceptable levels. Adequate supply is expected with the improvements in technology resulting in more gas production with less drilling in the future. With the abundance of available shale gas in the United States, supply is expected to outpace demand in fiscal year 2017. Natural gas prices are expected to hold steady this summer and only rise slightly for the winter months.

***Risk Management Practices***

NPGA is subject to various risks inherent in the natural gas business, including market risk, operating risk, regulatory and political risks, credit risk and interest risk.

NPGA has entered into hedging arrangements extending into fiscal year 2017 as part of NPGA's gas purchasing strategy to reduce market risk. NPGA will continue to evaluate hedging opportunities to reduce price risk for members and non-members.

### ***Report Purpose and Contact Information***

This financial report is designed to provide member municipalities, other non-member participants and counterparties with a general overview of NPGA's financial status for the fiscal years 2016, 2015 and 2014. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Accounting at 8377 Glynoaks Dr., Lincoln, Nebraska 68516.

# National Public Gas Agency

## Balance Sheets

March 31, 2016 and 2015

<b>Assets and Deferred Outflows of Resources</b>	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,543,177	\$ 2,663,408
Short-term investments	2,476,566	2,350,611
Accounts receivable	1,002,850	1,592,335
Gas production, purchase and storage	258,756	201,938
Prepaid expenses	16,511	23,433
Total current assets	<u>6,297,860</u>	<u>6,831,725</u>
<b>Noncurrent Assets</b>		
Long-term investments	<u>2,103,286</u>	<u>1,600,613</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from derivative instruments	<u>171,000</u>	<u>526,000</u>
Total assets and deferred outflows of resources	<u>\$ 8,572,146</u>	<u>\$ 8,958,338</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 611,736	\$ 965,406
Due to coalition members	<u>56,167</u>	<u>66,076</u>
Total current liabilities	<u>667,903</u>	<u>1,031,482</u>
<b>Noncurrent Liabilities</b>		
Fair value of derivative instruments	<u>171,000</u>	<u>526,000</u>
<b>Net Position</b>		
Unrestricted	<u>7,733,243</u>	<u>7,400,856</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,572,146</u>	<u>\$ 8,958,338</u>

**National Public Gas Agency**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended March 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenue</b>		
Gas supply	\$ 8,141,710	\$ 12,845,617
<b>Operating Expenses</b>		
Cost of gas sold	7,317,187	11,911,118
Administrative and general	<u>718,212</u>	<u>761,582</u>
Total operating expenses	<u>8,035,399</u>	<u>12,672,700</u>
<b>Operating Income</b>	<u>106,311</u>	<u>172,917</u>
<b>Nonoperating Revenues (Expenses)</b>		
Gas supply termination distributions	168,924	107,768
Investment income	<u>57,152</u>	<u>57,635</u>
Net nonoperating revenues	<u>226,076</u>	<u>165,403</u>
<b>Increase in Net Position</b>	332,387	338,320
<b>Net Position, Beginning of Year</b>	<u>7,400,856</u>	<u>7,062,536</u>
<b>Net Position, End of Year</b>	<u><u>\$ 7,733,243</u></u>	<u><u>\$ 7,400,856</u></u>

**National Public Gas Agency**  
**Statements of Cash Flows**  
**Years Ended March 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Cash received from members and customers	\$ 10,754,676	\$ 15,379,591
Cash paid to suppliers	(9,805,173)	(14,607,299)
Cash paid to coalition members	(667,182)	(716,920)
	<u>282,321</u>	<u>55,372</u>
<b>Net cash provided by operating activities</b>		
<b>Noncapital Financing Activities</b>		
Gas supply termination distributions	168,924	107,768
	<u>168,924</u>	<u>107,768</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Investing Activities</b>		
Proceeds from sales and maturities of investments	2,350,000	2,000,000
Purchases of investments	(2,975,000)	(2,750,000)
Interest received on investments	53,524	54,340
	<u>(571,476)</u>	<u>(695,660)</u>
<b>Net cash used in investing activities</b>		
<b>Decrease in Cash and Cash Equivalents</b>	(120,231)	(532,520)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,663,408</u>	<u>3,195,928</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,543,177</u>	<u>\$ 2,663,408</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>		
Operating Income	\$ 106,311	\$ 172,917
Changes in operating assets and liabilities		
Accounts receivable	589,485	(9,795)
Gas production, purchase and storage	(56,818)	64,288
Prepaid expenses	6,922	(1,626)
Accounts payable and accrued expenses	(353,670)	(173,082)
Due to coalition members, net	(9,909)	2,670
	<u>282,321</u>	<u>55,372</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 282,321</u>	<u>\$ 55,372</u>

# **National Public Gas Agency**

## **Notes to Financial Statements**

### **March 31, 2016 and 2015**

#### **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 (NMPP), 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 Licensees 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 GASB Codification Section Re10, *Regulated Operations*, 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.

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

**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, 2016, there were no cash equivalents. At March, 31, 2015, 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, 2016 and 2015, as there were no delinquent accounts.

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

**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, 2016 and 2015.

***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, 2016 and 2015 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.

# National Public Gas Agency

## Notes to Financial Statements

March 31, 2016 and 2015

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

#### *Rates and Charges*

NPGA annually determines its wholesale gas supply rates and charges 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. 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.

#### *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.

### 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. At March 31, 2016, NPGA's deposits exceeded FDIC insurance limits and pledged government securities by approximately \$37,000. NPGA's deposits were covered by FDIC insurance and pledged government securities at March 31, 2015.

#### *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.

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

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

***Investments - Continued***

At March 31, 2016 and 2015, NPGA had the following investments, maturities, and credit ratings:

	Fair Value	Maturities in Years		Credit Rating Moody's/S&P
		Less Than 1	1-5	
<b>March 31, 2016</b>				
Negotiable certificates of deposits	\$ 4,579,852	\$ 2,476,566	\$ 2,103,286	Not Rated
<b>March 31, 2015</b>				
Money market mutual funds -				
US agencies	\$ 5,000	\$ 5,000	\$ -	Aaa-mf/AAAm
Negotiable certificates of deposits	3,951,224	2,350,611	1,600,613	Not Rated
	<u>\$ 3,956,224</u>	<u>\$ 2,355,611</u>	<u>\$ 1,600,613</u>	

***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. All investments are held in safekeeping in NPGA's name, in a broker account with the Agency's primary financial institution.

***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. As of March 31, 2016 and 2015, each of NPGA's investments in negotiable certificates of deposit were covered by FDIC insurance, as the individual investments did not exceed \$250,000, and were therefore also 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.

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

**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, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Deposits	\$ 2,543,177	\$ 2,658,408
Investments	<u>4,579,852</u>	<u>3,956,224</u>
	<u>\$ 7,123,029</u>	<u>\$ 6,614,632</u>

Included in the following balance sheet captions:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,543,177	\$ 2,663,408
Short-term investments	2,476,566	2,350,611
Long-term investments	<u>2,103,286</u>	<u>1,600,613</u>
	<u>\$ 7,123,029</u>	<u>\$ 6,614,632</u>

***Investment Return***

Investment return for the years ended March 31, 2016 and 2015, consisted of interest income and the net change in fair value of investments of \$57,152 and \$57,635, respectively.

**Note 3: Credit Facilities**

NPGA had no active credit facilities during the year ended March 31, 2016. NPGA terminated a \$2,000,000 revolving line of credit on November 30, 2014, which included a \$300,000 standby letter of credit that reduced the amount available under NPGA's revolving line of credit. During the year ended March 31, 2015, no funds were advanced against the line.

**Note 4: Transactions with Coalition Members**

NPGA, NMPP, 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 \$620,000 and \$660,000 for administrative services and rents provided by coalition members during 2016 and 2015.

At March 31, 2016 and 2015, amounts due to coalition members consisted of \$52,982 and \$61,420 payable to NMPP and \$3,185 and \$4,656 payable to MEAN, respectively.

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

**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 Codification Section D40, *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.

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, 2016 and 2015, 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 \$355,000 for 2016 and a decrease of \$558,000 for 2015. The change in fair value is reflected within deferred outflows from derivative instruments in 2016 and 2015.

During 2016 and 2015, NPGA had pay-fixed, receive variable commodity swaps 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. As of March 31, 2016 and 2015, the counterparty was rated A by Standard & Poor's and Baa1 by Moody's Investors Service.

The fair value of NPGA's derivative instruments at March 31, 2016 and 2015 is \$(171,000) and \$(526,000), respectively.

A summary of objectives and terms of NPGA's derivative instruments at March 31, 2016, (all contracts are structured with a quantity of 10,000 MMBtu's per contract) follows:

<b>March 31, 2016</b>			
<b>Notional Amount (# of contracts)</b>	<b>Effective Date</b>	<b>Termination Date</b>	<b>Fixed Price per MMBtu</b>
<b>Cash Flow Hedges:</b>			
	Monthly starting	Monthly through	
10	5/1/2016	2/28/2017	\$2.370
8	5/1/2016	12/31/2016	\$2.565
7	5/1/2016	11/30/2016	\$2.770
6	5/1/2016	10/31/2016	\$2.835
4	5/1/2016	8/31/2016	\$2.880
3	5/1/2016	7/31/2016	\$3.065
1	5/1/2016	5/31/2016	\$2.990

**National Public Gas Agency**  
**Notes to Financial Statements**  
**March 31, 2016 and 2015**

**Note 5: Derivative Instruments – Continued**

***Objectives and Terms of Derivative Instruments – Continued***

A summary of objectives and terms of NPGA’s derivative instruments at March 31, 2015, (all contracts are structured with a quantity of 10,000 MMBtu’s per contract) follows:

March 31, 2015			
Notional Amount (# of contracts)	Effective Date	Termination Date	Fixed Price per MMBtu
<b>Cash Flow Hedges:</b>			
	Monthly starting	Monthly through	
11	5/1/2015	3/31/2016	\$3.535
9	5/1/2015	1/31/2016	\$3.465
8	5/1/2015	12/31/2015	\$3.290
7	5/1/2015	11/30/2015	\$3.755
6	5/1/2015	10/31/2015	\$3.935
4	5/1/2015	8/31/2015	\$3.930
3	5/1/2015	7/31/2015	\$4.135
2	5/1/2015	6/30/2015	\$4.510
1	11/1/2015	11/30/2015	\$7.400
1	12/1/2015	12/31/2015	\$7.950

**Credit risk** – At March 31, 2016 and 2015, NPGA was not exposed to credit risk for swaps that had a negative fair value. NPGA reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents.

**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.

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**Note 6: Gas Supply**

Gas supply for the years ended March 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Members	\$ 5,332,218	\$ 7,539,108
Non-members	<u>2,809,492</u>	<u>5,306,509</u>
	<u>\$ 8,141,710</u>	<u>\$ 12,845,617</u>

NPGA has agreements with various parties, including 11 and 12 member participants during 2016 and 2015, respectively, to provide for the sale of natural gas to the parties under various terms and rate schedules.

**Note 7: Natural Gas Costs and Commitments**

Cost of gas sold for the years ended March 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Purchased gas	\$ 5,962,589	\$ 10,744,690
Production	442,749	819,852
Commodity swaps, net	805,799	238,886
Transportation	<u>106,050</u>	<u>107,690</u>
	<u>\$ 7,317,187</u>	<u>\$ 11,911,118</u>

***Purchased Gas***

NPGA's natural gas requirements are purchased through contracts with various natural gas suppliers. 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.

***Production***

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. During the years ended March 31, 2016 and 2015, NPGA purchased approximately 200,000 MMBtu and approximately 220,000 MMBtu, respectively.

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**Note 7: Natural Gas Costs and Commitments – Continued**

***Commodity Swaps***

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. The amount included above represents the net cost of commodity swaps settled.

***Transportation***

NPGA contracts with certain interstate pipeline suppliers for the transportation and storage of its natural gas requirements. NPGA has also contracted to collect payments for transportation of natural gas on behalf of certain members and customers and remits these payments to the respective interstate pipeline supplier. Since NPGA is only acting as an agent, these amounts are not reflected as revenue or expense in the statements of revenues, expenses and changes in net position. The transportation purchased by the members and customers, that NPGA was responsible for collecting and remitting to the respective transportation suppliers, totaled approximately \$2,023,000 and \$2,544,000 during 2016 and 2015, respectively.

**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, 2016 and 2015, approximately \$324,000 or 32% and \$483,000 or 30%, respectively, of total accounts receivable were owed by two customers.

For the year ended March 31, 2016 and 2015, approximately \$3,467,000 or 43% and \$5,087,000 or 40%, respectively, of total gas commodity sales were to two customers.