

National Public Gas Agency

Accountants' Report and Financial Statements

March 31, 2010 and 2009



National Public Gas Agency
March 31, 2010 and 2009

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**Independent Accountants' Report on Financial Statements
and Supplementary Information**

Board of Directors
National Public Gas Agency
Lincoln, Nebraska

We have audited the accompanying balance sheets of National Public Gas Agency ("NPGA") as of March 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of NPGA's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

June 3, 2010

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, 2010, 2009 and 2008. Please read this information 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, 2010, 2009 and 2008.

Condensed Balance Sheets

	March 31,			Change 2010 to 2009	Change 2009 to 2008
	2010	2009	2008		
Assets					
Current assets	\$ 7,183,039	\$ 9,741,009	\$ 20,260,841	\$ (2,557,970)	\$(10,519,832)
Capital assets	186	293	-	(107)	293
Total assets	<u>\$ 7,183,225</u>	<u>\$ 9,741,302</u>	<u>\$ 20,260,841</u>	<u>\$ (2,558,077)</u>	<u>\$(10,519,539)</u>
Liabilities					
Current liabilities	\$ 2,953,994	\$ 4,223,375	\$ 12,919,025	\$ (1,269,381)	\$ (8,695,650)
Long-term liabilities	438,716	1,035,868	2,222,865	(597,152)	(1,186,997)
Total liabilities	<u>3,392,710</u>	<u>5,259,243</u>	<u>15,141,890</u>	<u>(1,866,533)</u>	<u>(9,882,647)</u>
Net Assets					
Invested in capital assets, net of related debt	186	293	-	(107)	293
Unrestricted	<u>3,790,329</u>	<u>4,481,766</u>	<u>5,118,951</u>	<u>(691,437)</u>	<u>(637,185)</u>
Total liabilities and net assets	<u>\$ 7,183,225</u>	<u>\$ 9,741,302</u>	<u>\$ 20,260,841</u>	<u>\$ (2,558,077)</u>	<u>\$(10,519,539)</u>

2010 Financial Highlights

- The decrease in current assets was primarily the result of a distribution to NPGA members who exercised the procedure for early termination of membership.
- The decrease in current liabilities was the result of a lower accrual for natural gas purchases at March 31, 2010.
- The decrease in long term liabilities results from the transfer from the deferred revenue rate stabilization account to recognize the margins associated with the terminated Gas Supply Agreements (GSA) between NPGA and American Public Energy Agency (APEA).

2009 Financial Highlights

- The decrease in current assets and current liabilities is the result of lower gas prices in 2009.
- The decrease in long term liabilities results from the transfer from the deferred revenue rate stabilization account to recognize the margins associated with the terminated Gas Supply Agreements (GSA) between NPGA and American Public Energy Agency (APEA).

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>March 31,</u>			<u>Change</u>	<u>Change</u>
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>
				<u>to 2009</u>	<u>to 2008</u>
Sales units (Mmbtu's)	<u>4,591,744</u>	<u>8,910,392</u>	<u>11,407,739</u>	<u>(4,318,648)</u>	<u>(2,497,347)</u>
Operating revenues	<u>\$24,523,222</u>	<u>\$ 64,176,612</u>	<u>\$79,600,239</u>	<u>\$(39,653,390)</u>	<u>\$(15,423,627)</u>
Operating expenses	<u>25,009,743</u>	<u>66,530,230</u>	<u>80,677,418</u>	<u>(41,520,487)</u>	<u>(14,147,188)</u>
Operating loss	<u>(486,521)</u>	<u>(2,353,618)</u>	<u>(1,077,179)</u>	<u>1,867,097</u>	<u>(1,276,439)</u>
Nonoperating revenues	<u>1,794,976</u>	<u>1,716,726</u>	<u>2,161,011</u>	<u>78,250</u>	<u>(444,285)</u>
Distributions under Mutual Release	<u>(1,999,999)</u>	<u>-</u>	<u>-</u>	<u>(1,999,999)</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (691,544)</u>	<u>\$ (636,892)</u>	<u>\$ 1,083,832</u>	<u>\$ (54,652)</u>	<u>\$ (1,720,724)</u>

2010 Financial Highlights

Operating Volumes:

- The sales volumes were lower from fiscal 2009 as NPGA remarketed all volumes associated with the prepay transaction. The lower volumes were associated with the four members who exercised early termination of membership during fiscal 2010.

Operating Loss:

- The decrease in operating loss was due to lower administrative and general expenses.

Nonoperating Revenues:

- The increase in non operating revenues was the result of a refund received by NPGA that was being held on bond at the Nebraska Supreme Court.

Distributions under Mutual Release:

- In 2010, NPGA made a distribution to members who exercised the procedure for early termination of membership.

2009 Financial Highlights

Operating Volumes:

- The sales volumes were lower in 2009 compared to 2008 as NPGA remarketed a portion of gas volumes associated with the Gas Supply Agreements.

Operating Loss:

- The increase in operating loss was due to higher administrative and general expenses.

Nonoperating Revenues:

- The decrease in nonoperating revenues was the result of lower interest rates received on money invested and a decrease in revenues transferred from the deferred revenue rate stabilization account.

General Trends and Significant Events

Industry Trends: In spite of a relatively cold winter, national demand for natural gas was significantly lower during FY 2009/10 due to reduced economic activity. This has created national storage levels that are significantly higher than normal. These relatively high levels of storage gas created low spot market prices for gas throughout the past year. As a result, NPGA's costs and subsequent rates for both members and non-members were at levels not seen since FY 2004/05. NPGA staff anticipates that unless a significant improvement in the economy and an increase in industrial demand for natural gas occurs, that prices for natural gas during the upcoming fiscal year will be attractive.

Hedging Strategies: NPGA was very conservative with their hedging the past year in response to weak market conditions. NPGA will continue to utilize a hedging committee to provide input into current and future hedging activities. Both the NPGA Board of Directors and the gas hedging committee are interested in entering into some hedges longer than the 12 month hedges NPGA has historically utilized.

Future Gas Supplies: Current opportunities for prepaid gas supplies continue to appear to be limited due to strain in the outside financial markets. However, NPGA will continue to evaluate any long-term supply programs that may create value for NPGA communities. In the near term, NPGA will rely on spot market purchases to fulfill community 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 municipalities and groups of municipalities are considered to be keys to our success.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about NPGA's financial position and activities. The balance sheets present NPGA's assets, liabilities and net assets. The statements of revenues, expenses and changes in net assets present NPGA's operating results and changes in net assets. 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, Finance and Accounting at the address shown below.

National Public Gas Agency
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National Public Gas Agency
Balance Sheets
March 31, 2010 and 2009

Assets	2010	2009
Current Assets		
Cash and cash equivalents	\$ 2,360,000	\$ 5,345,282
Short-term investments	1,901,631	-
Accounts receivable	2,790,659	4,354,708
Gas production, purchase and storage	<u>130,749</u>	<u>41,019</u>
Total current assets	<u>7,183,039</u>	<u>9,741,009</u>
Property and equipment, net of accumulated depreciation of \$63,289 and \$63,182 in 2010 and 2009, respectively	<u>186</u>	<u>293</u>
Total assets	<u>\$ 7,183,225</u>	<u>\$ 9,741,302</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,282,928	\$ 2,823,779
Due to coalition members	73,915	212,599
Deferred revenue rate stabilization	<u>597,151</u>	<u>1,186,997</u>
Total current liabilities	2,953,994	4,223,375
Deferred Revenue Rate Stabilization	<u>438,716</u>	<u>1,035,868</u>
Total liabilities	<u>3,392,710</u>	<u>5,259,243</u>
Net Assets		
Invested in capital assets, net of related debt	186	293
Unrestricted	<u>3,790,329</u>	<u>4,481,766</u>
Total net assets	<u>3,790,515</u>	<u>4,482,059</u>
Total liabilities and net assets	<u>\$ 7,183,225</u>	<u>\$ 9,741,302</u>

National Public Gas Agency
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenue		
Gas supply	\$ 24,523,222	\$ 64,176,612
Operating Expenses		
Cost of gas sold	24,014,547	63,650,241
Administrative and general	995,196	2,879,989
Total operating expenses	<u>25,009,743</u>	<u>66,530,230</u>
Operating Loss	<u>(486,521)</u>	<u>(2,353,618)</u>
Nonoperating Revenues		
Gas supply termination distributions	169,796	310,415
Credit from rate stabilization fund	1,186,997	1,261,870
Investment income	51,460	144,441
Other	386,723	-
Net nonoperating revenues	<u>1,794,976</u>	<u>1,716,726</u>
Income (Loss) Before Distributions under Mutual Release	1,308,455	(636,892)
Distributions under Mutual Release	<u>(1,999,999)</u>	<u>-</u>
Decrease in Net Assets	(691,544)	(636,892)
Net Assets, Beginning of Year	<u>4,482,059</u>	<u>5,118,951</u>
Net Assets, End of Year	<u>\$ 3,790,515</u>	<u>\$ 4,482,059</u>

National Public Gas Agency
Statements of Cash Flows
Years Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Cash received from customers	\$ 26,086,312	\$ 71,735,999
Cash paid to suppliers and employees	(24,805,802)	(74,058,297)
Cash paid to coalition members	(973,099)	(986,449)
	<u>307,411</u>	<u>(3,308,747)</u>
Capital and Related Financing Activities		
Purchase of property and equipment	-	(320)
	<u>-</u>	<u>(320)</u>
Noncapital Financing Activities		
Gas supply termination distributions	169,796	310,415
Distributions under mutual release	(1,999,999)	-
Other	386,723	-
	<u>(1,443,480)</u>	<u>310,415</u>
Investing Activities		
Proceeds from sales and maturities of investments	700,000	2,996,700
Purchases of investments	(2,600,000)	-
Interest received on investments	50,787	187,477
	<u>(1,849,213)</u>	<u>3,184,177</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,985,282)	185,525
Cash and Cash Equivalents, Beginning of Year	<u>5,345,282</u>	<u>5,159,757</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,360,000</u>	<u>\$ 5,345,282</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (486,521)	\$ (2,353,618)
Depreciation	107	27
Changes in operating assets and liabilities		
Accounts receivable	1,563,090	7,559,387
Gas production, purchase and storage	(89,730)	93,440
Accounts payable and accrued expenses	(540,851)	(8,826,794)
Due to coalition members, net	(138,684)	218,811
	<u>307,411</u>	<u>(3,308,747)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 307,411</u>	<u>\$ (3,308,747)</u>

National Public Gas Agency

Notes to Financial Statements

March 31, 2010 and 2009

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. NPGA was enacted 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, Iowa, Kansas, Wisconsin, Minnesota, Missouri 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.

Accounting Methods

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’s accounting policies also conform to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations* (formerly FASB Statement No. 71). Accordingly, certain transactions that result from the rate-making process are recorded that would not be recorded under accounting principles generally accepted in the United States of America for nonregulated entities.

NPGA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, NPGA has elected to apply the provisions of all relevant pronouncements of the FASB that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements.

National Public Gas Agency
Notes to Financial Statements
March 31, 2010 and 2009

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 and liabilities 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 assets 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, 2010 and 2009, cash equivalents consisted primarily of money market funds invested in government securities.

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, 2010 and 2009, as there were no delinquent accounts.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided based on estimated useful lives (five years) on a straight-line basis.

National Public Gas Agency

Notes to Financial Statements

March 31, 2010 and 2009

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

Deferred Revenue Rate Stabilization

NPGA's Board of Directors established a deferred revenue account to recognize margins associated with terminated Gas Supply Agreements (GSA's). In accordance with accounting standards on *Regulated Operations*, certain revenue items which would normally be recognized during the current period are deferred and not included in the determination of net income until certain margins from terminated GSA's would have been recognized.

Net Asset Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, and costs to be recovered from future revenues 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Classification of Revenues

Operating revenues include revenues resulting from the purchase and delivery of gas supplies to 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. The financial statements do not reflect any of these instruments as assets or liabilities, and changes in fair value are not reflected in changes in financial position. Income or loss on purchase or sale agreements are recognized according to contract terms. Additional information regarding these instruments is shown in Note 5.

National Public Gas Agency

Notes to Financial Statements

March 31, 2010 and 2009

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

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.

Distributions under Mutual Release

In 2010, NPGA made a distribution of \$1,999,999 to members who exercised the procedure for early termination of membership.

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. At March 31, 2010 and 2009, none of NPGA's deposits exceeded federally insured limits.

National Public Gas Agency
Notes to Financial Statements
March 31, 2010 and 2009

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

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 Chief Executive Officer.

At March 31, 2010 and 2009, 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	
March 31, 2010				
Money market mutual funds -				
US agencies	\$ 2,360,000	\$ 2,360,000	\$ -	Aaa/AAA
Negotiable certificates of deposits	1,901,631	1,401,448	500,183	Not Rated
	<u>\$ 4,261,631</u>	<u>\$ 3,761,448</u>	<u>\$ 500,183</u>	
March 31, 2009				
Money market mutual funds -				
US agencies	\$ 5,335,000	\$ 5,335,000	\$ -	Aaa/AAA
	<u>\$ 5,335,000</u>	<u>\$ 5,335,000</u>	<u>\$ -</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.

National Public Gas Agency
Notes to Financial Statements
March 31, 2010 and 2009

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

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 in money market mutual funds and negotiable certificates of deposit at March 31, 2010, are held in a book entry system in an account designated as a customer account at the Depository Trust Company and the custodian's internal records identifies NPGA as owner.

Concentration of Credit Risk - 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% are shown below:

	Portfolio Composition	
	March 31,	
	2010	2009
Negotiable Certificates of Deposits		
Midfirst Bank Oklahoma City, OK	5.87 %	-
Cathay Bank Los Angeles, CA	5.87	-

All of the money market mutual funds held at March 31, 2010 and 2009 are invested with NPGA's primary financial depository. This financial depository is also the writer on the revolving line of credit discussed in Note 3.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at March 31, 2010 and 2009 as follows:

	2010	2009
Deposits	\$ -	\$ 10,282
Investments	4,261,631	5,335,000
	<u>\$ 4,261,631</u>	<u>\$ 5,345,282</u>

National Public Gas Agency
Notes to Financial Statements
March 31, 2010 and 2009

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

Included in the following balance sheet captions:

	2010	2009
Cash and cash equivalents	\$ 2,360,000	\$ 5,345,282
Short-term investments	1,901,631	-
	\$ 4,261,631	\$ 5,345,282

Investment Income

Investment income for the years ended March 31, 2010 and 2009, consisted of interest income of \$51,460 and \$144,441, respectively.

Note 3: Credit Facility

NPGA has a \$2,000,000 revolving line of credit expiring November 30, 2010. During the years ended March 31, 2010 and 2009, no funds were advanced against the line. Interest varies at two percent (2%) above the One Month LIBOR in effect from time to time and is payable monthly.

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 \$830,000 and \$1,170,000 for administrative services and rents provided by coalition members during 2010 and 2009, respectively. Included in these administrative service charges, are litigation costs which relate primarily to POOL, for which the coalition members have agreed to cost-sharing among the group. In addition to allocated litigation costs, NPGA agreed to pay settlement and associated litigation expenses in fiscal 2009 of approximately \$1,500,000, included in administrative and general expenses. During 2010, NPGA was refunded approximately \$340,000, which is included in other nonoperating revenues, as a result of a reversal of a previous judgment related to POOL's litigation.

At March 31, 2010 and 2009, amounts due to coalition members consisted of \$68,906 and \$209,594 payable to POOL and \$5,009 and \$3,005 payable to MEAN, respectively.

National Public Gas Agency
Notes to Financial Statements
March 31, 2010 and 2009

Note 5: Derivative Instruments

NPGA enters into commodity swap agreements for natural gas with a national energy corporation, to hedge its exposure to market price fluctuations for a portion of its gas purchase requirements. At March 31, 2010, NPGA had up to three contracts expiring monthly through March 2011. In 2010 and 2009, NPGA also entered into commodity swap agreements with a financial institution to hedge its exposure to market price fluctuations for a portion of its gas purchase requirements. NPGA had no outstanding contracts with this financial institution at March 31, 2010.

Commodity Swap Agreements

Objective of the swap - NPGA is exposed to market price fluctuations on its purchase of natural gas. NPGA uses derivatives - commodity swaps - to reduce its exposure to such fluctuations and thereby control variability in rates charged to NPGA members and other customers.

Terms - NPGA enters into commodity swap agreements to fix approximately one half of the gas supply to the NPGA members and other customers. The current actively traded contracts terminate monthly through March 2011 with each initial contract size of 10,000 Mmbtus per month. Payments between the swap counterparty and NPGA are based on the New York Mercantile Exchange Natural Gas (NYMEX) monthly settlement prices for the contractual month.

Fair value - As of March 31, 2010, the outstanding commodity swap contracts remaining had a negative fair value of approximately \$280,000. Fair value was estimated using the NYMEX Natural Gas forward prices for the contractual month. The fair value of the swap agreements is not recognized in NPGA's financial statements. NPGA was required to obtain a \$300,000 letter of credit and is required to post cash collateral for exposure over the letter of credit. At March 31, 2010, NPGA had no cash collateral posted with the counterparty.

Credit risk - As of March 31, 2010, NPGA was not exposed to credit risk because the swap had a negative fair value. However, should implied forward prices increase and the fair value of the swap becomes positive, NPGA would be exposed to credit risk on the swap in the amount of its fair value.

Termination risk - NPGA or the counterparty may terminate the swap if either party fails to perform as outlined in the terms of the contract. If the 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 Master Over-the-Counter Products Agreement.

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Note 6: Gas Purchase and Sales Agreements

Purchase Agreements

In 2009, NPGA purchased a significant amount of its gas supply from American Public Energy Agency (APEA) under a GSA. The GSA provided that NPGA would purchase a specified volume of natural gas at a specific index price less a discount from such index price on a monthly basis. NPGA paid \$23,155,386 for 2,693,875 Mmbtu of natural gas under the GSA in 2009.

Effective April 2009, NPGA provided notice and exercised their right for APEA to remarket 100% of the remaining volumes to be delivered under the GSA.

Sales Agreements

NPGA has agreements with various parties, including 14 member participants, to provide for the sale of gas to the parties under various terms and rate schedules.

Note 7: 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 8: 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, 2010 and 2009, approximately \$1,730,000 or 62% and \$2,071,000 or 48% of total accounts receivable were owed by four and three customers, respectively.

For the year ended March 31, 2010, approximately \$10,998,000 or 44% of total gas commodity sales were to three customers. For the year ended March 31, 2009, approximately \$30,281,000 or 47% of total gas commodity sales were to three customers.

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Note 8: Significant Estimates and Concentrations - Continued

Current Economic Conditions

The current protracted economic decline continues to present public agencies with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to NPGA.

Although NPGA has not currently identified any specific circumstances which would cause the difficulties noted above, economic conditions could make it difficult for consumers to maintain demand and usage levels, which could have an adverse impact on the future operating results of NPGA.