National Public Gas Agency

Independent Auditor's Report and Financial Statements

March 31, 2018 and 2017

NPGA®

NATIONAL PUBLIC GAS AGENCY

National Public Gas Agency
March 31, 2018 and 2017

Contents

BKD LLP
CPAs & Advisors
1248 "O" Street, Suite 1040 // Lincoln, NE 68508-1461
402.473.7600 // fax 402.473.7698 // bkd.com

Independent Auditor's Report

Board of Directors
National Public Gas Agency
Lincoln, Nebraska

We have audited the accompanying financial statements of National Public Gas Agency, as of and for the years ended March 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise National Public Gas Agency's 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, 2018 and 2017, and the changes in financial position and 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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
May 24, 2018

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, 2018, 2017 and 2016. 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.

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, 2018, 2017 and 2016.

Condensed Balance Sheets and Financial Highlights

	March 31, 2018	March 31, 2017	March 31, 2016	Change From 2017 to 2018	Change From 2016 to 2017
Assets and Deferred Outflows of Resources					
Current assets	$ 6,273,452	$ 6,116,215	$ 6,297,860	$ 157,237	$ (181,645)
Noncurrent assets	2,732,018	2,544,507	2,103,286	187,511	441,221
Deferred outflows of resources	45,000	-	171,000	45,000	(171,000)
Total assets and deferred outflows of resources	$ 9,050,470	$ 8,660,722	$ 8,572,146	$ 389,748	$ 88,576
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 1,119,243	$ 620,281	$ 667,903	$ 498,962	$ (47,622)
Noncurrent liabilities	45,000	-	171,000	45,000	(171,000)
Deferred inflows of resources	-	103,000	-	(103,000)	103,000
Net position - unrestricted	7,886,227	7,937,441	7,733,243	(51,214)	204,198
Total liabilities, deferred inflows of resources, and net position	$ 9,050,470	$ 8,660,722	$ 8,572,146	$ 389,748	$ 88,576

Current assets increased at March 31, 2018 due primarily to an increase in accounts receivable. The decrease in current assets at March 31, 2017 resulted from decreases in both volumes of gas in storage and cost per MMBtu.

Noncurrent assets increased in 2018 and 2017 as additional funds were available for investment.

Noncurrent assets and noncurrent liabilities are also impacted by the volume of and changes in the fair value of derivative instruments. The fair value of derivative instruments was positive at March 31, 2017 resulting in a noncurrent asset. The fair value of derivative instruments was negative at March 31, 2018 and 2016 resulting in a noncurrent liability in each year.

Deferred outflows of resources and deferred inflows of resources also fluctuate annually as a result of the volume of and changes in the fair value of derivative instruments. The deferred outflows of resources as of March 31, 2018 and 2016 result from the negative fair value of cash flow hedges. The deferred inflows of resources as of March 31, 2017 result from the positive fair value of cash flow hedges.

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

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

	March 31, 2018	2017	2016	Change From 2017 to 2018	Change From 2016 to 2017
Sales volumes (MMBtu's)	2,599,684	2,484,060	2,554,428	115,624	(70,368)
Operating revenues	$ 7,746,640	$ 7,636,044	$ 8,101,553	$ 110,596	$ (465,509)
Operating expenses	7,860,763	7,606,139	7,995,242	254,624	(389,103)
Operating income (loss)	(114,123)	29,905	106,311	(144,028)	(76,406)
Total nonoperating revenues	62,909	174,293	226,076	(111,384)	(51,783)
Change in net position	$ (51,214)	$ 204,198	$ 332,387	$ (255,412)	$ (128,189)

The fluctuation in sales volumes results from changes in demand primarily driven by weather conditions and changes in members and non-members. The increase in operating revenues and operating expenses in 2018 related to increased demand compared to 2017. The decrease in operating revenues and operating expenses in 2017 related to decreased demand and lower natural gas prices compared to 2016.

The operating loss incurred in 2018 resulted from a decision by the NPGA Board of Directors to utilize cash on hand to cover current year operating costs. NPGA had collected operating revenues in excess of operating costs in both 2017 and 2016.

Fluctuations in total nonoperating revenues relate primarily to gas supply termination distributions received, which vary annually. The gas supply termination distribution received in 2017 was the final payment under the related agreement. Total nonoperating revenues in 2018 consist solely of investment income.

General Trends and Significant Events

Nationally, wholesale natural gas market monthly spot prices were generally higher in the first half of the fiscal year 2018 and generally lower through the last half of the fiscal year 2018 compared to the same months of fiscal year 2017. Prices remain low compared to historical pricing due to a 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, 2018, working gas in underground storage levels have declined compared to storage levels at the same time last year and are slightly below the five year average. Record production in recent years coupled with changes in demand for natural gas 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 rebound and be sufficient to meet demand in fiscal year 2019. Based on the NYMEX forward curve, natural gas prices are expected to hold steady this summer and only rise slightly, if any, 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 2019 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 2018, 2017 and 2016. 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, 2018 and 2017

Assets and Deferred Outflows of Resources	2018	2017
Current Assets		
Cash and cash equivalents	$ 2,295,370	$ 2,406,600
Short-term investments	2,691,262	2,601,831
Accounts receivable	1,124,177	982,906
Gas in storage	160,213	118,171
Prepaid expenses	2,430	6,707
Total current assets	6,273,452	6,116,215
Noncurrent Assets		
Long-term investments	2,732,018	2,441,507
Fair value of derivative instruments	-	103,000
Total noncurrent assets	2,732,018	2,544,507
Deferred Outflows of Resources		
Deferred outflows from derivative instruments	45,000	-
Total assets and deferred outflows of resources	$ 9,050,470	$ 8,660,722

Liabilities, Deferred Inflows of Resources and Net Position	2018	2017
Current Liabilities		
Accounts payable and accrued expenses	$ 1,034,851	$ 567,698
Due to coalition members	84,392	52,583
Total current liabilities	1,119,243	620,281
Noncurrent Liabilities		
Fair value of derivative instruments	45,000	-
Deferred Inflows of Resources		
Deferred inflows from derivative instruments	-	103,000
Net Position		
Unrestricted	7,886,227	7,937,441
Total liabilities, deferred inflows of resources, and net position	$ 9,050,470	$ 8,660,722

National Public Gas Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2018 and 2017

	2018	2017
Operating Revenues		
Gas supply	$ 7,744,603	$ 7,633,870
Other	2,037	2,174
Total operating revenues	7,746,640	7,636,044
Operating Expenses		
Cost of gas sold	7,249,819	6,906,925
Administrative and general	610,944	699,214
Total operating expenses	7,860,763	7,606,139
Operating Income (Loss)	(114,123)	29,905
Nonoperating Revenues		
Gas supply termination distributions	-	130,223
Investment income	62,909	44,070
Total nonoperating revenues	62,909	174,293
Increase (Decrease) in Net Position	(51,214)	204,198
Net Position, Beginning of Year	7,937,441	7,733,243
Net Position, End of Year	$ 7,886,227	$ 7,937,441

National Public Gas Agency

Statements of Cash Flows

Years Ended March 31, 2018 and 2017

	2018	2017
Operating Activities		
Cash received from members and customers	$ 9,727,033	$ 9,777,515
Cash paid to suppliers	(8,980,161)	(8,986,828)
Cash paid to coalition members	(541,069)	(638,071)
Net cash provided by operating activities	205,803	152,616
Noncapital Financing Activities		
Gas supply termination distributions	-	130,223
Net cash provided by noncapital financing activities	-	130,223
Investing Activities		
Proceeds from sales and maturities of investments	2,700,000	2,475,000
Purchases of investments	(3,100,000)	(2,950,000)
Interest received on investments	82,967	55,584
Net cash used in investing activities	(317,033)	(419,416)
Decrease in Cash and Cash Equivalents	(111,230)	(136,577)
Cash and Cash Equivalents, Beginning of Year	2,406,600	2,543,177
Cash and Cash Equivalents, End of Year	$ 2,295,370	$ 2,406,600
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities		
Operating Income (Loss)	$ (114,123)	$ 29,905
Changes in operating assets and liabilities		
Accounts receivable	(141,271)	19,944
Gas in storage	(42,042)	140,585
Prepaid expenses	4,277	9,804
Accounts payable and accrued expenses	467,153	(44,038)
Due to coalition members	31,809	(3,584)
Net Cash Provided By Operating Activities	$ 205,803	$ 152,616

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 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.

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, 2018, cash equivalents consisted of a money market mutual fund. At March 31, 2017, there were no cash equivalents.

Investments and Investment Income

Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in 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, 2018 and 2017, as there were no delinquent accounts.

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, 2018 and 2017.

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, 2018 and 2017 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.

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

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 4.

Rates and Charges

NPGA annually determines its wholesale gas supply rates and charges to recover costs of providing natural gas service. 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. The transportation costs and charges incurred by NPGA are for certain members and are charged to the individual 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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no effect on the change in net position.

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 and pledged government securities at March 31, 2018.

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: Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or NPGA Executive Director.

At March 31, 2018 and 2017, NPGA had the following investments, maturities, and credit ratings:

	Carrying Value	Maturities in Years		Credit Rating
		Less Than 1	1-5	Moody's/S&P
March 31, 2018				
Money market mutual fund				
- US government obligations	$ 1,610,000	$ 1,610,000	$ -	Aaa-mf/AAAm
Negotiable certificates of deposits	5,423,280	2,691,262	2,732,018	Not Rated
	$ 7,033,280	$ 4,301,262	$ 2,732,018	
March 31, 2017				
Negotiable certificates of deposits	$ 5,043,338	$ 2,601,831	$ 2,441,507	Not Rated

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 NPGA'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. As of March 31, 2018 and 2017, 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.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets at March 31, 2018 and 2017, as follows:

	2018	2017
Deposits	$ 685,370	$ 2,406,600
Investments	7,033,280	5,043,338
	$ 7,718,650	$ 7,449,938

Included in the following balance sheet captions:

	2018	2017
Cash and cash equivalents	$ 2,295,370	$ 2,406,600
Short-term investments	2,691,262	2,601,831
Long-term investments	2,732,018	2,441,507
	$ 7,718,650	$ 7,449,938

Investment Return

Investment return for the years ended March 31, 2018 and 2017, consisted of interest income and the net change in fair value of investments of $62,909 and $44,070, respectively.

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

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Money market mutual funds are carried at cost, and thus not included within the fair value hierarchy. NPGA's investments in negotiable certificates of deposit are measured at fair value on a recurring basis, and are classified within Level 2 of the fair value hierarchy at March 31, 2018 and 2017.

Note 3: 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 $540,000 and $600,000 for administrative services and rents provided by coalition members during 2018 and 2017.

At March 31, 2018 and 2017, amounts due to coalition members consisted of $82,396 and $50,213 payable to NMPP and $1,996 and $2,370 payable to MEAN, respectively.

Note 4: 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 flow 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, 2018, 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 for the same amount. At March 31, 2017, 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 for the same amount. The change in fair value of cash flow hedges was a decrease of $148,000 for 2018 and an increase of $274,000 for 2017. The change in fair value is reflected within deferred outflows from derivative instruments in 2018 and deferred inflows from derivative instruments in 2017.

During 2018 and 2017, 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, 2018 and 2017, the counterparty was rated A- by Standard & Poor's and A2 by Moody's Investors Service.

The fair value of NPGA's derivative instruments at March 31, 2018 and 2017 is $(45,000) and $103,000, respectively.

A summary of objectives and terms of NPGA's derivative instruments at March 31, 2018, (all contracts are structured with a quantity of 10,000 MMBtu's per contract) follows:

March 31, 2018			
Notional Amount (# of contracts)	**Effective Date**	**Termination Date**	**Fixed Price per MMBtu**
Cash Flow Hedges:			
	Monthly starting	Monthly through	
8	5/1/2018	12/31/2018	$2.745
6	5/1/2018	10/31/2018	$2.995
5	5/1/2018	9/30/2018	$3.060
4	5/1/2018	8/31/2018	$2.955
3	5/1/2018	7/31/2018	$3.080
2	5/1/2018	6/30/2018	$3.165
1	5/1/2018	5/31/2018	$3.355

Note 4: Derivative Instruments – Continued

Objectives and Terms of Derivative Instruments – Continued

A summary of objectives and terms of NPGA's derivative instruments at March 31, 2017, (all contracts are structured with a quantity of 10,000 MMBtu's per contract) follows:

March 31, 2017			
Notional Amount (# of contracts)	**Effective Date**	**Termination Date**	**Fixed Price per MMBtu**
Cash Flow Hedges:			
	Monthly starting	Monthly through	
10	5/1/2017	2/28/2018	$3.300
10	5/1/2017	2/28/2018	$3.010
7	5/1/2017	11/30/2017	$2.845
6	5/1/2017	10/31/2017	$3.135
5	5/1/2017	9/30/2017	$3.125
4	5/1/2017	8/31/2017	$3.115
3	5/1/2017	7/31/2017	$3.085

Credit risk – At March 31, 2018, NPGA was not exposed to credit risk for swaps that had a negative fair value. At March 31, 2017, 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.

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 5: Gas Supply

Gas supply for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Members	$ 4,974,666	$ 4,925,002
Non-members	2,769,937	2,708,868
	$ 7,744,603	$ 7,633,870

NPGA has agreements with various parties, including 11 member participants during both 2018 and 2017, to provide for the sale of natural gas to the parties under various terms and rate schedules.

Note 6: Natural Gas Costs and Commitments

Cost of gas sold for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Purchased gas	$ 6,558,628	$ 6,269,994
Production	539,925	492,012
Commodity swaps, net	53,270	38,951
Transportation	97,996	105,968
	$ 7,249,819	$ 6,906,925

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.

At March 31, 2018, NPGA has a contract with a natural gas supplier to purchase 200 MMBtu per day from November 1, 2018 through March 31, 2019 at a fixed price per MMBtu. The total contract value is approximately $113,000.

Note 6: Natural Gas Costs and Commitments – Continued

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%. The natural gas production sharing agreement obligates NPGA to pay its participation share of all costs incurred by the related gas supply pool until all related debt has been paid and the last volumes have been delivered. Debt is outstanding through 2027. Purchase requirements are subject to production availability. During the years ended March 31, 2018 and 2017, NPGA purchased approximately 228,000 MMBtu and 215,000 MMBtu, respectively.

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 in cost of gas sold 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 entered into an Asset Management Agreement (AMA) with a natural gas supplier resulting in payment and consideration for the release of transportation capacity on an interstate pipeline through March 31, 2019. Payments received under the AMA are netted against the transportation costs incurred. The transportation costs and charges incurred by NPGA are for certain members and are charged to the individual members.

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 $2,179,000 and $2,124,000 during 2018 and 2017, respectively.

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 is named as one of the insureds on joint policies for commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. None of the claims submitted against this commercial coverage in any of the three preceding years were specific to or material to NPGA. All such claims were submitted for losses incurred in the normal course of business.

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, 2018 and 2017, approximately $490,000 or 44% and $333,000 or 34%, respectively, of total accounts receivable were owed by three customers and two customers, respectively.

For the years ended March 31, 2018 and 2017, approximately $3,495,000 or 45% and $3,359,000 or 44%, respectively, of total gas commodity sales were to two customers.