American Public Energy Agency

Auditor's Report and Financial Statements

March 31, 2013 and 2012

BKD LLP
CPAs & Advisors

American Public Energy Agency
March 31, 2013 and 2012

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
American Public Energy Agency
Lincoln, Nebraska

We have audited the accompanying basic financial statements, which are comprised of balance sheets as of March 31, 2013 and 2012, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of American Public Energy Agency.

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 consolidated 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 American Public Energy Agency as of March 31, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013 American Public Energy Agency implemented the provisions of GASB Statement No. 63, which changed the presentation of the financial statements for the inclusion of deferred outflows and inflows of resources. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Lincoln, Nebraska
June 10, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of American Public Energy Agency's (APEA) financial performance provides an overview of APEA's financial activities for the years ended March 31, 2013, 2012 and 2011. Please read this information in conjunction with the accompanying financial highlights, the basic financial statements and the accompanying notes to the financial statements.

Financial Analysis

The following comparative condensed financial statements summarize APEA's financial position and operating results for the years ended March 31, 2013, 2012 and 2011.

Condensed Balance Sheets

	March 31, 2013	March 31, 2012	March 31, 2011	Change 2013 to 2012	Change 2012 to 2011
Assets and Deferred Outflows of Resources					
Current assets	$ 128,629,839	$ 134,480,705	$ 117,496,673	$ (5,850,866)	$ 16,984,032
Prepaid gas supply, long-term	65,151,456	146,680,579	250,183,120	(81,529,123)	(103,502,541)
Capital assets, net	-	2,097	4,343	(2,097)	(2,246)
Deferred costs to be recovered in future periods	29,914,232	48,713,697	59,714,996	(18,799,465)	(11,001,299)
Fair value of derivative instruments	55,565,959	130,977,047	42,740,284	(75,411,088)	88,236,763
Other long-term assets	21,889,406	37,814,580	35,233,110	(15,925,174)	2,581,470
Deferred outflow from derivative instruments	-	-	21,418,109	-	(21,418,109)
Total assets and deferred outflows of resources	$ 301,150,892	$ 498,668,705	$ 526,790,635	$ (197,517,813)	$ (28,121,930)
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 128,907,644	$ 123,859,362	$ 97,328,486	$ 5,048,282	$ 26,530,876
Long-term debt	111,350,750	238,745,739	360,740,728	(127,394,989)	(121,994,989)
Fair value of derivative instruments	-	-	21,418,109	-	(21,418,109)
Deferred inflow from derivative instruments	55,565,959	130,977,047	42,740,284	(75,411,088)	88,236,763
Total liabilities and deferred inflows of resources	295,824,353	493,582,148	522,227,607	(197,757,795)	(28,645,459)
Net investment in capital assets	-	2,097	4,343	(2,097)	(2,246)
Unrestricted	5,326,539	5,084,460	4,558,685	242,079	525,775
Total net position	5,326,539	5,086,557	4,563,028	239,982	523,529
Total liabilities, deferred inflows of resources and net position	$ 301,150,892	$ 498,668,705	$ 526,790,635	$ (197,517,813)	$ (28,121,930)

<u>2013 Financial Highlights</u>

- Current assets and prepaid gas supply decreased due to deliveries of natural gas.
- Long-term debt decreased due to scheduled debt service payments.

2012 Financial Highlights

- The increase in current assets is primarily due to the current portion of the prepaid gas commodity.
- Prepaid gas supply decreased due to the deliveries of natural gas.
- Long-term debt decreased due to scheduled debt service payments.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	March 31, 2013	2012	2011	Change 2013 to 2012	Change 2012 to 2011
Operating revenues	$ 135,826,180	$ 120,437,575	$ 94,227,868	$ 15,388,605	$ 26,209,707
Operating expenses	(104,376,064)	(92,657,971)	(72,682,249)	(11,718,093)	(19,975,722)
Operating income	31,450,116	27,779,604	21,545,619	3,670,512	6,233,985
Net nonoperating expenses	(31,060,134)	(27,196,075)	(21,046,142)	(3,864,059)	(6,149,933)
Distributions to members	(150,000)	(60,000)	(90,000)	(90,000)	30,000
Increase in net position	$ 239,982	$ 523,529	$ 409,477	$ (283,547)	$ 114,052

2013 and 2012 Financial Highlights

Operating Revenues and Expenses

Operating revenues and expenses increased based on the prepay gas transactions and the price of gas.

Net Nonoperating Expenses

Pursuant to the termination agreement between APEA, Municipal Energy Agency of Nebraska (MEAN) and National Public Gas Agency (NPGA), distributions to MEAN and NPGA totaled $969,248 and $520,184 during 2013 and 2012, respectively.

General Trends and Significant Events

The Energy Sector:

Natural gas prices remained at a relatively stable and favorable level throughout the past APEA fiscal year. Improvements and advances in the drilling technique of hydraulic fracturing allowed for continued ample natural gas production in the United States. Interest rates remained very low throughout the period, which caused compressed interest rate spreads between tax-exempt and taxable financings. The decrease in spreads created a negative impact on attempts to complete any new natural gas prepay transactions. Natural gas continued to be a preferred cost effective fuel supply for electrical generation as well as provide a viable option for an environmentally friendly fuel for some transportation needs.

Significant Events:

There were only two natural gas prepay transactions completed in the industry during the last APEA fiscal year. There were other parties, including APEA, which attempted to structure a viable financing project but were unsuccessful. Societe Generale ("SG"), the counterparty currently serving as the commodity and interest rate swap provider for both the APEA Series 2003 A and B Gas Supply Variable Rate Revenue Bonds and the Series 2005 Variable Rate Gas Supply Variable Rate Revenue Bonds, (collectively, the "Bonds"), received credit downgrades from the rating agencies over the year. Moody's Investors Service ("Moody's") downgraded SG from A1 to A2 on June 12, 2012. APEA received confirmations that the ratings on the Bonds were not affected by this rating action on SG. Additionally, the rating agency Standard and Poor's ("S&P") lowered the "outlook" for SG on October 29, 2012. This action caused S&P to change the outlook on the Bonds from "Stable" to "Negative". The credit rating on the Bonds remained unchanged as per the notices received from Moody's and S&P.

Looking into the Future:

APEA believes that natural gas will remain as a compelling energy choice worldwide considering the abundant supply, favorable pricing, and environmentally friendly carbon footprint. APEA remains committed to the completion of additional natural gas prepay bond issues, and to the development of additional energy supply and energy related projects that will bring benefit to the APEA members and other public entities. APEA will explore new structures, products, and opportunities for future business that will enhance and further the mission, goals, and objectives as set by the APEA Board of Directors.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about APEA's financial position and activities. The balance sheets present APEA's assets, liabilities, deferred inflows of resources, and net position as of March 31, 2013 and 2012. The statements of revenues, expenses and changes in net position present APEA's operating results and changes in net position for the years ended March 31, 2013 and 2012. The statements of cash flows provide information about the flow of cash within APEA by activities for the years ended March 31, 2013 and 2012. 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

APEA 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 APEA's 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 APEA 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.apea.org.

Roger W. Mock
President and
Chief Executive Officer

American Public Energy Agency

Balance Sheets

March 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	$ 13,730,086	$ 14,509,356
Short-term investments	19,338,774	2,490,000
Accounts receivable	13,859,610	13,819,205
Accrued interest receivable	140,311	118,424
Prepaid expenses	31,937	41,181
Prepaid gas supply, current	81,529,121	103,502,539
Total current assets	128,629,839	134,480,705
Noncurrent Assets		
Restricted investments	21,673,283	37,464,332
Prepaid gas supply, long-term	65,151,456	146,680,579
Capital assets, net	-	2,097
Deferred bond issue costs	216,123	350,248
Deferred costs to be recovered in future periods	29,914,232	48,713,697
Fair value of derivative instruments	55,565,959	130,977,047
Total noncurrent assets	172,521,053	364,188,000
Total assets	$ 301,150,892	$ 498,668,705

Liabilities, Deferred Inflows of Resources and Net Position

	2013	2012
Current Liabilities		
Current maturities of long-term debt	$ 127,760,000	$ 122,360,000
Accounts payable	404,233	383,969
Accrued interest payable	743,411	1,115,393
Total current liabilities	128,907,644	123,859,362
Noncurrent Liabilities		
Long-term debt	111,350,750	238,745,739
Deferred Inflows of Resources		
Deferred inflow from derivative instruments	55,565,959	130,977,047
Net Position		
Net investment in capital assets	-	2,097
Unrestricted	5,326,539	5,084,460
Total net position	5,326,539	5,086,557
Total liabilities, deferred inflows of resources and net position	$ 301,150,892	$ 498,668,705

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Statements of Revenues, Expenses and Changes in Net Position

Years Ended March 31, 2013 and 2012

	2013	2012
Operating Revenues		
Gas supply	$ 135,385,143	$ 120,020,756
Other	441,037	416,819
Total operating revenues	135,826,180	120,437,575
Operating Expenses		
Cost of gas sold	103,502,541	91,819,260
Administrative and general	873,523	838,711
Total operating expenses	104,376,064	92,657,971
Operating Income	31,450,116	27,779,604
Nonoperating Revenues (Expenses)		
Investment income	1,781,462	1,482,531
Net costs recoverable	(18,799,465)	(11,001,299)
Interest expense	(10,914,633)	(14,879,092)
Amortization of debt issuance costs	(134,125)	(134,125)
Arbitrage rebates and bond fees	(2,024,075)	(2,143,906)
Distributions under contract	(969,298)	(520,184)
Net nonoperating expenses	(31,060,134)	(27,196,075)
Income Before Distributions to Members	389,982	583,529
Distributions to Members	(150,000)	(60,000)
Increase in Net Position	239,982	523,529
Net Position, Beginning of Year	5,086,557	4,563,028
Net Position, End of Year	$ 5,326,539	$ 5,086,557

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Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	2013	2012
Operating Activities		
Cash received from customers	$ 75,456,477	$ 75,432,778
Cash received from swap provider and others	60,329,298	42,747,561
Cash paid to suppliers and employees	(841,918)	(778,500)
Net cash provided by operating activities	134,943,857	117,401,839
Noncapital Financing Activities		
Principal payments on long-term debt	(122,360,000)	(95,580,000)
Distributions to members and others	(1,119,298)	(580,184)
Fiscal payments	(2,024,075)	(2,143,906)
Interest paid	(10,921,604)	(14,811,294)
Net cash used in noncapital financing activities	(136,424,977)	(113,115,384)
Investing Activities		
Interest received on investment securities	1,759,575	1,460,383
Proceeds from sales and maturities of investment securities	1,240,000	2,000,000
Purchases of investment securities	(2,297,725)	(4,415,595)
Net cash provided by (used in) investing activities	701,850	(955,212)
Change in Cash and Cash Equivalents	(779,270)	3,331,243
Cash and Cash Equivalents, Beginning of Year	14,509,356	11,178,113
Cash and Cash Equivalents, End of Year	$ 13,730,086	$ 14,509,356
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 31,450,116	$ 27,779,604
Amortization of prepaid gas supply	103,502,541	91,819,260
Depreciation	2,097	2,246
Changes in operating assets and liabilities		
Accounts receivable	(40,405)	(2,257,239)
Prepaid expenses	9,244	9,879
Accounts payable	20,264	48,089
Net Cash Provided by Operating Activities	$ 134,943,857	$ 117,401,839

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

Nature of Operations

American Public Energy Agency (APEA) is an interlocal agency, being a body corporate and politic organized under the laws of the State of Nebraska. APEA is governed by its members and provides energy acquisition programs and related services to public agencies in any state. Energy acquisitions are accomplished primarily through long-term special obligation financing transactions.

Reporting Entity

In evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units* includes consideration of a number of criteria, including: (1) the 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 others, and (3) the entity's fiscal dependency on others. APEA has determined that it has no reportable component units.

Basis of Accounting and Presentation

The financial statements of APEA have been prepared on the accrual basis of accounting using the economic resources measurement focus. APEA'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 License prescribed by the Federal Energy Regulatory Commission (FERC). APEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the GASB.

Under the regulated operations provisions of GASB Statement No. 62, APEA prescribes rate making recovery for certain transactions. This method includes the standard that debt service requirements, as opposed to interest expense and amortization, are a cost for rate making purposes.

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 and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

APEA considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2013 and 2012, cash equivalents consisted of money market mutual funds invested in government securities.

Investments

Investments in money market mutual funds are carried at fair value and investment contracts with insurance and other financial services companies are carried at contract value.

Investment income consists of interest income 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 after best efforts in collection. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary at March 31, 2013 and 2012.

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the effective interest method.

Prepaid Gas Supply

APEA prepays for deliveries of natural gas supplies with the proceeds from revenue bonds. Prepaid gas supplies are stated at average cost, as determined by each prepay contract.

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

Deferred Costs to be Recovered in Future Periods

Rates for natural gas billings are designed to provide, over the life of each project, full recovery of all project costs as defined in the respective bond resolutions and as prescribed by the Board of Directors. In accordance with the regulated operations provisions of GASB Statement No. 62, certain income and expense items which would be recognized during the current period are deferred and not included in the determination of net income until such costs are recoverable. The costs to be recovered consist primarily of the difference between amortization of prepaid gas supplies and debt service requirements included in rates. As of March 31, 2013 and 2012, this difference in timing has resulted in an amount of $29,914,232 and $48,713,697 respectively, recorded as costs to be recovered in future periods in the accompanying balance sheets.

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 - This component of net position consists of capital assets, net of accumulated depreciation.

Restricted - This component of net position consists of constraints placed on net position 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. There are no components of net position at March 31, 2013 and 2012 that meet the restricted definition.

Unrestricted - This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Classification of Revenues

Operating revenues include revenues resulting from delivery of gas supplies to customers. Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities.

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

Derivative Instruments

Derivative instruments are utilized by APEA to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas. These instruments include commodity swap agreements which convert index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and interest rate swap agreements which effectively change APEA's variable interest rate to a synthetic fixed rate. Gas supply revenues in each operating period include the netting adjustments of the commodity swap agreements. Interest expense in each operating period includes the netting adjustments of the interest rate swap agreement.

APEA's derivative financial instruments are accounted for in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* In connection with this Statement, the fair value of APEA's derivative financial instruments is recorded on the Balance Sheets, with an offsetting deferred outflow or inflow of resources.

Income Taxes

In accordance with certain provisions of the Interlocal Cooperation Act of Nebraska and related governing laws and regulations, APEA is exempt from federal and state income taxes.

Implementation of New Accounting Pronouncements

In 2013, APEA implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This standard was created to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pre-November 30, 1989 FASB and AICPA pronouncements, which do not conflict with or contradict GASB pronouncements. The implementation of this standard did not have a significant impact on APEA's financial statements.

In 2013, APEA implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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. APEA's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance or bonds and other obligations of the U.S. Treasury or U.S. agencies.

Investments

APEA's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. APEA may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, and banker's acceptances, commercial paper, money market funds, repurchase agreements, municipal bonds, and investment contracts. APEA has specific investments in guaranteed investment contracts with an insurance company as provided in bond documents. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of the Board of Directors.

At March 31, 2013 and 2012, APEA had the following investments, maturities and credit ratings:

		Maturities in Years		
	Fair Value	Less Than 1	1 - 5	Credit Rating Moody's/S&P
March 31, 2013				
Cash held at trustee	$ 59,175	$ 59,175	$ -	Not rated
Money market mutual funds - US agencies	13,095,038	13,095,038	-	Aaa/AAAm
Investment contracts	38,567,057	16,893,774	21,673,283	Not rated
	$ 51,721,270	$ 30,047,987	$ 21,673,283	
March 31, 2012				
Money market mutual funds - US agencies	$ 13,884,819	$ 13,884,819	$ -	Aaa/AAAm
Investment contracts	37,464,332	-	37,464,332	Not rated
	$ 51,349,151	$ 13,884,819	$ 37,464,332	

Note 2: Deposits, Investments and Investment Return - Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. APEA'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. While maturities of the investment contracts are reflected consistent with the contract maturity, the funds are available for specific uses as identified in the bond indentures.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. APEA'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 by Moody's and S&P as noted below:

U.S. agency securities	Aaa/AAA
Commercial paper	P-1/A-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, APEA would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for APEA's investment contracts at March 31, 2013 and 2012, are held by the counterparties in other than APEA's name.

Concentration of Credit Risk

APEA places no limit on the amount that may be invested in any one issuer. At March 31, 2013 and 2012, APEA had the following investment concentrations:

	Portfolio Composition March 31, 2013	Portfolio Composition March 31, 2012
Investment contracts		
Transamerica Occidental Life Insurance Company	32.66 %	31.82 %
Transamerica Life Insurance and Annuity Company	41.90	41.15

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, 2013 and 2012 as follows:

	2013	2012
Carrying Value		
Deposits	$ 3,020,873	$ 3,114,537
Investments	51,721,270	51,349,151
	$ 54,742,143	$ 54,463,688

Included in the following balance sheet captions:

	2013	2012
Current Assets		
Cash and cash equivalents	$ 13,730,086	$ 14,509,356
Short-term investments	19,338,774	2,490,000
Noncurrent Assets		
Restricted investments	21,673,283	37,464,332
	$ 54,742,143	$ 54,463,688

Of the cash and cash equivalents amounts shown above, $12,918,924 and $13,702,065 were restricted for debt service at March 31, 2013 and 2012, respectively. Of the short-term investments shown above, $16,893,774 were restricted for debt service at March 31, 2013.

Investment Return

Investment return for the years ended March 31, 2013 and 2012 consisted of interest income of $1,781,462 and $1,482,531, respectively.

Note 3: Long-term Debt

Long-term debt at March 31, 2013 and 2012 consisted of the following:

	2013	2012
Revenue bonds		
Gas Supply Variable Rate Revenue Bonds, 2005 Series A, due June 1, 2006 to December 1, 2015	$ 164,183,000	$ 214,718,000
Gas Supply Variable Rate Revenue Bonds, 2003 Series A, due August 1, 2004 to February 1, 2014	37,725,000	73,638,000
Gas Supply Variable Rate Revenue Bonds, 2003 Series B, due August 1, 2004 to February 1, 2014	37,725,000	73,637,000
Total long-term debt	239,633,000	361,993,000
Less current maturities of long-term debt	(127,760,000)	(122,360,000)
Less unamortized discount	(522,250)	(887,261)
Long-term debt	$ 111,350,750	$ 238,745,739

APEA has issued revenue bonds to finance prepayments for natural gas supplies meeting a portion of the long-term gas requirements of various public agencies. The bonds are secured by a pledge of the gas supply revenues derived from the related prepay transactions. A summary description of each gas supply project financing transaction is as follows:

Gas Supply Variable Rate Revenue Bonds, Series 2005A, Series 2003A and Series 2003B

In August 2005, APEA issued $349,783,000 of gas supply revenue bonds to fund the prepayment of 65,277,000 MMBtus of gas from BP Canada Energy Marketing Corp. (BP) with deliveries beginning November 2005 and ending October 2015. In December 2003, APEA issued $305,960,000 of gas supply revenue bonds to fund the prepayment of 83,246,000 MMBtus of gas from BP with deliveries beginning January 2004 and ending December 2013.

Note 3: Long-term Debt - Continued

Debt Activity

Long-term debt activity for 2013 and 2012 is summarized as follows:

	Series 2005A	Series 2003A	Series 2003B	Total
Balance, March 31, 2011	$ 263,163,000	$ 97,205,000	$ 97,205,000	$ 457,573,000
Less principal payments on bonds	(48,445,000)	(23,567,000)	(23,568,000)	(95,580,000)
Balance, March 31, 2012	214,718,000	73,638,000	73,637,000	361,993,000
Less principal payments on bonds	(50,535,000)	(35,913,000)	(35,912,000)	(122,360,000)
Balance, March 31, 2013	$ 164,183,000	$ 37,725,000	$ 37,725,000	$ 239,633,000

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at March 31, 2013, are as follows:

Year Ending March 31,	Principal	Interest	Total
2014	$ 127,760,000	$ 6,444,413	$ 134,204,413
2015	54,360,000	2,893,206	57,253,206
2016	57,513,000	820,937	58,333,937
	$ 239,633,000	$ 10,158,556	$ 249,791,556

The interest payments reflected in the table above for the Series 2005 and 2003 variable rate bonds, were calculated based on the interest rate swap agreements (See Note 7) which convert these issues to an effective fixed rate of approximately 3.65%.

Note 4: Membership

At March 31, 2013 and 2012, three municipalities, comprised the membership of APEA. In 2013 and 2012, the Board of Directors approved a distribution of surplus net revenues to the existing members in the amount of $150,000 and $60,000, respectively.

Note 4: Membership - Continued

In February 2007, a termination and settlement agreement (the "Termination Agreement") was executed between APEA and two former members. The Termination Agreement set forth current distributions and provided for certain future contingent distributions to the former members. Distributions under this agreement were $969,298 and $520,184 during 2013 and 2012, respectively. Additional distributions to the former members may be payable pursuant to the Termination Agreement to the extent of excess cash flows from the remaining gas supply prepayment transactions. As these future distributions are contingent on excess cash flows, they will be recorded as a reduction to net position on an annual basis when they are determinable.

Note 5: Risk Management

APEA 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. APEA carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

Note 6: Gas Purchase and Sales Agreements

APEA has entered into long-term gas purchase and supply contracts for which prepayments have been made and amounts remaining of $146,680,577 and $250,183,118 are reflected in both current and noncurrent asset categories at March 31, 2013 and 2012, respectively. Under the original long-term sales agreements, deliveries of natural gas were scheduled for two customers over a period continuing through November 2015. Effective April 1, 2009 and October 31, 2010, both customers have given APEA notice to terminate deliveries under the applicable gas sales agreements. In accordance with the gas purchase contracts, APEA has the ability to remarket this natural gas to BP, who must accept delivery. All terminated gas deliveries to the original customers have been remarketed to BP.

Note 7: Derivative Instruments

Composition of Derivative Instruments

The fair values and notional amounts of derivative instruments outstanding as of March 31, 2013 and 2012, classified by type, and the changes in fair value of such derivative instruments for the years ended, as reported in the financial statements, are as follows:

March 31, 2013	Notional Amount	Fair Value	Counterparty Credit Rating Moody's/S&P
Cash flow hedges:			
Pay-variable, receive fixed commodity swap - Series 2005A	21,284,000 MMBtu	$ 57,755,279	A2/A
Pay-fixed, receive variable interest rate swap - Series 2005A	$ 164,183,000	(8,389,122)	A2/A
		$ 49,366,157	
Pay-variable, receive fixed commodity swap - Series 2003A&B	10,305,000 MMBtu	$ 7,863,175	A2/A
Pay-fixed, receive variable interest rate swap - Series 2003A&B	$ 75,450,000	(1,663,373)	A2/A
		$ 6,199,802	
March 31, 2012			
Cash flow hedges:			
Pay-variable, receive fixed commodity swap - Series 2005A	30,018,500 MMBtu	$ 100,537,006	A1/A
Pay-fixed, receive variable interest rate swap - Series 2005A	$ 214,718,000	(12,744,106)	A1/A
		$ 87,792,900	
Pay-variable, receive fixed commodity swap - Series 2003A&B	26,868,000 MMBtu	$ 48,691,690	A1/A
Pay-fixed, receive variable interest rate swap - Series 2003A&B	$ 147,275,000	(5,507,543)	A1/A
		$ 43,184,147	

All fair values are classified as derivative instruments on the Balance Sheets. The decrease in fair value of these derivative instruments was $75,411,088 in 2013. The increase in fair value of these derivative instruments was $109,654,872 in 2012. As these commodity swaps are considered hedging derivative instruments, the change in fair value is reflected within deferred outflows and inflows on the Balance Sheets. The fair values of the commodity and interest rate swaps are netted for the Series 2005A and Series 2003A&B prepay transactions as the swaps were entered into with the same counterparty and the applicable swap agreements include provisions allowing for the netting of amounts related to the same prepay transaction.

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. The fair values of the interest rate swaps are based on the future yield curve for tax-exempt bonds and discounted using established interest rate indexes.

Note 7: Derivative Instruments - Continued

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and terms of APEA's hedging derivative instruments outstanding at March 31, 2013 and 2012:

Type	Objective	Maturity Date	Terms
Pay-variable, receive fixed commodity swap - Series 2005A	APEA has entered into a fixed to floating commodity swap in connection with the related natural gas prepay transaction. The purpose of the commodity swap is to correlate gas sales revenue APEA receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	12/1/2015	The commodity swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. The commodity swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas purchased pursuant to the related gas purchase agreement. Payments under the commodity swap are based on published natural gas indices at the gas delivery points.
Pay-fixed, receive variable interest rate swap - Series 2005A	APEA entered into an interest rate swap in connection with its Series 2005 Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related commodity swap with its variable rate debt service payment on these bonds.	11/24/2015	The interest rate swap extends to the date of the final maturity of these bonds and requires monthly payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the interest rate swaps, APEA pays the counterparty a fixed payment of 3.705% on the notional amount and receives a variable payment equal to the rate actually borne by the 2005 Series Bonds.
Pay-variable, receive fixed commodity swap - Series 2003A&B	APEA has entered into a fixed to floating commodity swap in connection with the related natural gas prepay transaction. The purpose of the commodity swap is to correlate gas sales revenue APEA receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	2/1/2014	The commodity swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. The commodity swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas purchased pursuant to the related gas purchase agreement. Payments under the commodity swap are based on published natural gas indices at the gas delivery points.
Pay-fixed, receive variable interest rate swap - Series 2003A&B	APEA entered into an interest rate swap in connection with its Series 2003 Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related commodity swap with its variable rate debt service payment on these bonds.	1/25/2014	The interest rate swap extends to the date of the final maturity of these bonds and requires monthly payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the interest rate swaps, APEA pays the counterparty a fixed payment of 3.540% on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2003 Bonds.

Note 7: Derivative Instruments - Continued

Commodity Swap Risks

Termination Risk: Each of the Commodity Swaps terminate in the event of a "triggering event" under the related gas purchase agreement, in the event of APEA or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swaps entered into in connection with the Series 2005A, 2003A and B Bonds, no payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit Risk: Each of the Commodity Swaps is tied to a related gas prepay transaction and terminates in the event such transaction terminates. Therefore, the only credit risk associated with a Commodity Swap is for margins lost on future commodity deliveries associated with a termination of the related gas prepay transaction in the event of a counterparty's inability to perform in accordance with the terms of the related Commodity Swap. If the Swap Counterparty is rated below "Aa3" by Moody's Investors Service, Inc. or "AA-" by Standard & Poor's Rating Services, the Swap Counterparty must provide APEA adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to APEA.

Interest Rate Swap Risks

Termination Risk: The Interest Rate Swaps terminate in the event of a "triggering event" under the related gas purchase agreement, in the event of APEA or counterparty nonperformance, and in connection with other specified events. Under the Interest Rate Swaps, no termination payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit risk: The Interest Rate Swaps are tied to the natural gas prepay transactions associated with the Series 2005 Bonds and Series 2003 Bonds and terminate in the event such transaction terminates. At March 31, 2013 and 2012, APEA was not exposed to credit risk because the interest rate swaps had a negative fair value. However, should interest rates increase and the fair value of the interest rate swaps become positive, APEA would be exposed to credit risk on the swaps in the amount of their fair values. To mitigate this credit risk, the swap counterparty is required to maintain certain credit ratings under the interest rate swap agreements. If the Swap Counterparty is rated below "Aa3" by Moody's Investors Service, Inc. or "AA-" by Standard & Poor's Rating Services, the Swap Counterparty must provide APEA adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to APEA.

Note 8: Significant Estimates and Concentrations

APEA has purchased all of its natural gas under prepaid supply contracts from BP. BP also acts as the liquidity facility provider. APEA bonds that are not remarketed must also be purchased by BP under related standby bond purchase agreements. At March 31, 2013 and 2012, BP held approximately $109,000,000 and $157,000,000, respectively, of APEA bonds purchased under the standby bond purchase agreements.