

# **Public Alliance for Community Energy**

Accountants' Report and Financial Statements

March 31, 2010 and 2009



# Public Alliance for Community Energy

March 31, 2010 and 2009

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

Board of Directors  
Public Alliance for Community Energy  
Lincoln, Nebraska

We have audited the accompanying balance sheets of Public Alliance for Community Energy ("ACE") 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 ACE'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 Public Alliance for Community Energy 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 the Public Alliance for Community Energy's (ACE) financial performance provides an overview of ACE'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 information summarizes ACE'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		
<b>Assets</b>					
Cash and investments	\$ 2,893,756	\$ 2,784,216	\$ 2,769,917	\$ 109,540	\$ 14,299
Accounts receivable	3,611,637	5,505,874	6,545,736	(1,894,237)	(1,039,862)
Prepaid expenses	27,561	74,247	32,655	(46,686)	41,592
Capital assets, net	94,718	162,867	131,650	(68,149)	31,217
Total assets	<u>\$ 6,627,672</u>	<u>\$ 8,527,204</u>	<u>\$ 9,479,958</u>	<u>\$ (1,899,532)</u>	<u>\$ (952,754)</u>
<b>Liabilities and Net Assets</b>					
Total current liabilities	<u>\$ 3,653,975</u>	<u>\$ 5,523,015</u>	<u>\$ 6,519,609</u>	<u>\$ (1,869,040)</u>	<u>\$ (996,594)</u>
Invested in capital assets, net of related debt	94,718	162,867	131,650	(68,149)	31,217
Unrestricted	<u>2,878,979</u>	<u>2,841,322</u>	<u>2,828,699</u>	<u>37,657</u>	<u>12,623</u>
Total net assets	<u>2,973,697</u>	<u>3,004,189</u>	<u>2,960,349</u>	<u>(30,492)</u>	<u>43,840</u>
Total liabilities and net assets	<u>\$ 6,627,672</u>	<u>\$ 8,527,204</u>	<u>\$ 9,479,958</u>	<u>\$ (1,899,532)</u>	<u>\$ (952,754)</u>

### 2010 Financial Highlights

- Accounts receivables decreased due to the lower gas prices in 2010 and the new gas purchase agreement that became effective June 1, 2008, as further described in Note 5.

- A change in the marketing program for the 2010 – 2011 gas contract year reduced the advertising dollars spent in 2010, thus causing a reduction in prepaid expenses. These prepaid items will be expensed in fiscal year 2011.
- The decrease in current liabilities which include accounts payable is a function of the lower gas costs.

### **2009 Financial Highlights**

- Accounts receivables decreased due to the lower gas prices in 2009 and the new gas purchase agreement that became effective June 1, 2008 as further described in Note 5.
- The decrease in current liabilities which include accounts payable is a function of the lower gas costs.

### **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>to 2009</u>	<u>to 2008</u>
Sales volumes (Mmbtu's)	300,500	1,081,000	4,479,000	(780,500)	(3,398,000)
Operating revenues	\$ 2,473,636	\$ 10,222,696	\$ 42,274,306	\$ (7,749,060)	\$(32,051,610)
Operating expenses	(2,525,580)	(10,263,094)	(42,268,849)	7,737,514	32,005,755
Investment income	21,452	58,221	165,334	(36,769)	(107,113)
Contributions from (distributions to) members	-	26,017	(170,791)	(26,017)	196,808
Increase (decrease) in net assets	<u>\$ (30,492)</u>	<u>\$ 43,840</u>	<u>\$ -</u>	<u>\$ (74,332)</u>	<u>\$ 43,840</u>

### **2010 and 2009 Financial Highlights**

- Gas volumes decreased in 2010 and 2009 as all residential and small commercial accounting activity was transferred to the gas supplier effective June 1, 2008 as described in Note 5. With this new agreement, ACE no longer recorded the residential and small commercial activity on its books as revenue and expense items, resulting in the significant decreases in both gas supply revenue and operating expenses. Lower natural gas prices in 2010 compared to 2009 resulted in additional decreases in revenues and expenses.
- Although ACE's cash and investment balances remained stable, the economic turmoil resulted in a 65% and 35% decrease in interest earned on invested funds in 2010 and 2009, respectively.
- An audit of residential sales in 2009 required ACE to refund the gas supplier revenue sharing income relating to 2008 activity. The Board of Directors elected to reduce the amount of the approved member distribution by the amount of the refund.

## ***Capital Assets***

ACE's investment in its capital assets consists primarily of computer hardware and software. These investments were made to improve its services to customers and expedite answers to customer questions during the annual sign-up period in the Choice Gas Program.

## ***General Trends and Significant Events***

Through a focused and aggressive advertising campaign prior to the 2009-2010 Choice Gas year, ACE successfully retained the residential customer base it serves. This success occurred even though there was a decrease in the number of eligible participants in the choice gas program. After twelve years of participation in the Nebraska Choice Gas Program, ACE continues to serve approximately 33.1% of the retail customers participating in the program, which is approximately 27,200 customers. During the two week 2009-2010 campaign period, 39% of the retail customers who actively selected a gas supplier, chose ACE.

The population decrease in ACE's market territory and stressful economic conditions result in marketing challenges for ACE. While the addition of more gas suppliers in the Choice Gas program helps achieve ACE's goal of bringing low gas prices to the residents of its member communities, that achievement has the potential to have a negative effect on ACE's revenues depending on supplier selection by gas customers.

ACE continues to develop its marketing efforts to provide large commercial customers with competitively priced natural gas as a means of lowering their operating costs and remain competitive in their respective industries.

## ***Risk Management Practices***

ACE competes in the retail natural gas marketplace with other natural gas providers. To be successful, ACE must be able to offer natural gas, through the gas supplier, at competitive prices.

Effective June 1, 2008, ACE entered into a new agreement with its gas supplier to mitigate the risks of price and weather fluctuations. The new agreement calls for a fee to be paid by the gas supplier to ACE based on the capacity awarded to ACE during each Choice Program year.

## ***Summary of the Financial Statements***

The financial statements, related notes and management's discussion and analysis provide information about ACE's financial position and activities. The balance sheets present ACE's assets, liabilities and net assets. The statements of revenues, expenses and changes in net assets present ACE's operating results and changes in net assets. The statements of cash flows provide information about the flow of cash within ACE 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***

ACE 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 ACE'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 ACE 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](http://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.

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# Public Alliance for Community Energy

## Balance Sheets

March 31, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 699,756	\$ 1,986,216
Short-term investments	2,194,000	298,000
Accounts receivable, net	3,611,637	5,505,874
Prepaid expenses	27,561	74,247
Total current assets	<u>6,532,954</u>	<u>7,864,337</u>
<b>Noncurrent Assets</b>		
Long-term investments	-	500,000
Capital assets, net	94,718	162,867
Total noncurrent assets	<u>94,718</u>	<u>662,867</u>
Total assets	<u>\$ 6,627,672</u>	<u>\$ 8,527,204</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,564,381	\$ 5,411,336
Due to coalition members	89,594	111,679
Total current liabilities	<u>3,653,975</u>	<u>5,523,015</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	94,718	162,867
Unrestricted	2,878,979	2,841,322
Total net assets	<u>2,973,697</u>	<u>3,004,189</u>
Total liabilities and net assets	<u>\$ 6,627,672</u>	<u>\$ 8,527,204</u>

**Public Alliance for Community Energy**  
**Statements of Revenues, Expenses and**  
**Changes in Net Assets**  
**Years Ended March 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenue</b>		
Gas supply	\$ 1,516,752	\$ 9,295,763
Marketing fees	<u>956,884</u>	<u>926,933</u>
Total operating revenues	<u>2,473,636</u>	<u>10,222,696</u>
 <b>Operating Expenses</b>		
Cost of gas sold	1,451,366	9,168,113
Administrative and general	994,466	1,005,685
Depreciation	<u>79,748</u>	<u>89,296</u>
Total operating expenses	<u>2,525,580</u>	<u>10,263,094</u>
 <b>Operating Loss</b>	(51,944)	(40,398)
 <b>Nonoperating Revenues</b>		
Investment income	<u>21,452</u>	<u>58,221</u>
 <b>Income (Loss) Before Contributions from Members</b>	(30,492)	17,823
 <b>Contributions from Members</b>	<u>-</u>	<u>26,017</u>
 <b>Increase (Decrease) in Net Assets</b>	(30,492)	43,840
 <b>Net Assets, Beginning of Year</b>	<u>3,004,189</u>	<u>2,960,349</u>
 <b>Net Assets, End of Year</b>	<u><u>\$ 2,973,697</u></u>	<u><u>\$ 3,004,189</u></u>

**Public Alliance for Community Energy**  
**Statements of Cash Flows**  
**Years Ended March 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Cash received from customers	\$ 4,372,139	\$ 11,257,020
Cash paid to suppliers and employees	(3,424,246)	(10,201,651)
Cash paid to coalition members	(843,940)	(839,542)
	<u>103,953</u>	<u>215,827</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(11,599)	(120,513)
Capital distributions	-	(144,774)
	<u>(11,599)</u>	<u>(265,287)</u>
<b>Investing Activities</b>		
Interest received on investments	17,186	62,937
Purchases of investments	(2,593,000)	(1,482,000)
Proceeds from sales and maturities of investments	1,197,000	2,976,000
	<u>(1,378,814)</u>	<u>1,556,937</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(1,286,460)	1,507,477
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,986,216</u>	<u>478,739</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 699,756</u>	<u>\$ 1,986,216</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (51,944)	\$ (40,398)
Depreciation	79,748	89,296
Changes in operating assets and liabilities		
Accounts receivable	1,898,503	1,034,324
Prepaid expenses	46,686	(41,592)
Accounts payable	(1,846,955)	(871,278)
Due to coalition members, net	(22,085)	45,475
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 103,953</u>	<u>\$ 215,827</u>

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

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

***Nature of Operations***

Public Alliance for Community Energy (“ACE” 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 supplying gas and competing for end-use residential and commercial customers who are located in Nebraska.

ACE’s primary activity relates to participation in the Nebraska Choice Gas program sponsored by SourceGas Distribution, LLC (“SourceGas”) which provides Nebraska municipalities (either individually or collectively in a supplier group such as ACE) the opportunity to become the gas supplier to residential and commercial customers.

***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.

ACE, Nebraska Municipal Power Pool (POOL), Municipal Energy Agency of Nebraska (MEAN) and National Public Gas Agency (NPGA), 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 associated organizations.

***Accounting Method***

ACE’s activities are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. ACE’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). ACE 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, ACE has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements.

# Public Alliance for Community Energy

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

#### *Cash Equivalents*

ACE 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 mutual funds and a repurchase agreement.

#### *Investments and Investment Income*

Investments in money market mutual funds and negotiable certificates of deposits are carried at fair value. Fair value is determined using quoted market prices. Investments in repurchase agreements are carried at cost, which approximates fair value.

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. Substantially all of ACE's customers are billed and collected by SourceGas. At March 31, 2010 and 2009, approximately 94% of total accounts receivables were due from SourceGas. A reserve for doubtful accounts of \$5,150 was established at March 31, 2010, as ACE received notice of a Chapter 11 filing from one of its customers. Management did not establish an allowance for doubtful accounts at March 31, 2009, as there were no delinquent receivables.

#### *Capital Assets*

Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by ACE:

Software	3 Years
Furniture and equipment	3 – 5 Years

# Public Alliance for Community Energy

## Notes to Financial Statements

March 31, 2010 and 2009

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

#### ***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 provision and delivery of gas supplies to customers under the Choice Gas Program and other revenue (See Note 5). Nonoperating revenues include those derived from capital and related financing and investing activities other than contributions from members.

#### ***Contributions from Members***

In 2009, contributions from members of \$26,017 are a result of ACE refunding payments to the gas supplier to correct revenue sharing income previously received. No distributions to or contributions from members were approved or requested in 2010 by ACE’s Board of Directors.

#### ***Income Taxes***

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

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

**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. ACE'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 ACE in the amount of ACE's deposits. At March 31, 2010 and 2009, ACE's deposits did not exceed the Federal Deposit Insurance Corporation's limits.

***Investments***

ACE's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. ACE may invest in U.S. Treasury and U.S. agency securities, certificates of deposit, time deposits, banker's acceptances, commercial paper, municipal bonds, and investment contracts. 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 ACE Chief Executive Officer.

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

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

***Investments - Continued***

At March 31, 2010 and 2009, ACE had the following investments, maturities and credit ratings:

	Fair Value	Maturities in Years			Credit Rating Moody's/S&P	
		Less Than 1	1 - 5	6 - 10		More Than 10
<b>March 31, 2010</b>						
Repurchase agreement	\$ 626,309	\$ 626,309	\$ -	\$ -	\$ -	N/A
Money market mutual funds - US agencies	5,000	5,000	-	-	-	Aaa/AAA
Negotiable certificates of deposit	2,194,000	1,495,000	699,000	-	-	Not rated
	<u>\$2,825,309</u>	<u>\$2,126,309</u>	<u>\$699,000</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>March 31, 2009</b>						
Repurchase agreement	\$ 1,541	\$ 1,541	\$ -	\$ -	\$ -	N/A
Money market mutual funds - US agencies	1,940,000	1,940,000	-	-	-	Aaa/AAA
Negotiable certificates of deposit	298,000	298,000	-	-	-	Not rated
Auction rate securities	500,000	-	-	-	500,000	Aaa/AAA
	<u>\$2,739,541</u>	<u>\$2,239,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	

***Interest Rate Risk*** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. ACE'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.

**Public Alliance for Community Energy**  
**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. ACE'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, ACE would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. ACE's investments in money market mutual funds, negotiable certificates of deposit and auction rate securities 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 ACE as owner. All of the underlying securities for ACE's investments in repurchase agreements at March 31, 2010 and 2009, are held by the counterparties in other than ACE's name. ACE's investment policy does not address how securities underlying repurchase agreements are to be held.

**Concentration of Credit Risk** - ACE'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.

	<b>Portfolio Composition</b>	
	<b>2010</b>	<b>2009</b>
Auction rate securities		
Pennsylvania St. Higher Education Student		
Revenue Bonds	-	17.96%

ACE's repurchase agreement is invested entirely with its primary financial institution at March 31, 2010.

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

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

***Summary of Carrying Values***

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

	<u>2010</u>	<u>2009</u>
Deposits	\$ 68,447	\$ 44,675
Investments	<u>2,825,309</u>	<u>2,739,541</u>
	<u>\$ 2,893,756</u>	<u>\$ 2,784,216</u>

Included in the following balance sheet captions:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 699,756	\$ 1,986,216
Short-term investments	2,194,000	298,000
Long-term investments	<u>-</u>	<u>500,000</u>
	<u>\$ 2,893,756</u>	<u>\$ 2,784,216</u>

***Investment Income***

Investment income for the years ended March 31, 2010 and 2009, consisted of interest income of \$21,452 and \$58,221, respectively.

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

**Note 3: Capital Assets**

Capital assets at March 31, 2010 and 2009 consisted of the following:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>March 31, 2010</b>				
Software	\$ 259,815	\$ 11,599	\$ -	\$ 271,414
Furniture and equipment	102,908	-	-	102,908
	<u>362,723</u>	<u>11,599</u>	<u>-</u>	<u>374,322</u>
Less accumulated depreciation	<u>199,856</u>	<u>79,748</u>	<u>-</u>	<u>279,604</u>
Net capital assets	<u>\$ 162,867</u>	<u>\$ (68,149)</u>	<u>\$ -</u>	<u>\$ 94,718</u>
<b>March 31, 2009</b>				
Software	\$ 173,717	\$ 86,098	\$ -	\$ 259,815
Furniture and equipment	68,493	34,415	-	102,908
	<u>242,210</u>	<u>120,513</u>	<u>-</u>	<u>362,723</u>
Less accumulated depreciation	<u>110,560</u>	<u>89,296</u>	<u>-</u>	<u>199,856</u>
Net capital assets	<u>\$ 131,650</u>	<u>\$ 31,217</u>	<u>\$ -</u>	<u>\$ 162,867</u>

**Note 4: Transactions with Coalition Members**

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

ACE incurred expenses of approximately \$780,000 for administrative services and rents provided by coalition members during 2010 and 2009. Included in these administrative service charges are litigation costs which related primarily to POOL, for which the coalition members have agreed to cost-sharing among the group. At March 31, 2010 and 2009, amounts due to coalition members consisted of \$84,157 and \$73,559 payable to POOL and \$5,437 and \$38,120 payable to MEAN.

**Public Alliance for Community Energy**  
**Notes to Financial Statements**  
**March 31, 2010 and 2009**

**Note 5: Gas Purchase and Supply Agreements**

Prior to June 1, 2008, ACE had a gas purchase agreement with a third party (the gas supplier) that supplied all natural gas requirements for ACE's customers participating in the Nebraska Choice Gas Program. Under the agreement ACE received a minimum margin per decatherm for all gas sales to ACE customers unless otherwise agreed for specific loads. After certain profitability benchmarks were achieved, ACE and the gas supplier shared any remaining net revenues (as defined) in a predetermined ratio.

Effective June 1, 2008, ACE entered into a new gas purchase agreement for the supply of natural gas to ACE's customers participating in the Nebraska Choice Gas Program. Under the new agreement, ACE will receive a marketing fee for each decatherm of capacity awarded to ACE during each Choice Gas Program year. The gas supplier has renewed the agreement through May 31, 2012.

**Note 6: Risk Management**

ACE 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. ACE carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. No claims have been submitted against this commercial coverage in any of the three preceding years.

**Note 7: Significant Estimates and Concentrations**

***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 ACE.

Although ACE 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 ACE.