

Public Alliance for Community Energy

Independent Auditor's Report and Financial Statements

March 31, 2022 and 2021



Public Alliance for
Community *Energy*

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Independent Auditor's Report

Board of Directors
Public Alliance for Community Energy
Lincoln, Nebraska

Opinion

We have audited the financial statements of Public Alliance for Community Energy, as of and for the years ended March 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Public Alliance for Community Energy's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Alliance for Community Energy as of March 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Public Alliance for Community Energy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Alliance for Community Energy's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Public Alliance for Community Energy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Alliance for Community Energy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 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
May 9, 2022

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 Public Alliance for Community Energy (ACE) and the results of operations for the years ended March 31, 2022, 2021 and 2020. This discussion should be read in conjunction with the accompanying financial highlights, the basic financial statements and notes to the financial statements.

Financial Report Overview

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about ACE's financial position and activities.

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

Balance Sheets – provide a summary of ACE's assets, liabilities and net position.

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

Statements of Cash Flows – report the cash provided by and used in operating activities, as well as other cash sources such as investment return and cash payments for distribution to members and capital additions.

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 information summarizes ACE's financial position and operating results for the years ended March 31, 2022, 2021 and 2020.

Condensed Balance Sheets and Financial Highlights

	March 31,			Change	
	2022	2021	2020	From 2021 to 2022	From 2020 to 2021
Cash, cash equivalents, and investments	\$ 3,072,954	\$ 2,740,188	\$ 2,722,447	\$ 332,766	\$ 17,741
Accounts receivable	93,061	150,750	139,167	(57,689)	11,583
Prepaid expenses	2,750	28,062	27,133	(25,312)	929
Capital assets, net	52,054	78,723	23,990	(26,669)	54,733
Total assets	\$ 3,220,819	\$ 2,997,723	\$ 2,912,737	\$ 223,096	\$ 84,986
Total current liabilities	\$ 66,490	\$ 112,395	\$ 76,117	\$ (45,905)	\$ 36,278
Investment in capital assets	52,054	78,723	23,990	(26,669)	54,733
Unrestricted	3,102,275	2,806,605	2,812,630	295,670	(6,025)
Total net position	3,154,329	2,885,328	2,836,620	269,001	48,708
Total liabilities and net position	\$ 3,220,819	\$ 2,997,723	\$ 2,912,737	\$ 223,096	\$ 84,986

Cash, cash equivalents, and investments increased in 2022 and 2021 due to the net impact of the timing of collection of accounts receivable and payment of expenses and the net change in net position for each year.

Accounts receivable include monthly marketing fees from ACE's natural gas supplier. Under the terms of the agreement with the natural gas supplier for 2021 and 2020, ACE received advertising and marketing reimbursements, a portion of which were also included in accounts receivable at each year end.

Prepaid expenses include the payment for an annual subscription service. In 2021, prepaid expenses were higher due to the 2021-2022 Nebraska Choice Gas Program selection period beginning in March 2021. The early start to the selection period resulted in prepaid expenses for advertising and marketing activity scheduled to occur in April 2021. In 2020, the timing of the payment for the annual maintenance contract for ACE's software resulted in a prepaid expense.

Capital assets consist primarily of ACE's software. The software improves ACE's services to customers and expedites answers to customer questions during the annual selection period in the Nebraska Choice Gas Program. Capital assets decreased in 2022 as software enhancements were less than depreciation. In 2021 software enhancements exceeded depreciation resulting in an increase to capital assets.

Total current liabilities are impacted by the length of and start date of the Nebraska Choice Gas Program annual selection period. Total current liabilities were lower in 2022 as the 2022-2023 Nebraska Choice Gas Program annual selection period did not begin until April 2022. In 2021, the 2021-2022 annual selection period began in March 2021 resulting in increased operating expenses and changes to payment timing which resulted in higher total current liabilities.

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

	March 31,			Change	
	2022	2021	2020	From 2021 to 2022	From 2020 to 2021
Operating revenues	\$ 1,087,968	\$ 1,046,124	\$ 1,005,888	\$ 41,844	\$ 40,236
Operating expenses	597,245	628,747	576,312	(31,502)	52,435
Operating income	490,723	417,377	429,576	73,346	(12,199)
Investment return	(21,722)	31,331	76,769	(53,053)	(45,438)
Income before distribution to members	469,001	448,708	506,345	20,293	(57,637)
Distribution to members	(200,000)	(400,000)	(400,000)	200,000	-
Increase in net position	\$ 269,001	\$ 48,708	\$ 106,345	\$ 220,293	\$ (57,637)

Operating revenues consist of marketing fees paid to ACE. Under the original terms of the natural gas supply agreement, the fixed monthly marketing fee increased annually on June 1 of each year. The agreement was revised in February 2022. Under the revised agreement, fees will be lower beginning June 2022 and are fixed through May 2025.

Operating expenses are impacted by the timing of and length of the Nebraska Choice Gas Program annual selection period. Operating expenses decreased in 2022 as the 2022-2023 selection period was three weeks in April 2022. In 2021, the 2021-2022 selection period was five weeks and began in March 2021 resulting in increased operating expenses in 2021. Operating expenses were also higher in 2021 due to investment in ACE's branding and website.

Investment return decreased in 2022 and 2021 due to falling interest rates.

ACE's Board of Directors approved the distribution to members in January of each fiscal year.

General Trends and Significant Events

ACE's Board of Directors may authorize a distribution to its member communities. ACE's Board of Directors approved the distribution to members in January of each fiscal year.

	March 31,		
	2022	2021	2020
Distribution to members	\$ 200,000	\$ 400,000	\$ 400,000

Since forming in 1998, ACE has distributed more than \$3.4 million to its Nebraska members. Each ACE member community determines how to best use the funds the community receives.

The Nebraska Choice Gas Program sponsored by Black Hills Energy includes a Program Year which runs June 1 to May 31. Customers have the opportunity to choose a natural gas supplier for each Program Year. Selections are made prior to each Program Year during the designated selection period. Historically, this has been a two-week selection period each April. For the 2022-2023 Program Year and the 2021-2022 Program Year, the timing of and length of the annual selection period has varied. The 2022-2023 Program Year included a three-week selection period beginning in April 2022. The 2021-2022 Program Year included a five-week selection period beginning in March 2021. ACE utilizes targeted advertising campaigns, a marketing partnership with ACE member communities, and natural gas pricing offered by ACE's natural gas supplier to compete for customer accounts.

ACE is the only natural gas supplier that has participated in the Nebraska Choice Gas Program every year since its inception in 1998. While having multiple natural gas suppliers in the Nebraska Choice Gas Program helps achieve ACE's goal of fostering competition amongst natural gas suppliers resulting in competitive natural gas prices during the annual selection period, that achievement has the potential to have a negative effect on the number of customer accounts selecting ACE.

Program Year	ACE Accounts	Total Customers	ACE % of Total Customers	# of Suppliers
2021-2022	13,200	80,100	17%	7
2020-2021	14,100	79,400	18%	7
2019-2020	16,700	79,600	21%	6

In an effort to improve the competitiveness of the pricing offered by ACE's natural gas supplier when competing for customer accounts, ACE entered into a revised agreement with its natural gas supplier in February 2022. Under the revised agreement, ACE receives a lower annual marketing fee and less in advertising and marketing reimbursements beginning June 1, 2022. The marketing fee is fixed through May 31, 2025, which is the initial term of the revised agreement.

Risk Management Practices

Under the natural gas supply agreement with ACE's natural gas supplier, the natural gas supplier pays ACE a fixed monthly marketing fee to promote the selection of ACE to customers participating in the Nebraska Choice Gas Program.

All natural gas price risk related to customers selecting ACE, including the risk related to offering guaranteed fixed pricing to customers, is born entirely by ACE's natural gas supplier.

Report Purpose and Contact Information

This financial report is designed to provide member communities and counterparties with a general overview of ACE's financial status for the fiscal years 2022, 2021 and 2020. 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.

Public Alliance for Community Energy

Balance Sheets

March 31, 2022 and 2021

Assets	2022	2021
Current Assets		
Cash and cash equivalents	\$ 698,497	\$ 330,338
Short-term investments	1,194,993	1,307,735
Accounts receivable	93,061	150,750
Prepaid expenses	2,750	28,062
Total current assets	1,989,301	1,816,885
Noncurrent Assets		
Long-term investments	1,179,464	1,102,115
Capital assets, net	52,054	78,723
Total noncurrent assets	1,231,518	1,180,838
Total assets	\$ 3,220,819	\$ 2,997,723
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 23,050	\$ 60,690
Due to coalition members	43,440	51,705
Total current liabilities	66,490	112,395
Net Position		
Investment in capital assets	52,054	78,723
Unrestricted	3,102,275	2,806,605
Total net position	3,154,329	2,885,328
Total liabilities and net position	\$ 3,220,819	\$ 2,997,723

Public Alliance for Community Energy
Statements of Revenues, Expenses and
Changes in Net Position
Years Ended March 31, 2022 and 2021

	2022	2021
Operating Revenues		
Marketing fees	\$ 1,087,968	\$ 1,046,124
Operating Expenses		
Administrative and general	564,785	614,840
Depreciation	32,460	13,907
Total operating expenses	597,245	628,747
Operating Income	490,723	417,377
Nonoperating Revenues (Expenses)		
Investment return	(21,722)	31,331
Income Before Distribution to Members	469,001	448,708
Distribution to Members	(200,000)	(400,000)
Increase in Net Position	269,001	48,708
Net Position, Beginning of Year	2,885,328	2,836,620
Net Position, End of Year	\$ 3,154,329	\$ 2,885,328

Public Alliance for Community Energy
Statements of Cash Flows
Years Ended March 31, 2022 and 2021

	2022	2021
Operating Activities		
Cash received from natural gas supplier	\$ 1,207,407	\$ 1,152,267
Cash paid to vendors	(153,613)	(173,752)
Cash paid to coalition members	(493,515)	(523,465)
Net cash provided by operating activities	<u>560,279</u>	<u>455,050</u>
Noncapital Financing Activities		
Distribution to members	<u>(200,000)</u>	<u>(400,000)</u>
Capital and Related Financing Activities		
Purchase of capital assets	<u>(5,791)</u>	<u>(68,640)</u>
Investing Activities		
Interest received on investments	13,671	38,356
Purchases of investments	(1,300,000)	(1,399,996)
Proceeds from sales and maturities of investments	<u>1,300,000</u>	<u>1,400,000</u>
Net cash provided by investing activities	<u>13,671</u>	<u>38,360</u>
Increase in Cash and Cash Equivalents	368,159	24,770
Cash and Cash Equivalents, Beginning of Year	<u>330,338</u>	<u>305,568</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 698,497</u></u>	<u><u>\$ 330,338</u></u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 490,723	\$ 417,377
Depreciation	32,460	13,907
Changes in operating assets and liabilities		
Accounts receivable	57,689	(11,583)
Prepaid expenses	25,312	(929)
Accounts payable	(37,640)	34,967
Due to coalition members	<u>(8,265)</u>	<u>1,311</u>
Net Cash Provided by Operating Activities	<u><u>\$ 560,279</u></u>	<u><u>\$ 455,050</u></u>
Noncash Investing Activities		
Change in fair value of investments	\$ (35,393)	\$ (7,025)

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

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 natural 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 Black Hills Energy. ACE provides Nebraska municipalities (collectively in a supplier group) the opportunity to become the natural 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 (NMPP), 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.

Basis of Accounting and Presentation

ACE’s activities are accounted for using the economic resources measurement focus and 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).

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position 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. ACE had no cash equivalents at March 31, 2022. At March 31, 2021 cash equivalents consisted of a money market mutual fund.

Investments and Investment Return

Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. agency obligations and negotiable certificates of deposit are carried at fair value. Fair value is determined using quoted market prices. Investment return 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 ACE's natural gas supplier under the terms of the natural gas supply agreement. At March 31, 2022 and 2021, accounts receivable consisted primarily of amounts due from ACE's natural gas supplier for the contractual marketing fee. At March 31, 2021, accounts receivable also included other incentives due from ACE's natural gas supplier. 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. Management did not establish an allowance for doubtful accounts at March 31, 2022 and 2021, 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, 2022 and 2021

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

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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. There are no outstanding balances of borrowings attributable to capital assets at March 31, 2022 and 2021.

Restricted - consists of restricted assets, reduced by liabilities 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, 2022 and 2021 that meet the restricted definition.

Unrestricted - consists of the assets and liabilities that are not included in the net investment in capital assets or restricted components of net position.

Classification of Revenues

Operating revenues include marketing fees from ACE's natural gas supplier. Nonoperating revenues include those derived from capital and related financing and investing activities.

Distribution to Members

The Board of Directors approved a distribution to members of \$200,000 in January 2022 and \$400,000 in January 2021. The 2022 distribution was paid to members in February 2022. The 2021 distribution was paid to members in January and February 2021.

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, 2022 and 2021

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. The Federal Deposit Insurance Corporation (FDIC) insures transaction accounts for government deposits up to \$250,000 per official custodian at each covered institution. At March 31, 2022 and 2021, ACE's deposits were fully insured and collateralized.

Investments

ACE's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable laws of the State of Nebraska. Approved investments are outlined in the investment policy and include bills, notes, bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America (U.S.), municipal bonds, bonds or other obligations which as to principal and interest are guaranteed by the U.S., certain senior obligations issued or guaranteed by noted federal organizations, commercial paper, certificates of deposit and time deposits of any U.S. depository institution or trust company, and certain money market mutual fund accounts. Should investment opportunities arise, that are not listed in the investment policy, investment consent is required through the approval of at least two of the following: Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or ACE Executive Director.

At March 31, 2022 and 2021, ACE had the following investments, maturities, and credit ratings:

		Maturities in Years		
	Carrying Value	Less Than 1	1 - 5	Credit Rating Moody's/S&P
March 31, 2022				
U.S. agency obligations	\$ 199,169	\$ 199,169	\$ -	Aaa/AAA
Negotiable certificates of deposit	2,175,288	995,824	1,179,464	Not rated
	<u>\$ 2,374,457</u>	<u>\$ 1,194,993</u>	<u>\$ 1,179,464</u>	
March 31, 2021				
Money market mutual fund				
- U.S. government obligations	\$ 220,000	\$ 220,000	\$ -	Aaa-mf/AAAm
U.S. agency obligations	200,033	-	200,033	Aaa/AAA
Negotiable certificates of deposit	2,209,817	1,307,735	902,082	Not rated
	<u>\$ 2,629,850</u>	<u>\$ 1,527,735</u>	<u>\$ 1,102,115</u>	

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

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. ACE's investment policy does not place a limit on the amount that may be invested in any one maturity category. ACE's investment policy limits the investment term to a maximum of two years. 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. 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
Municipal bonds

A-1, P-1
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. All investments are held in safekeeping in ACE's name, in a broker account with ACE's primary financial institution.

Concentration of Credit Risk - Concentration of credit risk is the risk associated with the amount of investments ACE 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, 2022 and 2021, each of ACE'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. 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.

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

Note 2: Deposits, Investments and Investment Return – Continued

Summary of Carrying Values

The carrying values of deposits and investments at March 31, 2022 and 2021 are as follows:

	2022	2021
Deposits	\$ 698,497	\$ 110,338
Investments	2,374,457	2,629,850
	<u>\$ 3,072,954</u>	<u>\$ 2,740,188</u>

Included in the following balance sheet captions:

	2022	2021
Cash and cash equivalents	\$ 698,497	\$ 330,338
Short-term investments	1,194,993	1,307,735
Long-term investments	1,179,464	1,102,115
	<u>\$ 3,072,954</u>	<u>\$ 2,740,188</u>

Investment Return

Investment return for the years ended March 31, 2022 and 2021, consisted of interest income and the net change in fair value of investments carried at fair value of \$(21,722) and \$31,331, respectively.

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. ACE's investments in U.S. agency obligations and 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, 2022 and 2021.

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

Note 3: Capital Assets

Capital assets at March 31, 2022 and 2021 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
March 31, 2022				
Software	\$ 539,131	\$ 5,791	\$ -	\$ 544,922
Furniture and equipment	4,932	-	-	4,932
	544,063	5,791	-	549,854
Less accumulated depreciation	465,340	32,460	-	497,800
Net capital assets	<u>\$ 78,723</u>	<u>\$ (26,669)</u>	<u>\$ -</u>	<u>\$ 52,054</u>
March 31, 2021				
Software	\$ 470,491	\$ 68,640	\$ -	\$ 539,131
Furniture and equipment	4,932	-	-	4,932
	475,423	68,640	-	544,063
Less accumulated depreciation	451,433	13,907	-	465,340
Net capital assets	<u>\$ 23,990</u>	<u>\$ 54,733</u>	<u>\$ -</u>	<u>\$ 78,723</u>

Note 4: Transactions with Coalition Members

ACE, NMPP, 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 \$450,000 and \$490,000 for administrative services and rents provided by coalition members during 2022 and 2021, respectively. At March 31, 2022 and 2021, amounts due to coalition members consisted of \$0 and \$3,000 payable to NMPP and \$43,440 and \$48,705 payable to MEAN.

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2022 and 2021

Note 5: Natural Gas Purchase and Supply Agreements

Under the natural gas supply agreement with ACE's natural gas supplier, ACE receives a fixed monthly fee to promote the selection of ACE to customers participating in the Nebraska Choice Gas Program. ACE entered into a revised agreement in February 2022. Under the revised agreement, ACE receives a lower annual marketing fee and less in advertising and marketing reimbursements beginning June 1, 2022. The marketing fee is fixed through May 31, 2025, which is the initial term of the revised agreement. The agreement provides for additional one year terms unless written notice is given by either party at least 24 months in advance of May 31 of the calendar year of termination.

The agreement includes provisions for ACE to pay for advertising and marketing costs related to the Nebraska Choice Gas Program and certain other amounts to third parties for referrals and promotion of ACE in the Nebraska Choice Gas Program, on behalf of and for the benefit of the natural gas supplier. Under the terms of the agreement, the natural gas supplier reimburses ACE for these payments, and thus these amounts are not reflected as revenue or expense in the statements of revenues, expenses and changes in net position. Effective February 2022, the revised agreement limits the reimbursement to certain mutually agreed upon amounts paid by ACE to third parties for referrals and promotion of ACE. The payments reimbursed totaled approximately \$62,000 and \$118,000 during 2022 and 2021, respectively.

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 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 ACE. All such claims were submitted for losses incurred in the normal course of business.