

Public Alliance for Community Energy

Independent Auditor's Report and Financial Statements

March 31, 2024 and 2023



*Public Alliance for
Community Energy*

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March 31, 2024 and 2023

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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, 2024, 2023 and 2022. 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, 2024, 2023 and 2022.

Condensed Balance Sheets and Financial Highlights

	March 31,			Change	
	2024	2023	2022	From 2023 to 2024	From 2022 to 2023
Cash, cash equivalents, and investments	\$ 3,521,673	\$ 3,320,897	\$ 3,072,954	\$ 200,776	\$ 247,943
Accounts receivable	109,597	101,135	93,061	8,462	8,074
Prepaid expenses	32,834	2,700	2,750	30,134	(50)
Capital assets, net	14,157	24,352	52,054	(10,195)	(27,702)
Total assets	\$ 3,678,261	\$ 3,449,084	\$ 3,220,819	\$ 229,177	\$ 228,265
Total current liabilities	\$ 56,070	\$ 47,909	\$ 66,490	\$ 8,161	\$ (18,581)
Investment in capital assets	14,157	24,352	52,054	(10,195)	(27,702)
Unrestricted	3,608,034	3,376,823	3,102,275	231,211	274,548
Total net position	3,622,191	3,401,175	3,154,329	221,016	246,846
Total liabilities and net position	\$ 3,678,261	\$ 3,449,084	\$ 3,220,819	\$ 229,177	\$ 228,265

Cash, cash equivalents, and investments increased in 2024 and 2023 due primarily to the net change in net position for each year. The net impact of the timing of collection of accounts receivable and payment of expenses also impacts the balances year to year.

Accounts receivable include monthly marketing fees from ACE's natural gas supplier and accrued interest on investments. Accrued interest receivable has increased each year with the rise in interest rates.

Prepaid expenses include the payment for an annual subscription service. In 2024, prepaid expenses also include a payment made for an annual maintenance agreement that begins in April 2024.

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 2024 and 2023 as software enhancements were less than depreciation.

Total current liabilities are impacted by the length of and start date of the Nebraska Choice Gas Program annual selection period.

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

	March 31,			Change	
	2024	2023	2022	From 2023 to 2024	From 2022 to 2023
Operating revenues	\$ 1,050,000	\$ 1,057,498	\$ 1,087,968	\$ (7,498)	\$ (30,470)
Operating expenses	649,402	640,809	597,245	8,593	43,564
Operating income	400,598	416,689	490,723	(16,091)	(74,034)
Investment return	170,418	30,157	(21,722)	140,261	51,879
Income before distribution to members	571,016	446,846	469,001	124,170	(22,155)
Distribution to members	(350,000)	(200,000)	(200,000)	(150,000)	-
Increase in net position	\$ 221,016	\$ 246,846	\$ 269,001	\$ (25,830)	\$ (22,155)

Operating revenues consist of marketing fees paid to ACE. Fees were lowered beginning June 2022 and are fixed through May 2027.

Operating expenses increased in 2023 due to a change in the natural gas supply agreement that resulted in an increase in advertising costs. Operating expenses are also impacted by the timing of and length of the Nebraska Choice Gas Program annual selection period.

The interest rate environment has resulted in increases in investment return in 2023 and 2024. Fluctuations in investment return resulted in lower investment return in 2022.

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,		
	2024	2023	2022
Distribution to members	\$ 350,000	\$ 200,000	\$ 200,000

Since forming in 1998, ACE has distributed nearly \$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, the selection period has been over multiple weeks each April. 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
2023-2024	12,800	80,400	16%	7
2022-2023	12,700	80,400	16%	7
2021-2022	13,200	80,100	17%	7

The competitiveness of the pricing offered by ACE’s natural gas supplier when competing for customer accounts has a significant impact on the number of accounts that choose ACE. ACE closely monitors the pricing offered by its natural gas supplier and works collaboratively to adjust when possible.

Risk Management Practices

ACE’s revenues are not dependent on ACE’s results in the Nebraska Choice Gas Program. 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 2024, 2023 and 2022. 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, 2024 and 2023

Assets	2024	2023
Current Assets		
Cash and cash equivalents	\$ 1,129,414	\$ 964,496
Short-term investments	1,194,824	1,273,436
Accounts receivable	109,597	101,135
Prepaid expenses	32,834	2,700
Total current assets	<u>2,466,669</u>	<u>2,341,767</u>
Noncurrent Assets		
Long-term investments	1,197,435	1,082,965
Capital assets, net	14,157	24,352
Total noncurrent assets	<u>1,211,592</u>	<u>1,107,317</u>
Total assets	<u>\$ 3,678,261</u>	<u>\$ 3,449,084</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 11,579	\$ 15,937
Due to coalition members	44,491	31,972
Total current liabilities	<u>56,070</u>	<u>47,909</u>
Net Position		
Investment in capital assets	14,157	24,352
Unrestricted	3,608,034	3,376,823
Total net position	<u>3,622,191</u>	<u>3,401,175</u>
Total liabilities and net position	<u>\$ 3,678,261</u>	<u>\$ 3,449,084</u>

Public Alliance for Community Energy
Statements of Revenues, Expenses and
Changes in Net Position
Years Ended March 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Marketing fees	\$ 1,050,000	\$ 1,057,498
Operating Expenses		
Administrative and general	626,498	613,107
Depreciation	22,904	27,702
Total operating expenses	<u>649,402</u>	<u>640,809</u>
Operating Income	<u>400,598</u>	<u>416,689</u>
Nonoperating Revenues		
Investment return	<u>170,418</u>	<u>30,157</u>
Income Before Distribution to Members	571,016	446,846
Distribution to Members	<u>(350,000)</u>	<u>(200,000)</u>
Increase in Net Position	221,016	246,846
Net Position, Beginning of Year	<u>3,401,175</u>	<u>3,154,329</u>
Net Position, End of Year	<u>\$ 3,622,191</u>	<u>\$ 3,401,175</u>

Public Alliance for Community Energy
Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	2024	2023
Operating Activities		
Cash received from natural gas supplier	\$ 1,062,397	\$ 1,071,964
Cash paid to vendors	(149,608)	(130,837)
Cash paid to coalition members	(511,077)	(511,518)
Net cash provided by operating activities	401,712	429,609
Noncapital Financing Activities		
Distribution to members	(350,000)	(200,000)
Capital and Related Financing Activities		
Purchase of capital assets	(12,709)	-
Investing Activities		
Interest received on investments	125,915	36,390
Purchases of investments	(1,400,000)	(1,200,000)
Proceeds from sales and maturities of investments	1,400,000	1,200,000
Net cash provided by investing activities	125,915	36,390
Increase in Cash and Cash Equivalents	164,918	265,999
Cash and Cash Equivalents, Beginning of Year	964,496	698,497
Cash and Cash Equivalents, End of Year	\$ 1,129,414	\$ 964,496
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 400,598	\$ 416,689
Depreciation	22,904	27,702
Changes in operating assets and liabilities		
Accounts receivable	183	3,749
Prepaid expenses	(30,134)	50
Accounts payable	(4,358)	(7,113)
Due to coalition members	12,519	(11,468)
Net Cash Provided by Operating Activities	\$ 401,712	\$ 429,609
Noncash Investing Activities		
Change in fair value of investments	\$ 35,858	\$ (18,056)

Public Alliance for Community Energy

Notes to Financial Statements

March 31, 2024 and 2023

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 communities 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, 2024 and 2023

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. At March 31, 2024 and March 31, 2023, 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 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, 2024 and 2023, accounts receivable consisted primarily of amounts due from ACE's natural gas supplier for the contractual marketing fee. 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. ACE does not believe an allowance for doubtful accounts is necessary at March 31, 2024 and 2023, as there were no delinquent accounts.

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, 2024 and 2023

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 – 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, 2024 and 2023.

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, 2024 and 2023 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, non capital financing and investing activities.

Distribution to Members

The Board of Directors approved a distribution to members of \$350,000 in January 2024 and \$200,000 in January 2023. The distribution was paid to members in February 2024 and February 2023, respectively.

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, 2024 and 2023

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, 2024 and 2023, ACE's deposits were covered by FDIC insurance and pledged government securities.

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, 2024 and 2023, ACE had the following investments, maturities, and credit ratings:

	Carrying Value	Maturities in Years		Credit Rating Moody's/S&P
		Less Than 1	1 - 5	
March 31, 2024				
Money market mutual fund				
- U.S. government obligations	\$ 1,100,000	\$ 1,100,000	\$ -	Aaa-mf/AAAm
Negotiable certificates of deposit	2,392,259	1,194,824	1,197,435	Not rated
	<u>\$ 3,492,259</u>	<u>\$ 2,294,824</u>	<u>\$ 1,197,435</u>	
March 31, 2023				
Money market mutual fund				
- U.S. government obligations	\$ 900,000	\$ 900,000	\$ -	Aaa-mf/AAAm
Negotiable certificates of deposit	2,356,401	1,273,436	1,082,965	Not rated
	<u>\$ 3,256,401</u>	<u>\$ 2,173,436</u>	<u>\$ 1,082,965</u>	

Public Alliance for Community Energy
Notes to Financial Statements
March 31, 2024 and 2023

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	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. 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, 2024 and 2023, 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, 2024 and 2023

Note 2: Deposits, Investments and Investment Return – Continued

Summary of Carrying Values

The carrying values of deposits and investments at March 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Deposits	\$ 29,414	\$ 64,496
Investments	<u>3,492,259</u>	<u>3,256,401</u>
	<u>\$ 3,521,673</u>	<u>\$ 3,320,897</u>

Included in the following balance sheet captions:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,129,414	\$ 964,496
Short-term investments	1,194,824	1,273,436
Long-term investments	<u>1,197,435</u>	<u>1,082,965</u>
	<u>\$ 3,521,673</u>	<u>\$ 3,320,897</u>

Investment Return

Investment return for the years ended March 31, 2024 and 2023, consisted of interest income and the net change in fair value of investments carried at fair value of \$170,418 and \$30,157, 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 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, 2024 and 2023.

Public Alliance for Community Energy
Notes to Financial Statements
March 31, 2024 and 2023

Note 3: Capital Assets

Capital assets at March 31, 2024 and 2023 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
March 31, 2024				
Software	\$ 544,922	\$ 12,709	\$ -	\$ 557,631
Furniture and equipment	4,932	-	-	4,932
	<u>549,854</u>	<u>12,709</u>	<u>-</u>	<u>562,563</u>
Less accumulated depreciation	<u>525,502</u>	<u>22,904</u>	<u>-</u>	<u>548,406</u>
Net capital assets	<u>\$ 24,352</u>	<u>\$ (10,195)</u>	<u>\$ -</u>	<u>\$ 14,157</u>
March 31, 2023				
Software	\$ 544,922	\$ -	\$ -	\$ 544,922
Furniture and equipment	4,932	-	-	4,932
	<u>549,854</u>	<u>-</u>	<u>-</u>	<u>549,854</u>
Less accumulated depreciation	<u>497,800</u>	<u>27,702</u>	<u>-</u>	<u>525,502</u>
Net capital assets	<u>\$ 52,054</u>	<u>\$ (27,702)</u>	<u>\$ -</u>	<u>\$ 24,352</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 \$470,000 annually for administrative services and rents provided by coalition members during 2024 and 2023. A summary of amounts due to coalition members at March 31, 2024 and 2023, is as follows:

	2024	2023
Due to NMPP	\$ -	\$ 182
Due to MEAN	<u>44,491</u>	<u>31,790</u>
Due to coalition members	<u>\$ 44,491</u>	<u>\$ 31,972</u>

Public Alliance for Community Energy
Notes to Financial Statements
March 31, 2024 and 2023

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 the current agreement in December 2023. The marketing fee is fixed through May 31, 2027, which is the initial term of the current agreement. The agreement provides for additional one year terms unless written notice is given by either party in accordance with the notice provisions of the agreement.

The agreement includes provisions for ACE to pay for certain mutually agreed upon 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 reimbursed 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. The payments reimbursed totaled approximately \$12,000 and \$11,000 during 2024 and 2023, 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.