Public Alliance for Community Energy

Independent Auditor's Report and Financial Statements

March 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Public Alliance for Community Energy
March 31, 2014 and 2013

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Public Alliance for Community Energy
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Public Alliance for Community Energy, which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Alliance for Community Energy as of March 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

BKD, LLP

Lincoln, Nebraska
May 28, 2014

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, 2014, 2013 and 2012. This information should be read 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, 2014, 2013 and 2012.

Condensed Balance Sheets and Financial Highlights

	March 31, 2014	March 31, 2013	March 31, 2012	Change 2014 to 2013	Change 2013 to 2012
Assets					
Cash and investments	$ 2,625,883	$ 2,461,589	$ 2,695,702	$ 164,294	$ (234,113)
Accounts receivable, net	123,983	230,934	127,438	(106,951)	103,496
Capital assets, net	69,942	57,395	53,656	12,547	3,739
Total assets	$ 2,819,808	$ 2,749,918	$ 2,876,796	$ 69,890	$ (126,878)
Liabilities and Net Position					
Total current liabilities	$ 83,746	$ 105,271	$ 118,359	$ (21,525)	$ (13,088)
Net investment in capital assets	69,942	39,671	33,544	30,271	6,127
Unrestricted	2,666,120	2,604,976	2,724,893	61,144	(119,917)
Total net position	2,736,062	2,644,647	2,758,437	91,415	(113,790)
Total liabilities and net position	$ 2,819,808	$ 2,749,918	$ 2,876,796	$ 69,890	$ (126,878)

Cash and investments increased in 2014 due to the increase in net position in the current year and timing of collection of accounts receivable. Cash and investments decreased in 2013 due to the decrease in net position in 2013.

The fluctuation in accounts receivable between years relates to the timing of when monthly marketing fees were received from ACE's natural gas supplier.

Increases in capital assets result from enhancements to ACE's software utilized in the Choice Gas Program.

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

	March 31, 2014	March 31, 2013	March 31, 2012	Change 2014 to 2013	Change 2013 to 2012
Operating revenues	$ 963,334	$ 955,090	$ 1,071,349	$ 8,244	$ (116,259)
Operating expenses	(780,747)	(885,960)	(1,061,474)	105,213	175,514
Investment income	8,828	17,080	22,360	(8,252)	(5,280)
Distributions to members	(100,000)	(200,000)	(150,000)	100,000	(50,000)
Increase (decrease) in net position	$ 91,415	$ (113,790)	$ (117,765)	$ 205,205	$ 3,975

Operating revenues as of June 1, 2011 consist solely of marketing fees paid to ACE under the terms of the natural gas supply agreement. This change to the agreement resulted in the decline in revenues in 2013 compared to 2012. With this change, ACE no longer recorded sales of MMBtu's or related cost of gas sold.

Operating expenses declined in 2014 as a result of restructuring of personnel, which resulted in decreased payroll and benefit costs.

ACE's Board of Directors approved a formula for the distribution of $100,000, $200,000, and $150,000 of net position to members in January 2014, November 2012 and January 2012, respectively. The distributions to members were paid in March of each fiscal year.

Capital Assets

ACE's capital assets consist primarily of computer software. These assets were purchased to improve ACE's 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 targeted advertising campaigns and a marketing partnership between ACE and its member communities prior to the 2013-2014 and 2012-2013 Choice Gas years, ACE successfully increased accounts during the April 2013 and April 2012 campaigns. During the 2013-2014 and 2012-2013 Choice Gas years, approximately 25,800 and 24,700 retail customer accounts, respectively, selected ACE. The selections represent approximately 32% in 2013 and 31% in 2012 of the retail customers participating in the program.

For the 2012-2013 Choice Gas year, the number of natural gas suppliers increased to five. No changes in natural gas suppliers occurred during the 2013-2014 Choice Gas year. While the addition of more natural gas suppliers in the Choice Gas program helps achieve ACE's goal of bringing low natural 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 natural gas customers. ACE is the only natural gas supplier that has participated in the Nebraska Choice Gas Program every year since its inception in 1998.

ACE continues to work with its natural gas supplier to provide competitively priced natural gas.

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 natural gas supplier, at competitive prices.

ACE's agreement with its natural gas supplier calls for a base marketing fee and other incentives to be paid by the natural gas supplier to ACE.

Summary of the Financial Statements

The financial statements, related notes to the financial statements 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 position. The statements of revenues, expenses, and changes in net position present ACE's operating results and changes in net position. 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. If you have questions about this report or need additional financial information, contact our Director of Finance and Accounting at the address shown below.

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Public Alliance for Community Energy

Balance Sheets

March 31, 2014 and 2013

Assets	2014	2013
Current Assets		
Cash and cash equivalents	$ 327,745	$ 108,722
Short-term investments	1,549,433	2,002,023
Accounts receivable, net	123,983	230,934
Total current assets	2,001,161	2,341,679
Noncurrent Assets		
Long-term investments	748,705	350,844
Capital assets, net	69,942	57,395
Total noncurrent assets	818,647	408,239
Total assets	$ 2,819,808	$ 2,749,918

Liabilities		
Current Liabilities		
Accounts payable	$ 20,311	$ 37,514
Due to coalition members	63,435	67,757
Total current liabilities	83,746	105,271
Net Position		
Net investment in capital assets	69,942	39,671
Unrestricted	2,666,120	2,604,976
Total net position	2,736,062	2,644,647
Total liabilities and net position	$ 2,819,808	$ 2,749,918

Public Alliance for Community Energy

Statements of Revenues, Expenses and Changes in Net Position

Years Ended March 31, 2014 and 2013

	2014	2013
Operating Revenue		
Marketing fees	$ 963,334	$ 955,090
Operating Expenses		
Administrative and general	753,688	854,250
Depreciation	27,059	31,710
Total operating expenses	780,747	885,960
Operating Income	182,587	69,130
Nonoperating Revenues		
Investment income	8,828	17,080
Income Before Distributions to Members	191,415	86,210
Distributions to Members	(100,000)	(200,000)
Increase (Decrease) in Net Position	91,415	(113,790)
Net Position, Beginning of Year	2,644,647	2,758,437
Net Position, End of Year	$ 2,736,062	$ 2,644,647

Public Alliance for Community Energy
Statements of Cash Flows
Years Ended March 31, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from natural gas supplier	$ 1,070,285	$ 851,520
Cash paid to vendors	(66,684)	(83,762)
Cash paid to coalition members	(708,529)	(801,225)
Net cash provided by (used in) operating activities	295,072	(33,467)
Noncapital Financing Activities		
Distributions to members	(100,000)	(200,000)
Net cash used in noncapital financing activities	(100,000)	(200,000)
Capital and Related Financing Activities		
Purchase of capital assets	(39,606)	(17,725)
Net cash used in capital and related financing activities	(39,606)	(17,725)
Investing Activities		
Interest received on investments	13,557	18,373
Purchases of investments	(1,950,000)	(1,300,000)
Proceeds from sales and maturities of investments	2,000,000	1,300,000
Net cash provided by investing activities	63,557	18,373
Increase (Decrease) in Cash and Cash Equivalents	219,023	(232,819)
Cash and Cash Equivalents, Beginning of Year	108,722	341,541
Cash and Cash Equivalents, End of Year	$ 327,745	$ 108,722
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	$ 182,587	$ 69,130
Depreciation	27,059	31,710
Changes in operating assets and liabilities		
Accounts receivable	106,951	(103,496)
Accounts payable	(17,203)	(27,984)
Due to coalition members, net	(4,322)	(2,827)
Net Cash Provided by (Used in) Operating Activities	$ 295,072	$ (33,467)
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	$ -	$ 17,724

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 SourceGas Distribution, LLC ("SourceGas") which provides Nebraska municipalities (either individually or collectively in a supplier group such as ACE) 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 (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.

Basis of Accounting and Presentation

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).

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, 2014 and 2013, cash equivalents consisted of a money market mutual fund.

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.

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 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. At March 31, 2014 and 2013, accounts receivable consisted of amounts due from ACE's natural gas supplier for the contractual marketing fee and other incentives. Management did not establish an allowance for doubtful accounts at March 31, 2014 and 2013, 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

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:

Net investment in capital assets - consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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, 2014 and 2013 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 component of net position.

Classification of Revenues

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

Distribution to Members

The Board of Directors approved a formula for the distribution of $100,000 in January 2014 and $200,000 in November 2012 of net position to members. The distributions were paid to members in March 2014 and March 2013, 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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no effect on the change in net position.

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

Implementation of New Accounting Pronouncements

In 2014, ACE implemented the provisions of GASB Statement No. 61, *The Financial Reporting Entity-Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The requirements of GASB Statements No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this standard did not have a significant impact on ACE's financial statements.

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. ACE's deposits were covered by FDIC insurance at March 31, 2014.

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 and municipal bonds. In the event that secured investment opportunities arise, other than those specified above, investment consent is required through the approval of two of the following: the Chair of the Board of Directors, Secretary-Treasurer of the Board of Directors or the ACE Executive Director.

At March 31, 2014, ACE had the following investments, maturities, and credit ratings:

		Maturities in Years		
	Fair Value	Less Than 1	1 - 5	Credit Rating Moody's/S&P
Money market mutual funds - US agencies	$ 5,000	$ 5,000	$ -	Aaa-mf/AAAm
Negotiable certificates of deposit	2,298,138	1,549,433	748,705	Not rated
	$2,303,138	$ 1,554,433	$ 748,705	

Note 2: Deposits, Investments and Investment Return - Continued

Investments - Continued

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

		Maturities in Years		
	Fair Value	Less Than 1	1 - 5	Credit Rating Moody's/S&P
Money market mutual funds - US agencies	$ 5,000	$ 5,000	$ -	Aaa-mf/AAAm
Negotiable certificates of deposit	2,352,867	2,002,023	350,844	Not rated
	$2,357,867	$ 2,007,023	$ 350,844	

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.

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. At March 31, 2014 and 2013, ACE's investments in money market mutual funds and negotiable certificates of deposit are held in safekeeping in a broker account with ACE's primary financial institution.

Note 2: Deposits, Investments and Investment Return - Continued

Investments - Continued

Concentration of Credit Risk **-** Concentration of credit risk is the risk associated with the amount of investments 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. 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.

Concentrations greater than 5% as of March 31, 2014 are shown below:

Negotiable Certificates of Deposits	
Bank India New York, NY	10.85%
Compass Bank Birmingham, AL	8.67%
Discover Bank Greenwood, DE	10.85%
GE Capital Retail Bank Draper, UT	8.69%
Marlin Business Bank Salt Lake City, UT	10.84%
Newfield National Bank, NJ	10.82%
State Bank of India, NY	10.85%

Concentrations greater than 5% as of March 31, 2013 are shown below:

Negotiable Certificates of Deposits	
Ally Bank Midvale, Utah	8.52%
American Express Centurion Bank	8.50%
Bank of China NYC	6.36%
Discover Bank Greenwood, DE	8.48%
GE Capital Bank	10.62%
Goldman Sachs Bank USA	8.49%
Merrick Bank South Jordan, UT	8.48%
State Bank of India, NY	8.49%

Note 2: Deposits, Investments and Investment Return - Continued

Summary of Carrying Values

The carrying values of deposits and investments at March 31, 2014 and 2013 are as follows:

	2014	2013
Deposits	$ 322,745	$ 103,722
Investments	2,303,138	2,357,867
	$ 2,625,883	$ 2,461,589

Included in the following balance sheet captions:

	2014	2013
Cash and cash equivalents	$ 327,745	$ 108,722
Short-term investments	1,549,433	2,002,023
Long-term investments	748,705	350,844
	$ 2,625,883	$ 2,461,589

Investment Income

Investment income for the years ended March 31, 2014 and 2013, consisted of interest income and the net increase in fair value of investments carried at fair value of $8,828 and $17,080, respectively.

Note 3: Capital Assets

Capital assets at March 31, 2014 and 2013 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
March 31, 2014				
Software	$ 352,590	$ 39,606	$ -	$ 392,196
Furniture and equipment	20,987	-	-	20,987
	373,577	39,606	-	413,183
Less accumulated depreciation	316,182	27,059	-	343,241
Net capital assets	$ 57,395	$ 12,547	$ -	$ 69,942
March 31, 2013				
Software	$ 317,141	$ 35,449	$ -	$ 352,590
Furniture and equipment	102,908	-	81,921	20,987
	420,049	35,449	81,921	373,577
Less accumulated depreciation	366,393	31,710	81,921	316,182
Net capital assets	$ 53,656	$ 3,739	$ -	$ 57,395

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 $660,000 and $770,000 for administrative services and rents provided by coalition members during 2014 and 2013, respectively. At March 31, 2014 and 2013, amounts due to coalition members consisted of $59,809 and $64,737 payable to POOL and $3,626 and $3,020 payable to MEAN, respectively.

Note 5: Natural Gas Purchase and Supply Agreements

Effective June 1, 2011, ACE entered into a marketing agreement with its natural gas supplier with an initial term through May 31, 2015. Under the marketing agreement, ACE receives a fixed monthly fee and other incentives to promote the selection of ACE to customers participating in the Nebraska Choice Gas Program. The agreement extends an additional year unless twenty-four month notice is given by either party prior to June 1 of each year. Termination notice was given by the natural gas supplier to terminate the marketing agreement effective May 31, 2016 unless the marketing agreement can be successfully renegotiated between ACE and its natural gas supplier. ACE intends to renegotiate the marketing agreement it has with its current natural gas supplier as long as the terms of the new agreement are in line with ACE's mission.

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.