



Staff Report Item 14

TO: East Bay Community Energy Board of Directors
FROM: Jason Bartlett, Finance Manager
SUBJECT: Fiscal Year 2018-2019 Audited Financial Statements
DATE: November 20, 2019

Recommendation

Acknowledge and file the Fiscal Year 2018-2019 audited financial statements.

Background and Discussion

EBCE hires an independent auditor to verify the annual financial statements each year. Earlier this year, EBCE selected Pisent & Brinker, LLP as the auditor through a formal RFP. They were EBCE's auditor for the previous audit and their familiarity with EBCE and CCA finance space made them the best choice.

This year's current audit focuses on EBCE's financial activities of the fiscal year dating from July 1, 2018 to June 30, 2019

P&B engaged with an ad-hoc committee of board members throughout the audit process and was assisted by EBCE staff. The audit was reviewed in full by the Finance Committee on Friday, October 11, 2019

The final audited financial statements provide an independently verified, accurate portrait of EBCE's financial position as of June 30, 2019. These financial statements include statements on the following EBCE financial activities:

- Net Position
- Revenues, Expenses, and Changes in Net Position
- Cash Flows
- Accompanying Notes

Highlights from the Statements for the fiscal year include:

- Total assets increased from \$33.1 million to \$151.3 million, which is comprised mostly of cash and equivalents, accounts receivable, and accrued revenue
- Total liabilities increased from about \$30 million to \$70 million, and is comprised mostly of accrued cost of electricity and debt outstanding to Barclays Bank
- Net position increased from \$3 million to \$81.4 million, approximately, with \$64.2 million unrestricted

- Operating revenues for the year was approximately \$387.3 million
- Operating and interest expenses were approximately \$309.2 million
- Outstanding debt decreased from \$18.8 million to about \$12.5 million

Fiscal Impact

This report has no fiscal impact.

Attachments

- A. EBCE's Audited Financial Statements June 30, 2019
- B. Presentation from the Auditor



Financial Statements

Years Ended June 30, 2019 and June 30, 2018
With Independent Auditor's Report

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to the Basic Financial Statements	13



Independent Auditor's Report

To the Board of Directors
East Bay Community Energy
Authority
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of East Bay Community Energy Authority (EBCE), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise EBCE's 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 audits 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 EBCE as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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, 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.

Perenti & Brink LLP

Santa Rosa, California

October 8, 2019

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

The Management's Discussion and Analysis provides an overview of East Bay Community Energy Authority's (EBCE) financial activities as of and for the years June 30, 2019 and 2018. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of EBCE was made possible in 2002 by the passage of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

EBCE was created as a California Joint Powers Authority (JPA) effective December 1, 2016. EBCE was established to provide electric power at competitive costs as well as to provide other benefits within Alameda County, including reducing greenhouse gas emissions related to the use of power, procuring energy with a priority on the use and development of local renewable resources, stimulating local job creation through various programs and development, promote personal and community ownership of renewable resources, as well as promoting long-term electric rate stability and energy reliability for residents and businesses. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction, EBCE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. EBCE is responsible for the acquisition of electric power for its service area.

Prior to the creation of East Bay Community Energy as a JPA, Alameda County managed the financial and administrative activities related to the formation of this Community Choice Aggregation (CCA) program. Pursuant to a cooperation agreement with the County of Alameda, EBCE accepted an obligation to reimburse Alameda County for specified costs to initiate the entity and its programs which were incurred prior to the JPA agreement, as well as for costs incurred during the start-up phase of EBCE.

In June 2018, EBCE began providing service to its first approximately 55,000 customer accounts as part of its initial enrollment phase. This initial phase included municipal and business accounts. The final major enrollment of residential accounts began in November 2018, bringing the total customer count to approximately 545,000. Starting in April of 2019, EBCE began its final phase of enrollments to include net energy metering (NEM) customers on a rolling two-month basis for a full calendar year, depending on their annual true-up dates. NEM enrollments are about 4,000 per basis, thus adding approximately an additional 48,000 accounts.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

Financial Reporting

EBCE presents its financial statements as an enterprise fund under the economic resources measurement focus and accrual basis of accounting. These statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this report

This report is divided into the following sections:

- Management discussion and analysis, which provides an overview of operations.
- The basic financial statements:
 - The *Statements of Net Position* includes all of EBCE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of EBCE's revenue and expenses for the years shown.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as capital asset acquisitions and debt financing.
 - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

FINANCIAL HIGHLIGHTS

The following table is a summary of EBCE's assets, liabilities, and net position as of June 30:

	<u>2019</u>	<u>2018</u>
Current assets	\$ 128,753,445	\$26,884,073
Noncurrent assets		
Capital assets, net	48,842	24,961
Other noncurrent assets	<u>22,507,440</u>	<u>6,158,176</u>
Total noncurrent assets	<u>22,556,282</u>	<u>6,183,137</u>
Total assets	<u>151,309,727</u>	<u>33,067,210</u>
Current liabilities	57,423,768	11,182,690
Noncurrent liabilities	<u>12,512,500</u>	<u>18,800,000</u>
Total liabilities	<u>69,936,268</u>	<u>29,982,690</u>
Net position		
Investment in capital assets	48,842	24,961
Restricted for security collateral	17,100,000	-
Unrestricted (deficit)	<u>64,224,617</u>	<u>3,059,559</u>
Total net position	<u>\$ 81,373,459</u>	<u>\$ 3,084,520</u>

Current assets

Current assets reached \$128,753,000 by the end of fiscal year 2018-19 and are comprised of the following major categories: \$43,774,000 cash and restricted cash, \$71,676,000 in accounts receivable and accrued revenue, and \$13,303,000 in prepaid expenses and other deposits. Accounts receivable reflects invoices that have been delivered to customers that remain unpaid at the end of the period. Accrued revenue accounts for electricity use by EBCE customers before invoicing to those customers has occurred. Service to its initial customer base was phased in throughout the month of June 2018, resulting in very few billing-period end dates occurring by the end of fiscal year 2017-18. As a result, almost all the revenue for that month was invoiced after the year and is reported as accrued revenue in the current asset section of the Statement of Net Position. EBCE's second and largest customer enrollment occurred in November 2018. This resulted in large increases from 2017-18 to 2018-19 in cash, accounts receivable and accrued revenue. Prepaid expenses and deposits consist mostly of purchases of electricity and capacity for delivery after the fiscal year.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

Capital assets

Capital assets increased to \$49,000 in 2018-19 as a result of purchases of furniture and equipment. This amount is reported net of depreciation. EBCE does not own assets used for electricity generation or distribution.

Other noncurrent assets

Other noncurrent assets of \$22,507,000 consists of restricted cash for security collateral and various deposits for regulatory and other operating purposes. Included are deposit postings with the California Public Utilities Commission (CPUC) and EBCE's scheduling coordinator responsible for interacting directly with the electricity market through the California Independent System Operator.

Current liabilities

Current liabilities of \$57,424,000 at the end of 2018-19 mark an increase of \$46,241,000 from the prior year. For both years, this consists primarily of the cost of electricity delivered to customers that is not yet due to be paid by EBCE. At the end of 2017-18, current liabilities included \$4,637,000 in debt obligation to Alameda County that was repaid during 2018-19. Other components of current liabilities as of June 30, 2019, include trade accounts payable, and user taxes and surcharges due to other governments.

Noncurrent liabilities

During the fiscal year 2017-18, EBCE borrowed \$18,800,000 from Barclays Bank. Debt was incurred to cover working capital needs relating to the procurement of electricity, as payments and deposits to suppliers are often required in advance of collection of revenues from customers. At June 30, 2018, EBCE had a total of \$23,437,000 outstanding debt. During the fiscal year 2018-19 EBCE reduced its debt obligations by paying off its debt to Alameda County and by making payments on its bank debt. Shortly after the fiscal year 2018-19 EBCE repaid the remaining balance of its bank debt ahead of schedule, and is further discussed in Note 7.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

The following table is a summary of EBCE's results of operations.

	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 387,251,933	\$ 16,142,192
Interest income	248,702	-
Total income	<u>387,500,635</u>	<u>16,142,192</u>
Operating expenses	(307,397,737)	(10,821,190)
Interest and related expenses	<u>(1,813,959)</u>	<u>(432,952)</u>
Total expenses	<u>(309,211,696)</u>	<u>(11,254,142)</u>
Change in net position	<u>\$ 78,288,939</u>	<u>\$ 4,888,050</u>

Operating revenues

EBCE enrolled its first wave of municipal and commercial customer accounts in June 2018. Operating revenues for the fiscal year 2017-18 consist entirely of sales for that month. EBCE began providing service to residential accounts starting in November 2018, which increased its operating revenues for the remainder of the fiscal year. Throughout both customer enrollment periods, EBCE has been able to maintain favorable customer retention rates.

Operating expenses

EBCE's largest expense for fiscal years 2017-18 and 2018-19 is the purchase of electricity needed to provide for retail customer use. EBCE procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs. Expenses for staff compensation, consulting, and other general and administrative expenses increased in 2018-19 from 2017-18 as the organization continued to grow with business demands.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

ECONOMIC OUTLOOK

California Independent System Operator (CAISO) system power prices through the year end June 2019 experienced some level of volatility. This level of volatility was generally consistent with year to year historical volatility that occurs due to seasonal weather changes. These weather changes included short periods of more extreme cold weather and hot weather. Regional natural gas infrastructure issues along with nationwide weather extremes also had an impact at certain times on natural gas prices and therefore on market energy prices. Outside of a few periods of extreme weather changes, market energy prices remained relatively stable.

EBCE has implemented a formal risk management policy that includes guidance on target hedge levels. The target hedge percentages depend on factors including time and the hedge pricing relative to historical energy costs. In general, EBCE targets hedging 60-100% of its exposure in energy products on a short-duration basis of under a year and aims to hedge greater than 80% of its exposure going into any particular month. EBCE has complied with its risk management policy and regulations.

Following its Phase I and Phase II customer enrollments EBCE has retained a strong customer and revenue base with low opt-out levels. EBCE is actively engaged on a number of ongoing regulatory proceedings and discussions on topics that can impact EBCE's energy procurement requirements and therefore energy related expenditures. During year end June 2019, the Power Charge Indifference Adjustment (PCIA), which acts as a PG&E exit fee to EBCE customers, completed Phase 2 which established a calculation methodology. This provides some level of additional certainty on EBCE revenues. Going forward there may be future changes and enhancements to the methodology and annually there will be an energy true-up to adjust the PCIA to reflect the latest mark to market conditions.

REQUEST FOR INFORMATION

This financial report is designed to provide EBCE's customers and creditors with a general overview of the organization's finances and to demonstrate EBCE's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 1999 Harrison Street, 8th Floor, Oakland, CA 94612.

Respectfully submitted,

Nick Chaset, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

**EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 38,773,514	\$ 772,590
Accounts receivable, net of allowance	43,551,376	15,215
Accrued revenue	28,125,065	16,127,190
Market settlements receivable	6,724,942	-
Prepaid expenses	4,816,629	6,469,078
Deposits	1,761,919	-
Restricted cash	5,000,000	3,500,000
Total current assets	128,753,445	26,884,073
Noncurrent assets		
Capital assets, net of depreciation	48,842	24,961
Deposits	5,407,440	6,158,176
Restricted cash	17,100,000	-
Total noncurrent assets	22,556,282	6,183,137
Total assets	151,309,727	33,067,210
LIABILITIES		
Current liabilities		
Accounts payable	2,228,690	904,109
Accrued cost of electricity	50,768,250	5,175,476
Accrued interest payable	-	318,060
Accrued payroll and benefits	319,263	148,389
Deferred revenue	23,258	-
User taxes and energy surcharges due to other governments	3,484,307	-
Loans payable to Alameda County	-	4,636,656
Security deposits - energy suppliers	600,000	-
Total current liabilities	57,423,768	11,182,690
Noncurrent liabilities		
Note payable to bank	12,512,500	18,800,000
Total liabilities	69,936,268	29,982,690
NET POSITION		
Investment in capital assets	48,842	24,961
Restricted for security collateral	17,100,000	-
Unrestricted	64,224,617	3,059,559
Total net position	\$ 81,373,459	\$ 3,084,520

**EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Electricity sales, net	\$ 387,065,191	\$ 16,142,192
Other revenue	186,742	-
Total operating revenues	<u>387,251,933</u>	<u>16,142,192</u>
OPERATING EXPENSES		
Cost of electricity	293,176,788	7,116,223
Contract services	9,609,129	2,109,187
Staff compensation	3,830,701	1,268,342
General and administration	767,035	322,134
Depreciation	14,084	5,304
Total operating expenses	<u>307,397,737</u>	<u>10,821,190</u>
Operating income	<u>79,854,196</u>	<u>5,321,002</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	248,702	-
Interest and related expense	(1,813,959)	(432,952)
Total nonoperating revenues (expenses)	<u>(1,565,257)</u>	<u>(432,952)</u>
CHANGE IN NET POSITION	78,288,939	4,888,050
Net position at beginning of year	<u>3,084,520</u>	<u>(1,803,530)</u>
Net position at end of year	<u>\$ 81,373,459</u>	<u>\$ 3,084,520</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 347,919,861	\$ 475
Receipts from market settlements	600,000	-
Other operating receipts	246,742	-
Payments to suppliers for electricity	(253,588,690)	(14,568,001)
Payments to suppliers for other goods and services	(9,140,877)	(1,210,865)
Payments to employees for services	(3,678,693)	(1,119,953)
Other operating payments	(12,905,088)	-
Net cash provided (used) by operating activities	69,453,255	(16,898,344)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Note proceeds from bank	9,500,000	18,800,000
Loan proceeds from Alameda County	-	2,393,800
Principal payments on notes and loans	(20,424,156)	-
Interest and related expense payments	(2,155,196)	-
Net cash provided (used) by non-capital financing activities	(13,079,352)	21,193,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(21,681)	(22,866)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	248,702	-
Net change in cash and cash equivalents	56,600,924	4,272,590
Cash and cash equivalents at beginning of year	4,272,590	-
Cash and cash equivalents at end of year	\$ 60,873,514	\$ 4,272,590
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 38,773,514	\$ 772,590
Restricted cash	22,100,000	3,500,000
Cash and cash equivalents	\$ 60,873,514	\$ 4,272,590

Noncash Non-Capital Financing Activities:

Expenses of \$770,392 were financed directly from loan proceeds during the year ended June 30, 2018

**EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	2019	2018
Operating income	\$ 79,854,196	\$ 5,321,002
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	14,084	5,304
Expenses paid directly from loan proceeds		770,392
Revenue adjusted for allowance for uncollectible accounts	1,945,052	76,539
(Increase) decrease in:		
Accounts receivable	(45,557,750)	(15,215)
Market settlements receivable	(6,724,942)	-
Accrued revenue	(11,921,336)	(16,203,729)
Prepaid expenses	1,652,449	(6,469,078)
Noncurrent deposits	(1,011,183)	(6,158,176)
Increase (decrease) in:		
Accounts payable	1,332,160	450,752
Accrued cost of electricity	45,592,774	5,175,476
Accrued payroll and benefits	170,874	148,389
Deferred revenue	23,258	-
User taxes due to other governments	3,483,619	-
Security deposits from energy suppliers	600,000	-
Net cash provided (used) by operating activities	\$ 69,453,255	\$ (16,898,344)

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

East Bay Community Energy Authority (EBCE) is a joint powers authority created on December 1, 2016. As of June 30, 2019, parties to its Joint Powers Agreement consist of the following local governments, plus one representative (non-voting) from the Community Advisory Committee (CAC).

County	Cities	
Alameda	Albany	Livermore
	Berkeley	Oakland
	Dublin	Piedmont
	Emeryville	San Leandro
	Fremont	Union City
	Hayward	

EBCE is separate from and derives no financial support from its members. EBCE is governed by a Board of Directors whose membership is composed of elected officials representing the member governments.

A core function of EBCE is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

EBCE began its energy delivery operations in June 2018. Electricity is acquired from electricity suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

EBCE's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

EBCE's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position.

When both restricted and unrestricted resources are available for use, it is EBCE's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Cash Flows, EBCE has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with an original maturity of three months or less. For the purpose of the Statements of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements of Net Position includes collateral on a bank loan, as well as a required minimum balance to be maintained in one of its bank accounts.

DEPOSITS

Various energy contracts entered into by EBCE require EBCE to provide the supplier with a security deposit. The deposits are generally held for the term of the contract. Deposits are classified as current or noncurrent assets depending on the length of the time the deposits will be held. While these energy contract related deposits make up most of this item, other components of deposits include those for regulatory and other operating purposes.

CAPITAL ASSETS AND DEPRECIATION

EBCE's policy is to capitalize furniture and equipment valued over \$1,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture and leasehold improvements. EBCE does not own any electric generation assets.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. EBCE did not have any such outstanding borrowings as of June 30, 2019 and 2018.

Restricted: This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

OPERATING AND NON-OPERATING REVENUE

Operating revenues include revenue derived from the provision of energy to end-use retail customers, wholesale customers, and grant revenue earned from the delivery of program activities.

Interest income is considered “non-operating revenue”.

REVENUE RECOGNITION

EBCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business EBCE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from EBCE's participation in the California Independent System Operator's centralized market. The cost to acquire electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, EBCE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). EBCE obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. EBCE recognizes an expense for Certificates on a monthly basis that corresponds to the volume sold to its customers for its various renewable and carbon free products. This expense recognition increases accrued cost of electricity reported on the Statements of Net Position until the time the payment has been made to the supplier.

EBCE purchases capacity commitments from qualifying generators to comply with the California Energy Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

STAFFING COSTS

EBCE fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. EBCE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. EBCE provides compensated absences, and the related liability is recorded in these financial statements.

INCOME TAXES

EBCE is a joint powers authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

2. CASH AND CASH EQUIVALENTS

EBCE maintains its cash in both interest-bearing and non-interest-bearing accounts at River City Bank of Sacramento, California. EBCE's deposits with River City Bank are subject to California Government Code Section 16521 which requires that River City Bank collateralize public funds in excess of the Federal Deposit Insurance Corporation limit of \$250,000 by 110%. EBCE has no deposit or investment policy that addresses a specific type of risk that would impose restrictions beyond this code. Accordingly, the amount of risk is not disclosed. EBCE monitors its risk exposure to River City Bank on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2019</u>	<u>2018</u>
Accounts receivable from customers	\$45,572,967	\$ 15,215
Allowance for uncollectible accounts	<u>(2,021,591)</u>	<u>-</u>
Net accounts receivable	<u>\$43,551,376</u>	<u>\$ 15,215</u>

The majority of account collections occur within the first few months following customer invoicing. EBCE estimates that a portion of the billed accounts will not be collected. EBCE continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. Although collection success generally decreases with the age of the receivable, EBCE continues to have success collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

4. MARKET SETTLEMENTS RECEIVABLE

EBCE receives generation scheduling and other services from a registered, California Independent System Operator (CAISO) scheduling coordinator. Market settlements due from the scheduling coordinator were approximately \$6,725,000 and \$0 as of June 30, 2019 and 2018, respectively.

5. DEPOSITS

Deposits are comprised of security deposits paid by EBCE for general and energy supply collateral, as well as collateral held by CAISO for EBCE's market participation.

6. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2019, was as follows:

	<u>Furniture & Equipment</u>	<u>Leasehold Improvements</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at June 30, 2017	\$ -	\$ -	\$ -	\$ -
Additions	30,265		(5,304)	24,961
Balances at June 30, 2018	30,265	-	(5,304)	24,961
Additions	27,596	10,369	(14,084)	23,881
Balances at June 30, 2019	<u>\$ 57,861</u>	<u>\$ 10,369</u>	<u>\$ (19,388)</u>	<u>\$ 48,842</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

7. DEBT

Loans payable to Alameda County

In April 2017, EBCE entered into a cooperative agreement with Alameda County. The purpose of the agreement was to reimburse the County for services, costs, and expenses incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement allowed for the repayment of advanced costs to be in the form of a loan not to exceed \$5,500,000, with interest accrued based on the Alameda County Pooled Investment Fund earnings rate plus two percent per annum. As of June 30, 2018, EBCE had drawn funds or become liable for expenses incurred of approximately \$4,637,000. Principal and interest payments dates are not specified in the agreement. The loan was repaid in February 2019.

Note payable to bank

In March 2018, EBCE arranged to borrow up to \$50 million through a revolving credit agreement from Barclays Bank to provide cash to pay for working capital before sufficient revenue is to be collected from customers. The loan is secured by assigning first priority security interest in pledged revenues as well as interest in certain bank accounts held by EBCE. Principal can be drawn as needed and interest is accrued on the outstanding balance. The stated maturity date is March 15, 2021, with interest payable each month commencing on November 1, 2018. The interest rate at June 30, 2019 is computed at LIBOR plus a rate of 5.25%, for a total rate of 7.69%. In the event of default, the note will become immediately due and payable.

In August 2019 EBCE paid off the balance of its revolving credit agreement. In addition, EBCE renegotiated the borrowing rate on the credit facility to LIBOR plus 1.75% and reduced the reserve requirement to \$7.0 million from \$17.1 million.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

7. DEBT (continued)

Loan principal activity and balances were as follows for the following direct borrowings:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2018				
Alameda County	\$ 1,472,464	\$ 3,164,192	\$ -	\$ 4,636,656
Bank	-	18,800,000	-	18,800,000
Total	<u>\$ 1,472,464</u>	<u>\$ 21,964,192</u>	<u>\$ -</u>	<u>23,436,656</u>
Amounts due within one year				4,636,656
Amounts due after one year				<u>\$ 18,800,000</u>
Year ended June 30, 2019				
Alameda County	\$ 4,636,656	\$ -	\$ (4,636,656)	\$ -
Bank	18,800,000	9,500,000	(15,787,500)	12,512,500
Total	<u>\$ 23,436,656</u>	<u>\$ 9,500,000</u>	<u>\$ (20,424,156)</u>	12,512,500
Amounts due within one year				-
Amounts due after one year				<u>\$ 12,512,500</u>

8. DEFINED CONTRIBUTION RETIREMENT PLAN

The East Bay Energy Authority Plan 401(a) (Plan) is a defined contribution retirement plan administered by LT Trust. As of June 30, 2019, there were 23 plan members. EBCE is required to contribute a match up to 6% of annual covered payroll to the Plan and contributed \$277,000 and \$18,000 during the years ended June 30, 2019 and 2018, respectively. EBCE has elected out of the Social Security system for employees eligible for the 401(a) Plan. As part of this election, EBCE makes required “replacement” contributions to the Plan. Plan provisions are established and may be amended by the Board of Directors.

9. RISK MANAGEMENT

EBCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year ended June 30, 2019, EBCE purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was \$3,000,000.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

10. PURCHASE COMMITMENTS

EBCE had outstanding non-cancelable power purchase-related commitments of approximately \$689 million that have not yet been provided under power purchase agreements that continue to December 2022.

The following table details the obligations on existing energy, renewable contracts, and resource adequacy (RA) as of June 30, 2019:

Year ended June 30,	
2020	\$ 285,000,000
2021	124,000,000
2022	22,000,000
2023	21,000,000
2024	14,000,000
2025-2042	223,000,000
Total	<u>\$ 689,000,000</u>

As of June 30, 2019, EBCE had outstanding non-cancelable commitments to professional service providers for services to be performed of approximately \$8.9 million from July 2019 through October 2020.

11. OPERATING LEASE

Rental expense for EBCE's office space was \$214,000 and \$99,000 for the years ended June 30, 2019 and 2018, respectively. In February 2019, EBCE entered into a 39-month non-cancelable lease for its office premise from August 1, 2019 through October 31, 2022.

Future minimum lease payments under this lease is as follows:

Year ended June 30,	
2020	\$ 382,000
2021	429,000
2022	442,000
2023	149,000
Total	<u>\$ 1,402,000</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

12. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for years ending after June 30, 2019:

GASB Statement No. 87, Leases, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about the government's leasing activities.

13. PG&E BANKRUPTCY

PG&E provides transmission and distribution services to EBCE customers and serves as billing agent for EBCE. PG&E is also responsible for collecting payments on behalf of EBCE. In January 2019, PG&E filed for Chapter 11 bankruptcy protection. EBCE expects the utility will continue to operate in a business-as-usual fashion and that EBCE's revenues collected by PG&E will continue to flow through to EBCE with no material interruption.

PG&E has taken actions in its bankruptcy motions and subsequent court motions that specify they will continue to serve as a billing agent on behalf of EBCE and does not intend to cease or disrupt those services. To date there have been no disruptions to these services.

14. POWER CHARGE INDIFFERENCE ADJUSTMENT

The CPUC and EBCE, along with other CCAs, are in proceedings to determine the Power Charge Indifference Adjustment (PCIA), which is a rate PG&E charges CCA customers to account for the net costs for energy PG&E procured prior to those customers joining a CCA's service. While the outcome of this decision is unknown at this time, an increase or decrease in the rate changes the spread between what a customer pays as an EBCE customer compared to what they would pay as a PG&E customer.

East Bay Community Energy

*Report to the
Board of Directors
by Piseni & Brinker LLP
November 20, 2019*



PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

An independently owned member
RSM US Alliance



Introduction...

- Brett Bradford, CPA
 - Audit Partner
 - 16 years in public accounting and performing audits of governmental entities
 - Currently working with several CCA's through the state

Audits of the periods ended June 30, 2019 and 2018 Financial Statements

Relative Roles & Responsibilities

- **Management** is responsible for preparing the Financial Statements and establishing a system of internal control
- **Auditor** is responsible for auditing the Financial Statements
 - Considering risks of material misstatement in the Financial Statements – Inherent risk
 - Considering internal controls relevant to the Financial Statements – Control risk
 - Performing tests of year-end balances based on risk assessment
 - Evaluating adequacy of disclosures

Audits of the periods ended June 30, 2019 & 2018 Financial Statements

- Audit is complete. We have reported:
 - Unqualified opinion – Based on our audit, the financial statements are materially accurate.
 - No significant deficiencies in internal control have been identified.

Risk Assessment for the periods ended June 30, 2019 & 2018

- Significant areas of focus
 - Review policies and procedures for various types of financial transactions
 - Revenue recognition
 - Accounts receivable and accrued revenue
 - Test a sample of customer billings
 - Relate total cash received subsequent to year-end to revenue (accrued revenue)
 - Cut-off
 - Review revenue recognition through year-end and method for determining (accrued revenue)

Risk Assessment for the periods ended June 30, 2019 & 2018

- Cash – Existence
 - Confirmation sent to financial institutions
- Accrued cost of electricity and accounts receivable
 - Review subsequent bills from electricity providers and cash payments and analyze margin
- Notes payable
 - Confirmations sent directly
- Financial Statement Note Disclosures – Complete and without bias

Required Board Communications

- The significant accounting policies adopted by EBCE throughout the periods audited appeared appropriate and consistently applied.
- No alternative treatments of accounting principles for material items in the financial statements were discussed with management.

Required Board Communications

Other Required Communications with those charged with governance:

- We did not propose any adjustments to the financial statements.
- We did not identify any significant or unusual transactions or applications of accounting principles where a lack of authoritative guidance exists.

Required Board Communications

- There were no disagreements with management concerning the scope of our audits, the application of accounting principles, or the basis for management's judgments on any significant matters.

Required Board Communications

- We did not encounter any difficulties in dealing with management during the performance of our audits.

Questions?

- Brett Bradford: 707-577-1582