



Staff Report Item 10

TO: Ava Community Energy Authority
FROM: Jason Bartlett, Senior Finance Manager
SUBJECT: Audited Financial Statements for Fiscal Year 2022-2023
DATE: November 15, 2023

Recommendation

Accept and file the audited financial statements for fiscal year 2022-2023

Background and Discussion

EBCE hires an independent auditor to verify the annual financial statements each year. In June of 2019, EBCE selected Pisenti & Brinker, LLP (P&B) as the Authority's auditor through a formal RFP. They were EBCE's auditor the previous year and their familiarity with EBCE and CCA finance space made them the best choice.

This year's audit focuses on EBCE's financial activities of the fiscal year dating from July 1, 2022, to June 30, 2023.

P&B engaged with an ad-hoc committee of board members throughout the audit process and was assisted by EBCE staff.

The final audited financial statements provide an independently verified, accurate portrait of EBCE's financial position as of June 30, 2023. These financial statements include EBCE's financial activities related to:

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

Highlights from the Statements for the fiscal year include:

Auditor's Report

The auditors were able to conclude the following about Ava's financial statements:

- Free from material misstatement
- Present fairly, in all material respects, Ava's financial position as of June 30, 2023
- Changes in financial position and cash flows are in accordance with generally accepted accounting principles (GAAP)
- Management operated within Ava's defined internal controls.

Statements of Net Position (Balance Sheet)

- Total Assets increased from \$344.8MM to \$505.5MM
 - Primarily as increase in cash and equivalents, accrued revenue, and account receivables
 - GASB-62 fund was increased to \$53.0MM of deferred revenues
- Total Liabilities decreased from \$96.5MM to \$85.0MM primarily due to a reduction in security deposits held for energy suppliers
- Total Net Position increased from \$232.5MM to \$362.7MM as driven by the changes mentioned above for assets and liabilities
 - $\text{Net Position} = \text{Assets} - \text{Liabilities} - \text{Deferred Revenue}$
- No debt was issued in the fiscal year

Statements of Revenue, Expenses, and Changes in Net Position (Income Statement)

- Net Operating Revenue was approximately \$817.9MM, with \$37.2MM deferred for rate stabilization, and \$6.2MM from power purchase agreement reparations
- Operating Expenses were approximately \$693.8MM, with \$658.2MM in Cost of Electricity (94.8% of total operating costs)
- EBCE received \$5.98MM from non-operating activities as related to grant payment, interest earned on holdings, and interest paid on commitments
- Change in Net Position was \$130.1MM
 - $\text{Change in Net Position} = \text{Total Operating Revenue} - \text{Total Operating Expenses} + \text{Net Non-operating Activities}$

Fiscal Impact

This report has no fiscal impact.

Committee Recommendation

The audited financial statements were reviewed by the Finance, Administrative, and Procurement subcommittee on November 8, 2023.

Attachments

- A. EBCE Audited Financial Statements for Fiscal Year 2022-2023
- B. Presentation from the Auditor, Pisenti & Brinker



THE EAST BAY'S PUBLIC POWER AGENCY

Financial Statements

Years ended June 30, 2023 and 2022
with Independent Auditor's Report

Contact us

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*At right: EBCE's Scott Haggerty
Wind Energy Center in
Livermore, CA*



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Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of East Bay Community Energy Authority (EBCE), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise EBCE's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EBCE as of June 30, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Independent Auditor's Report (continued)

Required Supplementary Information

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

Presenti & Brink LLP

Santa Rosa, California
October 30, 2023

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

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 ended June 30, 2023 and 2022. 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, and was established to provide electric power at competitive costs as well as 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, promoting 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.

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 next major enrollment of residential accounts began in November 2018, which added approximately 500,000 accounts. In April 2021, EBCE expanded its service territory by adding approximately 80,000 accounts. As of June 30, 2023, EBCE had approximately 640,000 customers enrolled.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Financial reporting

EBCE presents its financial statements as an enterprise fund under the economic resources measurement focus and accrual basis of accounting, 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's discussion and analysis, which provides an overview of the financial operations.
- The basic financial statements:
 - The *Statements of Net Position* include all of EBCE's assets, liabilities, deferred inflows, 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 revenues 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 non-capital financing activities.
 - The notes to the Basic Financial Statements 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, 2023 AND 2022**

FINANCIAL HIGHLIGHTS

The following table is a summary of EBCE's assets, liabilities, and net position, and a discussion of significant changes for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 441,433,975	\$ 319,677,508	\$ 218,280,050
Noncurrent assets			
Capital assets, net of depreciation	9,600,031	8,760,016	115,816
Other noncurrent assets	54,436,185	16,356,858	22,855,208
Total noncurrent assets	<u>64,036,216</u>	<u>25,116,874</u>	<u>22,971,024</u>
Total assets	<u>505,470,191</u>	<u>344,794,382</u>	<u>241,251,074</u>
Current liabilities	85,012,415	96,450,766	53,525,550
Noncurrent liabilities	4,787,500	-	-
Total liabilities	<u>89,799,915</u>	<u>96,450,766</u>	<u>53,525,550</u>
Deferred inflows of resources	<u>53,014,000</u>	<u>15,814,000</u>	<u>15,814,000</u>
Net position			
Invested in capital assets	9,600,031	8,760,016	115,816
Restricted for collateral	1,000,000	9,000,000	10,000,000
Unrestricted	352,056,245	214,769,600	161,795,708
Total net position	<u>\$ 362,656,276</u>	<u>\$ 232,529,616</u>	<u>\$ 171,911,524</u>

Current Assets

Current assets were approximately \$441,434,000 at the end of 2023 and are mostly comprised of cash of \$291,035,000, accounts receivable of \$84,199,000, accrued revenue of \$45,767,000, and prepaid expenses of \$18,388,000. The current asset accounts increased in 2023 as a result of operating surpluses generated from customer rate increases.

Capital Assets

Capital assets are reported net of depreciation. EBCE does not own assets used for electricity generation or distribution. In September 2021, EBCE purchased an office building at 251 8th Street in Oakland with the original intent to use it as its future headquarters. The cost of the building and land was approximately \$8,500,000. Presently, the cost of the building and land is classified on the Statements of Net Position as "land and construction-in-progress".

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Other Noncurrent Assets

Other noncurrent assets include \$53,014,000 as of June 30, 2023, in its Rate Stabilization Fund to defer revenue for later years when financial results may not be as strong or are stressed. By postponing revenue recognition to future years, EBCE will be positioned to avoid sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances. EBCE contributed \$37,200,000 to this fund for the year ended June 30, 2023.

Current Liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not due to be paid by EBCE until after year-end. Other components include trade accounts payable, taxes and surcharges due to other governments, and various other accrued liabilities.

Current liabilities decreased from 2022 to 2023 primarily due to a decrease in security deposits. Accrued cost of electricity increased in 2023 due to rising prices fueled by volatility in the energy market. Current liabilities increased significantly from 2021 to 2022 due and increase in security deposits received and an increase in accrued cost of electricity. Changes in both these items were a result of the increased customer load and contracts required to serve that load.

Deferred Inflows of Resources

Included in deferred inflows of resources as of June 30, 2023, is \$53,014,000 in a Rate Stabilization Fund. The contribution to the Rate Stabilization Fund was \$37,200,000 during 2023, which accounts for the increase compared to 2022. No contribution was made for the year 2022.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Revenues and expenses

The following table is a summary of EBCE's results of operations and a discussion of significant changes for the years ended June 30:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 817,931,312	\$ 555,332,546	\$ 423,502,860
Nonoperating revenues	4,050,916	7,901,267	-
Investment income	<u>2,609,002</u>	<u>221,757</u>	<u>636,395</u>
Total income	824,591,230	563,455,570	424,139,255
Operating expenses	693,785,891	501,933,974	401,160,053
Nonoperating expenses	<u>678,679</u>	<u>903,504</u>	<u>869,612</u>
Total expenses	<u>694,464,570</u>	<u>502,837,478</u>	<u>402,029,665</u>
Change in net position	<u>\$ 130,126,660</u>	<u>\$ 60,618,092</u>	<u>\$ 22,109,590</u>

Operating Revenues

In April 2021, EBCE expanded its service territory to include an additional 80,000 customer accounts. The year ended June 30, 2022, is the first full year with the expanded customer accounts and is the main reason for the increase in operating revenues in that year. The customer base held fairly stable from 2022 to 2023. The increase in revenue during 2023 was the direct result of increases to customer rates.

Nonoperating Revenues

The nonoperating revenue increase is primarily the result of grant income from the California Arrearage Payment Plan (CAPP) that was received in 2023 and 2022. This grant first became available in 2022.

Investment Income

Investment income fluctuated each year due to changes in market interest rates as well as the amount available to be invested.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

Operating Expenses

EBCE's largest expense each year was the purchase of electricity delivered to customers. EBCE procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs to its customers. Expenses for staff compensation, contract services, and other general and administrative expenses increased each year as the organization continued to grow to support its business demands. EBCE had sufficient revenues each year to meet its operating expense obligations.

The cost of electricity increased each year as a result of service territory expansion and overall higher market prices.

Nonoperating expenses

Nonoperating expenses represent interest and fees related to letters of credit and the unused portion of the credit facility.

ECONOMIC OUTLOOK

California Independent System Operator (CAISO) system power prices experienced volatility through the year ended June 30, 2023. Intra-year variability was somewhat consistent with year-to-year historical variability that occurs due to seasonal and annual weather changes and was also characterized by carrying over a marked increase in energy prices above historical levels from the previous year. This was due to more extreme weather events, energy infrastructure capacity constraints in CAISO, and geopolitical considerations in the natural gas industry.

Russia's invasion of Ukraine continued to cause an increase in global energy prices. Although occurring in Europe, this conflict disrupts global natural gas distribution, supply, and demand, and as such influenced California markets, where high volatility and prices persisted in the second half of 2022 since the conflict began in February 2022. In 2023, we have seen natural gas prices revert to historical averages.

Infrastructure supply development remain somewhat constrained due to lingering supply chain disruptions and California interconnection bottlenecks. These constraints are driven by the increased demand for renewable resources as urban electrification processes compete with technology data center artificial intelligence processing needs.

Hedges EBCE has in place offset much of the immediate price spike impacts, but we are currently experiencing a rising energy price environment for the foreseeable future. As rates are currently set as a discount to PG&E, EBCE expects to continue to remain competitive, and is seeing a significant increase in revenues.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

ECONOMIC OUTLOOK (continued)

While the COVID-19 pandemic is still considered ongoing, energy loads were in line with forecasts and budget and in general energy use activity has returned to pre-pandemic patterns. Customer account aging has stabilized and recovery efforts through State and Federal funding have reduced overall aging impacts from shelter-in-place policies.

We closely monitored the banking sector disruptions due to the collapse of Silicon Valley Bank. While EBCE's cash holdings were not at risk, we have diversified where we hold deposits and are actively evaluating our treasury management practices and investment policy in light of rising interest rates.

EBCE has in place a formal risk management policy that includes guidance on target hedge levels. Energy hedging is intended to reduce the financial risk of unexpected price surges by procuring a significant portion of future energy at fixed prices. 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.

Year-over-year, EBCE has retained a strong customer and revenue base with low opt-out levels. EBCE continues to be actively engaged on legislative and regulatory matters that can impact EBCE's energy procurement requirements and, therefore, energy-related expenditures. This provides some level of additional certainty on EBCE revenues.

REQUEST FOR INFORMATION

This financial report is designed to provide EBCE's customers and creditors with an 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, Suite 2300, Oakland, CA 94612.

Respectfully submitted,

Nick Chaset, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	\$ 291,035,233	\$ 152,215,061
Accounts receivable, net of allowance	84,198,659	79,814,399
Accrued revenue	45,767,329	47,590,010
Market settlements receivable	807,102	-
Other receivables	90,568	6,302,352
Prepaid expenses	18,388,084	8,728,326
Deposits	147,000	16,027,360
Restricted cash	1,000,000	9,000,000
Total current assets	<u>441,433,975</u>	<u>319,677,508</u>
Noncurrent assets		
Unrestricted cash and cash equivalents in Rate Stabilization Fund	53,014,000	15,814,000
Deposits	931,164	42,858
Loan receivable	491,021	500,000
Capital assets:		
Land and construction-in-progress	9,386,864	8,605,533
Capital assets, net of depreciation	213,167	154,483
Total capital assets	<u>9,600,031</u>	<u>8,760,016</u>
Total noncurrent assets	<u>64,036,216</u>	<u>25,116,874</u>
Total assets	<u>505,470,191</u>	<u>344,794,382</u>
LIABILITIES		
Current liabilities		
Accrued cost of electricity	65,136,135	60,283,371
Accounts payable	4,295,566	2,824,571
Other accrued liabilities	5,930,936	1,631,542
User taxes and energy surcharges due to other governments	7,404,678	5,846,282
Security deposits - energy suppliers	2,245,100	25,865,000
Total current liabilities	<u>85,012,415</u>	<u>96,450,766</u>
Noncurrent liabilities		
Supplier security deposits	4,787,500	-
Total liabilities	<u>89,799,915</u>	<u>96,450,766</u>
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization Fund	<u>53,014,000</u>	<u>15,814,000</u>
NET POSITION		
Investment in capital assets	9,600,031	8,760,016
Restricted for collateral	1,000,000	9,000,000
Unrestricted	352,056,245	214,769,600
Total net position	<u>\$ 362,656,276</u>	<u>\$ 232,529,616</u>

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electricity sales, net	\$ 847,306,890	\$ 538,713,401
Revenue deferred to Rate Stabilization Fund	(37,200,000)	-
Liquidated damages	6,150,378	14,658,400
Grant revenue	1,498,666	1,614,597
Other operating revenues	175,378	346,148
Total operating revenues	<u>817,931,312</u>	<u>555,332,546</u>
OPERATING EXPENSES		
Cost of electricity	658,204,854	474,633,255
Contract services	18,104,240	16,611,808
Staff compensation	12,950,359	7,887,849
Other operating expenses	4,435,677	2,738,461
Depreciation	90,761	62,601
Total operating expenses	<u>693,785,891</u>	<u>501,933,974</u>
Operating income	<u>124,145,421</u>	<u>53,398,572</u>
NONOPERATING REVENUES (EXPENSES)		
Grant revenue	4,050,916	7,901,267
Interest income	2,609,002	221,757
Financing expense	(678,679)	(903,504)
Nonoperating revenues (expenses), net	<u>5,981,239</u>	<u>7,219,520</u>
CHANGE IN NET POSITION	130,126,660	60,618,092
Net position at beginning of year	<u>232,529,616</u>	<u>171,911,524</u>
Net position at end of year	<u>\$ 362,656,276</u>	<u>\$ 232,529,616</u>

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 878,374,195	\$ 503,810,291
Other operating receipts	12,650,524	18,603,247
Receipts from supplier security deposit	8,602,600	26,123,000
Payments to suppliers for electricity	(618,685,214)	(451,271,876)
Payments for other goods and services	(21,223,125)	(21,925,338)
Deposits and collateral paid	(51,689,464)	(25,901,650)
Payments for staff compensation	(12,694,993)	(7,748,575)
Tax and surcharge payments to other governments	(32,070,485)	(18,648,636)
Net cash provided by operating activities	<u>163,264,038</u>	<u>23,040,463</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments received on loan receivable	8,979	-
Grant revenue	4,050,916	7,901,267
Financing expense payments	(899,099)	(683,084)
Net cash provided by non-capital financing activities	<u>3,160,796</u>	<u>7,218,183</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(1,011,413)</u>	<u>(8,613,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	2,606,751	221,757
Loan issued	-	(500,000)
Net cash provided (used) by investing activities	<u>2,606,751</u>	<u>(278,243)</u>
Net change in cash and cash equivalents	168,020,172	21,367,355
Cash and cash equivalents at beginning of year	177,029,061	155,661,706
Cash and cash equivalents at end of year	<u>\$ 345,049,233</u>	<u>\$ 177,029,061</u>
Reconciliation to the Statement of Net Position		
Unrestricted cash and cash equivalents (current)	\$ 291,035,233	\$ 152,215,061
Restricted cash and cash equivalents (current)	1,000,000	9,000,000
Unrestricted cash and cash equivalents (noncurrent)	53,014,000	15,814,000
Cash and cash equivalents	<u>\$ 345,049,233</u>	<u>\$ 177,029,061</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2023</u>	<u>2022</u>
Operating income	\$ 124,145,421	\$ 53,398,572
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	90,761	62,601
(Increase) decrease in:		
Accounts receivable	(4,384,259)	(35,903,077)
Market settlements receivable	(807,102)	5,025,941
Other receivables	6,214,035	(5,594,164)
Accrued revenue	1,822,681	(19,637,803)
Prepaid expenses	(9,659,760)	(2,480,999)
Deposits	14,992,053	(14,441,650)
Increase (decrease) in:		
Accrued cost of electricity	4,852,765	21,468,127
Accounts payable	1,772,053	(754,456)
Other accrued liabilities	313,794	139,274
Deferred revenue	3,985,600	742,083
User taxes due to other governments	1,558,396	1,989,136
Security deposits from energy suppliers	(18,832,400)	19,026,878
Rate Stabilization Fund	37,200,000	-
Net cash provided by operating activities	<u>\$ 163,264,038</u>	<u>\$ 23,040,463</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

East Bay Community Energy Authority (EBCE) is a California joint powers authority created on December 1, 2016. As of June 30, 2023, 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	Oakland
	Berkeley	Piedmont
	Dublin	Pleasanton
	Emeryville	San Leandro
	Fremont	Stockton
	Hayward	Tracy
	Livermore	Union City
	Newark	

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, 2023 AND 2022**

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. Reported net position is segregated into three categories – investment in capital assets, restricted and unrestricted.

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

CASH AND CASH EQUIVALENTS

For purposes 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 credit facility, as well as a required minimum balance to be maintained in one of its bank accounts.

MARKET SETTLEMENTS RECEIVABLE

EBCE receives generation scheduling and other services from a registered California Independent System Operator (CAISO) scheduling coordinator.

PREPAID ENERGY PURCHASES AND 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 the majority of this item, other components include deposits for regulatory and other operating purposes.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, seven years for furniture and seven years for leasehold improvements, unless limited by the length of the original lease term. EBCE does not own any electric generation assets.

SECURITY DEPOSITS – LIABILITY

Various energy contracts entered into by EBCE require the supplier to provide EBCE with a security deposit. Often this security is held by EBCE for the duration of the contract or until certain milestones are met. Deposits are classified as current or noncurrent depending on the length of time the deposits will be held.

RATE STABILIZATION FUND

EBCE created a Rate Stabilization Fund to allow EBCE to defer revenue in years when financial results are strong to be used in future years when financial results are stressed. In accordance with GASB Statement No. 62 and GASB Statement No. 65, the amount recognized as an addition to the fund is shown as a reduction of operating revenues and reported on the statements of net position as a deferred inflow of resources.

EBCE directed revenue of \$37,200,000 and \$0 to the Rate Stabilization Fund for the years ended June 30, 2023 and 2022, respectively.

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 borrowings outstanding as of June 30, 2023 and 2022.

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."

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NONOPERATING REVENUES

Operating revenues include revenues derived from the provision of energy to end-use retail customers and grant revenue earned from the delivery of program activities. Operating revenues are affected by amounts directed to or from the Rate Stabilization Fund.

Investment income is considered “nonoperating revenue.” Certain grant revenue, such as from the California Arrearage Payment Program (CAPP), is also considered “nonoperating revenue.”

REVENUE RECOGNITION

EBCE recognizes revenue on an 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.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

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 CAISO’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. 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 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.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

EBCE purchases capacity commitments from qualifying electricity generators to comply with the California's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to CAISO to ensure the safe and reliable operation of the electrical 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 pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan monthly. 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.

ESTIMATES

The preparation of financial statements in conformity with GAAP 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.

EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

2. CASH AND CASH EQUIVALENTS

EBCE maintains its cash in both interest-bearing and non-interest-bearing accounts at River City Bank headquartered in Sacramento, California as well as U.S. Bank headquartered in Minneapolis, Minnesota. EBCE's deposits are subject to California Government Code Section 16521, which requires that banks 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 its banks on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Accounts receivable from customers	\$117,017,715	\$101,011,756
Allowance for uncollectible accounts	(32,819,056)	(21,197,357)
Net accounts receivable	<u>\$ 84,198,659</u>	<u>\$ 79,814,399</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. During the year ended June 30, 2023, EBCE received CAPP funds (see Note 6) that helped offset previously written off accounts receivable.

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2023 and 2022, was as follows:

	Furniture & Equipment	Land and Construction-in- Progress	Accumulated Depreciation	Total
Balances at June 30, 2021	\$ 231,105	\$ -	\$ (115,289)	\$ 115,816
Additions	101,268	8,605,533	(62,601)	8,644,200
Balances at June 30, 2022	332,373	8,605,533	(177,890)	8,760,016
Additions	149,445	781,331	(90,761)	840,015
Balances at June 30, 2023	<u>\$ 481,818</u>	<u>\$ 9,386,864</u>	<u>\$ (268,651)</u>	<u>\$ 9,600,031</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

5. DEBT

In January 2020, EBCE entered into an amended revolving credit agreement with Barclays Bank. The available credit line under this agreement is \$80,000,000. The credit agreement enhances EBCE's overall liquidity for potential working capital needs and collateral requirements.

In October 2022, EBCE closed its revolving credit agreement with Barclays Bank and entered into a new agreement with Union Bank. The available credit line under the new agreement is \$200,000,000. The credit agreement enhances EBCE's overall liquidity for potential working capital needs and collateral requirements. This agreement terminates in October 2025. The borrowing rate on the credit facility is 1.4%.

EBCE had no debt outstanding under either line of credit agreement at June 30, 2023 or 2022. However, EBCE did issue Standby Letters of Credit secured by the line of credit agreement. At June 30, 2023 and June 30, 2022, these Letters of Credit reduce the available portion of the line by approximately \$39,770,000 and \$13,147,000, respectively, but are not considered debt to EBCE.

In February of 2023, Union Bank was acquired by US Bank. Under the deal of the acquisition, all established promissory agreements would be upheld and unaltered through their maturity.

6. GRANTS

EBCE administers a grant from the California Arrearage Payment Program (CAPP) that offers financial assistance for California energy utility customers to help reduce past due energy bill balances that increased during the COVID-19 pandemic. In 2022 this program was funded through the federal American Rescue Plan Act (ARPA) with Coronavirus State and Local Fiscal Recovery Funds. The program was funded by the State of California in 2023.

EBCE also administers a grant from the California Public Utilities Commission (CPUC) for the Disadvantaged Communities Green Tariff (DAC-GT). This grant provides for bill discounts to eligible customers.

In addition to the two grants mentioned above, EBCE also administers several small grants generally aimed at energy efficiency measures.

The following is a summary grant revenue for the years ended June 30:

	<u>2023</u>	<u>2022</u>
CAPP	\$ 4,050,916	\$ 7,901,267
DAC-GT	1,228,613	1,614,597
Miscellaneous	270,053	-
Total grant revenue	<u>\$ 5,549,582</u>	<u>\$ 9,515,864</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The East Bay Community Energy Authority 401(a) Plan (the Plan) is a defined contribution retirement plan administered by LT Trust. As of June 30, 2023, there were 88 plan members. EBCE is required to contribute a match up to 6% of annual covered payroll to the Plan and contributed \$1,456,000 and \$929,000 during the years ended June 30, 2023 and 2022, respectively. EBCE has elected out of the Social Security system for employees eligible for the 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.

8. 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, EBCE purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. Deductible limits range from \$0 to \$1,000. Settled claims have not exceeded coverage in the last two years. There were no significant reductions in coverage compared to the prior year. From time to time, EBCE may be party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and EBCE’s legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on EBCE’s financial position or results of operations.

EBCE maintains risk management policies, procedures and systems that help mitigate credit, liquidity, market, operating, regulatory and other risks that arise from participation in the California energy market. Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties’ financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, EBCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

9. PURCHASE COMMITMENTS

In the ordinary course of business, EBCE enters into various power purchase agreements in order to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydroelectric facilities.

The following table details the obligations on existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2023:

Year ending June 30,	
2024	\$ 724,800,000
2025	798,400,000
2026	897,100,000
2027	1,005,400,000
2028	1,031,500,000
2029-2043	18,392,900,000
Total	<u>\$ 22,850,100,000</u>

10. LEASE

In July 2023, EBCE entered into two lease agreements, one a sublease and one a main lease, for its office premises. Both agreements are for the same office space and each lease runs in succession over the period September 1, 2023 through October 31, 2032. The sublease will be in effect until April 2025 when the main lease becomes active. Rental expense for EBCE's office space was \$519,000 and \$442,000 for the years ended June 30, 2023, and 2022, respectively.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

11. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2023:

GASB has approved GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, and GASB Statement No. 101, *Compensated Absences*. When they become effective, application of these standards may restate portions of these financial statements.

12. SUBSEQUENT EVENTS

NEW MEMBER

In September 2023, EBCE approved the City of Lathrop as a member. EBCE anticipates electric deliveries in this new territory will begin in 2025.

NAME CHANGE

In October 2023, EBCE changed its name to Ava Community Energy (Ava).



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*East Bay Community Energy
Report to the Board of Directors
November 15, 2023*

Introduction

- Brett Bradford, CPA
 - Audit Partner
 - 20 years in public accounting and performing audits of government entities
 - Currently working with several CCA's throughout California
- Aliandra Schaffer
 - Engagement Manager
 - 4 years in public accounting and performing audits of governments (CCA's)

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Results of current year audit:

- The audit is complete. We have reported the following:
 - Unmodified opinion – Based on our audit, the financial statements are materially accurate.
 - No significant deficiencies or material weakness in internal control have been identified.

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Audit of the year ended June 30, 2023

Financial Statements

Attachment Staff Report Item 10B

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
 - Considering internal controls relevant to the Financial Statements
 - Performing tests of year-end balances based on risk assessment
 - Evaluating adequacy of disclosures

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Risk Assessment for the year ended June 30, 2023

Attachment Staff Report Item 10B

Significant areas of focus

- Revenue recognition
 - Accounts receivable and accrued revenue
 - Test a sample of customer billings
 - Relate total cash received during the year to revenue
 - Review revenue recognition through year-end and method for determining (accrued revenue)
- Cash
 - Confirmations sent to financial institutions

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Risk Assessment for the year ended June 30, 2023

Attachment Staff Report Item 10B

Significant areas of focus

- Accrued Cost of Electricity
 - Review subsequent bills from electricity providers and cash payments
- Accrued REC expense
- Supplier Security Deposits
 - Reviewed contracts and determined completeness of amounts recorded
- Financial Statement Note Disclosures – Complete and without bias

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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.

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Required Board Communications (continued)

- 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.

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Required Board Communications (continued)

- There were no disagreements with management concerning the scope of our audit, the application of accounting principles, or the basis for management's judgments on any significant matters.
- We did not encounter any difficulties in dealing with management during the performance of our audit.

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Questions?

Brett Bradford: 707-577-1582



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