Annual Financial Statement Audit for FY 2023-2024

Finance, Administrative, & Procurement Subcommittee

November 13, 2024

Ava Community Energy

Background & Discussion

Each year, Ava conducts an audit of the fiscal year end financial statements.

The annual audit is conducted by an independent, external team. In June of 2024, Ava completed an RFP and selected Pisenti & Brinker, LLP (P&B) as the Authority's auditor. P&B has been Ava's previous auditor and their familiarity with Ava and the CCA space made them the best selection

The Independent Auditor's Report concludes their opinion of the financial statements as materially accurate with no significant deficiencies or material weakness in internal controls identified. This will be included in the final financial statements delivered to the Board on Nov 20.

The Management Discussion and Analysis (MD&A) provides an overview of Ava's financial activities for the fiscal years reported and gives information on financial position, reporting protocols, and overall economic factors that relate to Ava activities.

The Basic Financial Statements provide an independently verified, accurate portrait of Ava's financial position as of June 30, 2024.

Notes to the Basic Financial Statements discuss accounting policies, cash and capital positions, risk management, commitments, and known subsequent events

Further Discussion

Full, formal Auditor's Presentation will be at November 20 Board meeting, but highlights of the audit are as follows:

- The auditors will report an unmodified opinion—financial statements are materially accurate
- No significant deficiencies or material weakness in internal controls identified
- Significant areas of focus are revenue recognition, cash, accrued costs, REC expenses, supplier security deposits, and financial statements note disclosures
- No proposed adjustments to the financial statements
- No unusual transactions or applications of accounting principles identified
- Annual Operating Revenues: $909,536,352
- Annual Operating Expenses: $749,162,050
- Annual Net Nonoperating Activities: $12,303,453
- Net position increase by $172,677,755 to $535,344,031

Thank you!

Ava Community Energy

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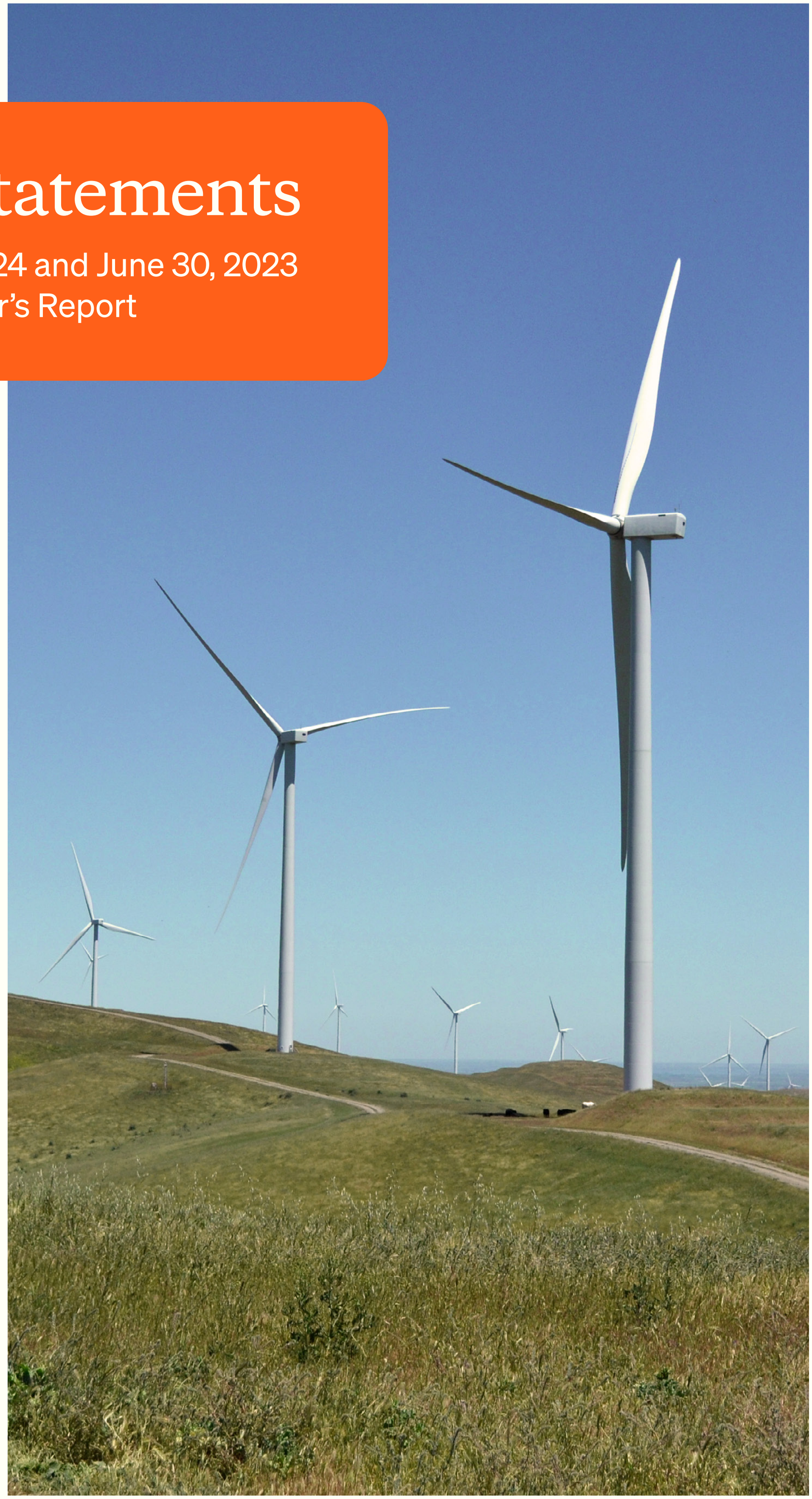
Financial Statements

Years ended June 30, 2024 and June 30, 2023
with Independent Auditor's Report



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At right: Ava Community Energy's Scott Haggerty Wind Energy Center in Livermore, CA

FINANCIAL STATEMENTS

FISCAL YEARS ENDED JUNE 30, 2024 AND 2023

WITH REPORT OF

INDEPENDENT AUDITORS

Ava Community Energy

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Placeholder

Placeholder

AVA COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2024 AND 2023

The purpose of management's discussion and analysis (MD&A) is to help stakeholders and other readers understand what the financial statements and notes in this report say about Ava Community Energy Authority's (Ava) financial health and why it has changed since last year. It contains information drawn from other parts of the report, accompanied by explanations informed by the finance staff's knowledge of Ava's finances.

Background

The formation of Ava 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.

Ava 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.

In June 2018, Ava 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, Ava expanded their service territory by adding approximately 80,000 accounts. As of June 30, 2024, Ava had approximately 640,000 customers enrolled.

On October 31, 2023, East Bay Community Energy Authority changed its name to Ava Community Energy Authority to reflect its diversifying customer base from its expansion into the California central valley. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction, Ava has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. Ava is responsible for the acquisition of electric power for its service area.

Overview of the Financial Statements

Ava's financial report contains basic financial statements, which include:

- The *Statements of Net Position* include all of Ava'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 Ava'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 and investing activities.

- The notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

Financial reporting

Ava 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 enterprise funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Summary

AVA'S NET POSITION

	2024	2023	2022
Current assets	$728,820,721	$441,433,975	$319,677,508
Noncurrent assets:			
Capital assets, net	10,367,342	9,600,031	8,760,016
Other noncurrent assets	59,372,137	54,436,185	16,356,858
Total noncurrent assets	69,739,479	64,036,216	25,116,874
Total assets	**798,560,200**	**505,470,191**	**344,794,382**
Current liabilities	179,709,182	85,012,415	96,450,766
Noncurrent liabilities	3,600,000	4,787,500	-
Total liabilities	**183,309,182**	**89,799,915**	**96,450,766**
Deferred inflows of resources	**79,916,987**	**53,014,000**	**15,814,000**
Net position			
Net investment in capital assets	9,658,727	9,600,031	8,760,016
Restricted for collateral	-	1,000,000	9,000,000
Unrestricted	525,675,304	352,056,245	214,769,600
Total net position	**$535,334,031**	**$362,656,276**	**$232,529,616**

As of June 30, 2024, Ava's total net position was approximately $535,000,000, an increase of $173,000,000 or 48% as compared to June 30, 2023. Most of the increase in net position was in an increase in cash, as a result of Ava's operating surplus discussed below.

AVA'S CHANGES IN NET POSITION

	2024	2023	2022
Operating revenues	$ 909,536,352	$ 817,931,312	$ 555,332,546
Nonoperating revenues - grants	-	4,050,916	7,901,267
Nonoperating revenues - investments	13,149,786	2,609,002	221,757
Total income	**922,686,138**	**824,591,230**	**563,455,570**
Operating expenses	749,162,050	693,785,891	501,933,974
Nonoperating expenses	846,333	678,679	903,504
Total expenses	**750,008,383**	**694,464,570**	**502,837,478**
Change in net position	**$ 172,677,755**	**$ 130,126,660**	**$ 60,618,092**

Detailed Analysis

Increases in electricity sales accounted for most of the increase in total income. The cost of electricity, a component of operating expenses, increased approximately 7% from fiscal year 2023 to fiscal year 2024.

Current assets increased from $441,000,000 at the end of fiscal year 2023 to $729,000,000 at the end of fiscal year 2024. This increase was due to operating surpluses primarily driven by increased electricity rates charged to customers. Current assets at the end of fiscal year 2024 were primarily comprised of cash of $574,000,000, which includes $22,000,000 of cash held in a Rate Stabilization Fund, accounts receivable of $85,000,000, and accrued revenue of $61,000,000.

Capital assets are reported net of depreciation and amortization. Each year, the change represents the cost of capital assets acquired less depreciation and amortization expense for the year. Capital assets held by Ava include an office building, furniture and equipment, and a lease asset related to Ava's office premises.

Other noncurrent assets include cash of $57,000,000 segregated in a Rate Stabilization Fund used to hold revenue that is to be deferred for recognition and use in later years in period when there is a need to supplement revenues. By postponing revenue recognition to future years, Ava is positioning itself to avoid sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances. Rate Stabilization Funds that are intended to be recognized in revenue within one year of these financial statements are included as cash in the current asset section.

The largest component of current liabilities is the cost of electricity delivered to customers that was not paid by Ava at fiscal year-end. Current liabilities for the cost of energy increased each year due to changes in payment terms of certain energy products, as well as the prices of those products.

Noncurrent liabilities consist of supplier security deposits held by Ava as collateral.

Operating revenues increased each year from fiscal years 2022 to 2024, primarily from increases in rates charged to customers. Ava also receives revenues from sources other than retail customer sales. These sources include liquidated damage revenue resulting from supplier noncompliance with contract provisions and grant income used to support various customer programs. Revenue from liquidated damages increased from fiscal year 2023 to fiscal year 2024 primarily due to delays in the operations of certain energy supplier facilities.

Detailed Analysis (continued)

Grant income from the California Arrearage Payment Plan (CAPP) was included in nonoperating revenues for fiscal years 2022 and 2023. This grant was applicable for two years and did not recur in fiscal year 2024. Investment income increased each year due to changes in market interest rates as well as increases in invested assets.

Operating expenses increased each year primarily due to market forces that resulted in increases in the cost of electricity, Ava's largest expense. Ava procures energy from a variety of sources to reduce market risk and to maintain a balanced renewable power portfolio. The primary driver of the increase in energy costs from 2023 to 2024 was the rising renewable energy and resource adequacy market.

Significant Capital Asset and Long-Term Financing Activity

Included in capital assets are an office building and land, and furniture and equipment.

Office premises leased by Ava are reported in the Statement of Net Position as "lease asset." The related future payments are reported as "lease liability."

Ava does not have any outstanding financing debt.

Currently Known Facts, Decisions, or Conditions

California Independent System Operator (CAISO) system power prices experienced volatility through the year ended June 30, 2024. 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 *total* energy prices above historical levels from the previous year.

Infrastructure supply development remains somewhat constrained. In previous years the driver of these constraints included lingering supply chain disruptions, but now interconnection bottlenecks plague California as well as the rest of the United States. These constraints are driven by the increased demand for renewable and other energy resources by urban electrification and the growth in technology data center and associated artificial intelligence processing needs.

Currently Known Facts, Decisions, or Conditions (continued)

Ava has certain contracts in place that mitigate exposure to price spikes in the CAISO markets, but currently CAISO market prices as well as electricity futures prices in liquid forward markets are declining. At the same time, the overall market for electricity and the related commodity products is experiencing a rising price environment. The rising price environment is driven by elevated costs to enter into long-term offtake agreements (e.g. power purchase agreements (PPAs) and energy storage offtake agreements), elevated prices for Resource Adequacy, and dramatically elevated costs for environmental attributes like Renewable Energy Certificates (RECs). Noting that both Resource Adequacy and RECs are required commodities for compliance with California legislative obligations.

Ava has in place a formal risk management policy that includes guidance on target levels of non-financial hedges. Energy hedging is intended to reduce the financial risk of unexpected price surges by contracting for a significant portion of future energy at fixed prices. Purchases made at fixed contractual prices reduce the need to purchase energy at the volatile daily open market. The target hedge percentages depend on factors including time and the hedge pricing relative to historical energy costs. In general, Ava 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. Ava has complied with its risk management policy and regulations.

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

Requests for information

This financial report is designed to provide Ava's board members, stakeholders, customers, and creditors with a general overview of Ava's finances and to demonstrate Ava'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.

BASIC FINANCIAL STATEMENTS

AVA COMMUNITY ENERGY AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2024 AND 2023

	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	$ 574,113,778	$ 291,035,233
Accounts receivable, net of allowance	84,962,803	84,198,659
Accrued revenue	60,952,393	45,767,329
Market settlements receivable	-	807,102
Other receivables	242,447	90,568
Prepaid expenses	2,825,541	18,388,084
Deposits	6,143,357	147,000
Cash - restricted	-	1,000,000
Total current assets	729,240,319	441,433,975
Noncurrent assets		
Cash in Rate Stabilization Fund - unrestricted	57,472,293	53,014,000
Deposits	1,193,774	931,164
Loan receivable	286,472	491,021
Capital assets, net of depreciation and amortization	10,367,342	9,600,031
Total noncurrent assets	69,319,881	64,036,216
Total assets	798,560,200	505,470,191
LIABILITIES		
Current liabilities		
Accrued cost of electricity	149,299,510	65,136,135
Accounts payable	5,352,155	4,295,566
Advances from grantors	9,052,151	-
Other accrued liabilities	3,523,316	5,930,936
User taxes and energy surcharges due to other governments	7,444,637	7,404,678
Lease liability	708,615	-
Security deposits - energy suppliers	4,328,798	2,245,100
Total current liabilities	179,709,182	85,012,415
Noncurrent liabilities		
Security deposits - energy suppliers	3,600,000	4,787,500
Total liabilities	183,309,182	89,799,915
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization Fund	79,916,987	53,014,000
NET POSITION		
Net investment in capital assets	9,658,727	9,600,031
Restricted for collateral	-	1,000,000
Unrestricted	525,675,304	352,056,245
Total net position	$ 535,334,031	$ 362,656,276

The accompanying notes are an integral part of these financial statements.

AVA COMMUNITY ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
OPERATING REVENUES		
Electricity sales, net	$ 919,222,939	$ 847,306,890
Revenue deferred to Rate Stabilization Fund, net	(26,902,987)	(37,200,000)
Liquidated damages	15,330,202	6,150,378
Grant revenue	1,440,935	1,498,666
Other operating revenues	445,263	175,378
Total operating revenues	909,536,352	817,931,312
OPERATING EXPENSES		
Cost of electricity	707,476,247	658,204,854
Contract services	18,980,445	18,104,240
Staff compensation	16,269,116	12,950,359
Other operating expenses	5,736,911	4,435,677
Depreciation and amortization	699,331	90,761
Total operating expenses	749,162,050	693,785,891
Operating income	160,374,302	124,145,421
NONOPERATING REVENUES (EXPENSES)		
Grant revenue	-	4,050,916
Investment income	13,149,786	2,609,002
Financing costs	(846,333)	(678,679)
Nonoperating revenues (expenses), net	12,303,453	5,981,239
CHANGE IN NET POSITION	172,677,755	130,126,660
Net position at beginning of year	362,656,276	232,529,616
Net position at end of year	$ 535,334,031	$ 362,656,276

The accompanying notes are an integral part of these financial statements.

AVA COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 939,057,618	$ 878,374,195
Receipts from grantors	4,564,468	-
Receipts of supplier security deposits	6,804,858	8,602,600
Other operating receipts	17,226,004	12,650,524
Payments to suppliers for electricity	(611,040,073)	(618,685,214)
Payments for other goods and services	(22,702,802)	(21,223,125)
Payments of staff compensation	(15,937,300)	(12,694,993)
Payments for deposits and collateral	(7,212,418)	(51,689,464)
Tax and surcharge payments to other governments	(35,743,923)	(32,070,485)
Net cash provided by operating activities	275,016,432	163,264,038
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant revenue	-	4,050,916
Payments of financing costs	(675,281)	(899,099)
Net cash provided (used) by non-capital financing activities	(675,281)	3,151,817
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments under lease obligation	(433,780)	-
Payments to acquire capital assets	(359,262)	(1,011,413)
Net cash used by capital and related financing activities	(793,042)	(1,011,413)
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments received of loan receivable	204,549	8,979
Investment income received	12,784,180	2,606,751
Net cash provided by investing activities	12,988,729	2,615,730
Net change in cash and cash equivalents	286,536,838	168,020,172
Cash and cash equivalents at beginning of year	345,049,233	177,029,061
Cash and cash equivalents at end of year	$ 631,586,071	$ 345,049,233
Reconciliation to the Statement of Net Position		
Cash and cash equivalents - unrestricted (current)	$ 574,113,778	$ 291,035,233
Cash and cash equivalents - restricted (current)	-	1,000,000
Cash and cash equivalents - unrestricted (noncurrent)	57,472,293	53,014,000
Cash and cash equivalents	$ 631,586,071	$ 345,049,233

The accompanying notes are an integral part of these financial statements.

AVA COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2024 AND 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2024	2023
Operating income	$ 160,374,302	$ 124,145,421
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	699,331	90,761
(Increase) decrease in:		
Accounts receivable	(764,144)	(4,384,259)
Market settlements receivable	807,102	(807,102)
Other receivables	(50,198)	6,214,035
Accrued revenue	(15,185,064)	1,822,681
Prepaid expenses	15,562,543	(9,659,760)
Deposits	(5,995,042)	14,992,053
Increase (decrease) in:		
Accrued cost of electricity	84,163,375	4,852,765
Accounts payable	1,025,455	1,772,053
Other accrued liabilities	254,156	313,794
Advances from grantors	4,564,468	-
Deferred revenue	1,721,004	3,985,600
User taxes due to other governments	39,959	1,558,396
Security deposits from energy suppliers	896,198	(18,832,400)
Rate Stabilization Fund	26,902,987	37,200,000
Net cash provided by operating activities	$ 275,016,432	$ 163,264,038

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Ava Community Energy Authority (Ava), formerly East Bay Community Energy, is a California joint powers authority created on December 1, 2016. As of June 30, 2024, 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	Newark
	Berkeley	Oakland
	Dublin	Piedmont
	Emeryville	Pleasanton
	Fremont	San Leandro
	Hayward	Stockton
	Lathrop	Tracy
	Livermore	Union City

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

A core function of Ava 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.

Ava 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

Ava'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.

Ava'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 Ava'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, Ava defines 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

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

PREPAID EXPENSES

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid expenses.

DEPOSITS

Contracts to purchase energy may require Ava to provide the supplier with advanced payments or security deposits. Deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of time the deposits will be outstanding.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASE ASSET AND LEASE LIABILITY

Ava recognizes an asset and liability when it enters into certain leasing arrangements. The leased asset is amortized over the term of the lease. The lease liability is the present value of payments expected to be paid to the lessor during the lease term. Ava's only leased asset and liability relate to its office premises.

CAPITAL ASSETS AND DEPRECIATION

Ava'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 leasehold improvements, unless limited by the length of the original lease term. Ava does not own any electric generation assets.

ADVANCES FROM GRANTORS

Ava received grant funding from various grantors. The amount in this category represents funds received by Ava, but not yet expended to carry out specific goals. See Note 6 for additional information related to grants administered by Ava.

SECURITY DEPOSITS – LIABILITY

Various energy contracts entered into by Ava require the supplier to provide Ava with a security deposit. Security deposits are held by Ava 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

Ava created a Rate Stabilization Fund to allow Ava 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.

Ava directed revenue of $37,408,000 and $37,200,000 to the Rate Stabilization Fund for the years ended June 30, 2024 and 2023, respectively. Ava removed $10,500,000 and $0 from the Rate Stabilization Fund for the years ended June 30, 2024 and 2023, respectively. The removal of funds resulted in a recognition of revenue in the same amount. The accumulated balance in the Rate Stabilization Fund at June 30, 2024 and 2023 was approximately $79,917,000 and $53,014,000, respectively. Cash held for Rate Stabilization Fund purposes that are intended to be recognized as revenue within one year of these financial statements are included as cash in the current asset section. Otherwise, the related cash is included in the noncurrent asset section.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

Net Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and amortization and is reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. Ava did not have any such borrowings outstanding as of June 30, 2024 and 2023.

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 NONOPERATING REVENUES

Operating revenues include revenues derived from the provision of energy to retail customers and grant revenue related to 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 that is not subject to performance obligations, such as from the California Arrearage Payment Program (CAPP), is also considered "nonoperating revenue."

REVENUE RECOGNITION

Ava 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 invoiced. Management estimates that a portion of the invoiced 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business, Ava 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 Ava'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, Ava acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System. Ava obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. Ava recognizes an expense 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.

Ava 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

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

INCOME TAXES

Ava 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the previously reported net position.

2. CASH AND CASH EQUIVALENTS

Ava maintains its cash in both interest-bearing and non-interest-bearing accounts. Ava'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%. Ava 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. Ava monitors its risk exposure to its banks on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	2024	2023
Accounts receivable from customers	$110,562,803	$117,017,715
Allowance for uncollectible accounts	(25,600,000)	(32,819,056)
Net accounts receivable	$ 84,962,803	$ 84,198,659

The majority of account collections occur within the first few months after a customer is invoiced. Ava estimates that a portion of the billed accounts will not be collected. Ava 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, Ava 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, Ava received CAPP funds (see Note 6) that helped Ava recover funds for previously written off accounts receivable.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2024, was as follows:

	Beginning balance	Increases	Ending balance
Capital assets not being depreciated:			
Building - construction in progress	$ 5,131,484	$ -	$ 5,131,484
Land	4,255,380	-	4,255,380
Total capital assets not being depreciated	9,386,864	-	9,386,864
Capital assets being depreciated and amortized:			
Furniture and equipment	481,818	318,485	800,303
Leasehold improvements	-	71,911	71,911
Lease asset	-	1,076,246	1,076,246
Total capital assets being depreciated and amortized:	481,818	1,466,642	1,948,460
Less accumulated depreciation and amortization:			
Furniture, equipment and leasehold improvements	(268,651)	(161,208)	(429,859)
Lease asset	-	(538,123)	(538,123)
Total accumulated depreciation and amortization	(268,651)	(699,331)	(967,982)
Total capital assets, net of depreciation and amortization	$ 9,600,031	$ 767,311	$ 10,367,342

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning balance	Increases	Ending balance
Capital assets not being depreciated:			
Building - construction in progress	$ 4,350,153	$ 781,331	$ 5,131,484
Land	4,255,380	-	4,255,380
Total capital assets not being depreciated	8,605,533	781,331	9,386,864
Capital assets being depreciated and amortized:			
Furniture and equipment	332,373	149,445	481,818
Less accumulated depreciation and amortization:			
Furniture, equipment and leasehold improvements	(177,890)	(90,761)	(268,651)
Total capital assets, net of depreciation and amortization	$ 8,760,016	$ 840,015	$ 9,600,031

5. DEBT

In October 2022, Ava closed its revolving credit agreement with Barclays Bank and entered into a new agreement with U.S. Bank (formerly Union Bank). The available credit line under the new agreement is $200,000,000. The credit agreement enhances Ava'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%.

Ava had no debt outstanding under either line of credit agreement as of June 30, 2024 or 2023. However, Ava did issue standby letters of credit secured by the line of credit agreement. As of June 30, 2024 and 2023, these letters of credit reduce the available portion of the line by approximately $34,000,000 and $39,770,000, respectively, but are not considered debt to Ava.

6. GRANTS

Ava administered a grant from the California Arrearage Payment Program (CAPP) that offered 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.

Ava 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, Ava also administers several small grants generally aimed at energy efficiency measures.

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

	2024	2023
CAPP	$ -	$ 4,050,916
DAC-GT	1,241,704	1,228,613
Miscellaneous	199,231	270,053
Total grant revenue	$ 1,440,935	$ 5,549,582

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The Ava 401(a) Plan (the Plan) is a defined contribution retirement plan administered by LT Trust. As of June 30, 2024, there were 81 plan members. Ava is required to contribute a match up to 6% of annual covered payroll to the Plan and contributed $1,697,000 and $1,456,000 during the years ended June 30, 2024 and 2023, respectively. Ava has elected out of the Social Security system for employees eligible for the Plan. As part of this election, Ava makes required "replacement" contributions to the Plan. Plan provisions are established and may be amended by the Board.

8. RISK MANAGEMENT

Ava is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the years, Ava 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, Ava 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 Ava's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on Ava's financial position or results of operations.

Ava 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, Ava enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

9. PURCHASE COMMITMENTS

In the ordinary course of business, Ava 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, 2024:

Year ending June 30,		
2025	$	730,300,000
2026		634,000,000
2027		454,100,000
2028		403,700,000
2029		361,200,000
2030-2048		4,180,700,000
Total	$	6,764,000,000

10. LEASE

A lease asset is reported in accordance with GASB No. 87.

In July 2023, Ava 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 Ava’s office space was $618,000 and $519,000 for the years ended June 30, 2024, and 2023, respectively.

As of June 30, 2024, future minimum lease payments under the sublease were projected to be $709,000.

11. JOINT VENTURE

AVA participates in a joint powers agreement (JPA) through the California Community Choice Financing Authority (CCCFA). CCCFA was formed as a conduit issuer to assist its members by undertaking the financing or refinancing of energy prepayments that can be financed with tax advantaged bonds on behalf of one or more of the members by issuing or incurring bonds and entering into related contracts with its members. Any debt or liability incurred by CCCFA on behalf of a member to prepay for renewable energy is not a debt or liability of that member. Furthermore, the assets of CCCFA in the form of prepaid energy or reserves held by the respective bond trustees for any prepayment transaction undertaken on behalf of a member does not constitute an asset or reserve of that member.

CCCFA has issued bonds whose proceeds are to being used to finance energy purchases that will be delivered to AVA. No debt, liability, or obligation of CCCFA is a debt, liability, or obligation of AVA. AVA will purchase energy from CCCFA in the same manner as it purchases energy from other suppliers. The outstanding purchase commitments related to these financing facilities are included in Note 9. AVA purchased approximately $56,436,000 and $49,243,000 from CCCFA during fiscal years 2024 and 2023, respectively. The financial statements of CCCFA are available online at http://www.cccfa.org/key-documents.html.

12. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2024:

GASB has approved GASB No. 102, *Certain Risk Disclosures*, and GASB No. 103, *Financial Reporting Model Improvements*.

Management is evaluating the effect of implementation of these statements.

13. SUBSEQUENT EVENTS

NEW MEMBERS

Ava anticipates beginning electric deliveries to recently admitted members of the cities of Stockton and Lathrop in 2025. Service to these communities is expected to increase Ava total load by approximately 13% when fully incorporated.

The County of San Joaquin has voted to join Ava Community Energy, and Ava's Board of Directors has approved the County's admission. An implementation plan has been filed with the CPUC and is currently being evaluated. If approved, service to the County would be expected to begin sometime in the 2026 calendar year.