



# Financial Statements

Years Ended June 30, 2018 and June 30, 2017  
With Report of Independent Auditors



**EAST BAY COMMUNITY ENERGY AUTHORITY  
PERIODS ENDED JUNE 30, 2018 AND 2017**

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of East Bay Community Energy Authority (EBCE), as of and for the year ended June 30, 2018 and as of June 30, 2017 and for the period beginning December 1, 2016 (inception) through June 30, 2017, and the related notes to the financial statements, which collectively comprise EBCE's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EBCE as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report (continued)**

### ***Other Matters***

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

*Pesenti & Brink LLP*

Santa Rosa, California

December 14, 2018

## **EAST BAY COMMUNITY ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis provides an overview of East Bay Community Energy Authority's (EBCE) financial activities as of and for the period ended June 30, 2018, and from inception to June 30, 2017. The information presented here should be considered in conjunction with the audited financial statements.

### **BACKGROUND**

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

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

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

In June 2018, EBCE began providing service to its first approximately 55,000 customer accounts as part of its initial enrollment phase. This initial phase included municipal and business accounts. Residential enrollment is scheduled for November 2018.

# EAST BAY COMMUNITY ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Reporting

EBCE presents its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

## Contents of this report

This report is divided into the following sections:

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

**EAST BAY COMMUNITY ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL HIGHLIGHTS**

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

	<u>2018</u>	<u>2017</u>
Current assets	\$26,884,073	\$ -
Noncurrent assets		
Capital assets, net	24,961	-
Other noncurrent assets	<u>6,158,176</u>	<u>-</u>
Total noncurrent assets	<u>6,183,137</u>	<u>-</u>
Total assets	<u>33,067,210</u>	<u>-</u>
Current liabilities	11,182,690	1,803,530
Noncurrent liabilities	<u>18,800,000</u>	<u>-</u>
Total liabilities	<u>29,982,690</u>	<u>1,803,530</u>
Net position		
Investment in capital assets	24,961	-
Unrestricted (deficit)	<u>3,059,559</u>	<u>(1,803,530)</u>
Total net position	<u>\$ 3,084,520</u>	<u>\$ (1,803,530)</u>

**Current Assets**

Current assets reached \$26,884,000 by the end of 2018 and are comprised of the following major categories: \$16,142,000 in accrued revenue and accounts receivable, \$6,469,000 in prepaid expenses and \$4,273,000 in cash and restricted cash. June 2018 was the first month that EBCE provided service to customers and most of those sales had not converted to cash by the year end. Accrued revenue accounts for electricity use by EBCE customers before invoicing to those customers has occurred. Service to its initial customer base was phased in throughout the month of June, resulting in very few billing period end dates occurring in June. As a result, almost all the revenue for that month was invoiced after the year and is reported as accrued revenue in the current asset section of the Statement of Net Position. Prepaid expenses consist of purchases of electricity and capacity for delivery after the fiscal year.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Capital Assets**

**2018 results** Capital assets reached \$25,000 in 2018 as a result of purchases of furniture and equipment. This amount is reported net of depreciation. EBCE does not own assets used for electricity generation or distribution.

**Other Noncurrent Assets**

**2018 results** Other noncurrent assets of \$6,158,000 consists of various deposits for regulatory and other operating purposes. Included are deposit postings with the California Public Utilities Commission (CPUC) and EBCE's scheduling coordinator responsible for interacting directly with the electricity market through the California Independent System Operator.

**Current Liabilities**

Current liabilities of \$11,183,000 at the end of 2018 consists primarily of \$5,175,000 for the cost of electricity delivered to customers that is not yet due to be paid by EBCE, and \$4,637,000 in debt obligations. During the fiscal year 2017-18 and 2016-17, EBCE borrowed \$3,164,000 and \$1,472,000 from Alameda County, respectively. Other components of current liabilities at June 30, 2018 include \$789,000 for trade accounts payable, \$433,000 in interest payable and \$148,000 for other accrued liabilities.

**Noncurrent Liabilities**

During the fiscal year 2017-18, EBCE borrowed \$18,800,000 from a financial institution. At June 30, 2018 EBCE had a total of \$23,437,000 outstanding debt, including current debt. Debt was incurred to cover operating costs leading up to and shortly after June 2018, the first month of service to customers. In addition to general start-up costs, EBCE incurred significant working capital needs relating to the procurement of electricity, as payments and deposits to suppliers are often required in advance of collection of revenues from customers.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 16,142,192	\$ -
Operating expenses	(10,821,190)	(1,803,530)
Interest and related expenses	(432,952)	-
Total expenses	<u>(11,254,142)</u>	<u>(1,803,530)</u>
Change in net position	<u>\$ 4,888,050</u>	<u>\$ (1,803,530)</u>

**Operating Revenues**

EBCE enrolled its first wave of municipal and commercial customer accounts in June 2018. Operating revenues for the fiscal year 2018 consist entirely of sales for that month. EBCE did not have operating revenue from any other source during the year. EBCE’s gross margin for 2018 was approximately 53%, as operating revenues exceeded the cost of electricity by \$9,026,000. EBCE will provide service to residential accounts starting in November 2018.

**Operating Expenses**

EBCE’s largest operating expense for fiscal year 2018 is the purchase of electricity needed to provide for retail customer use. These power supply costs greatly exceed all other operating expenses. EBCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. Expenses for staff compensation, consulting, and other general and administrative expenses increased in 2018 as the organization continued to grow with business demands.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**ECONOMIC OUTLOOK**

As EBCE launched its service to customers in June of 2018 it is entering its first full fiscal year of serving customers. Through the year end of June 2018 energy markets were experiencing relatively low system power prices with renewable energy costs at historically low levels. However, the market continues to face volatility driven by unpredictable weather conditions and natural gas constraints. Such volatility can lead to uncertainty in short term energy prices. In order to manage such volatility, EBCE puts in place short, medium, and long-term hedges on a variety of energy products. EBCE may look to hedge 50-100% of its exposure in an energy product on a short-duration basis of under a year.

EBCE expects to retain a strong customer and revenue base following its Phase I and Phase II customer enrollments. The greatest uncertainty that EBCE faces is regulatory uncertainty. Changes to the Power Charge Indifference Adjustment, which acts as an exit fee to EBCE customers, and potential changes to utility rates, have the greatest potential to impact EBCE financial results.

**REQUEST FOR INFORMATION**

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

Please address any questions about this report or requests for additional financial information to 1111 Broadway, 3rd Floor, Oakland, CA 94607.

Respectfully submitted,

Nick Chaset, Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

**EAST BAY COMMUNITY ENERGY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 772,590	\$ -
Accounts receivable, net of allowance	15,215	-
Accrued revenue	16,127,190	-
Prepaid expenses	6,469,078	-
Restricted cash	3,500,000	-
Total current assets	26,884,073	-
Noncurrent assets		
Capital assets, net of depreciation	24,961	-
Deposits	6,158,176	-
Total noncurrent assets	6,183,137	-
Total assets	33,067,210	-
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	789,217	331,066
Accrued cost of electricity	5,175,476	-
Accrued interest payable	432,952	-
Accrued payroll and benefits	148,389	-
Loans payable to Alameda County	4,636,656	1,472,464
Total current liabilities	11,182,690	1,803,530
Noncurrent liabilities		
Note payable to bank	18,800,000	-
Total noncurrent liabilities	18,800,000	-
Total liabilities	29,982,690	1,803,530
<b>NET POSITION</b>		
Investment in capital assets	24,961	-
Unrestricted (deficit)	3,059,559	(1,803,530)
Total net position	\$ 3,084,520	\$ (1,803,530)

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

**EAST BAY COMMUNITY ENERGY AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PERIODS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>Inception through June 30, 2017</b>
<b>OPERATING REVENUES</b>		
Electricity sales, net	\$ 16,142,192	\$ -
<b>OPERATING EXPENSES</b>		
Cost of electricity	7,116,223	-
Staff compensation and benefits	1,268,342	-
Data management	95,686	-
Service fees - PG&E	12,703	-
Consultants and other professional fees	1,511,515	1,677,333
Customer communications	489,283	112,172
General and administration	322,134	14,025
Depreciation	5,304	-
Total operating expenses	10,821,190	1,803,530
Operating income (loss)	5,321,002	(1,803,530)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and related expense	(432,952)	-
<b>CHANGE IN NET POSITION</b>	4,888,050	(1,803,530)
Net position at beginning of period	(1,803,530)	-
Net position at end of period	\$ 3,084,520	\$ (1,803,530)

**EAST BAY COMMUNITY ENERGY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**PERIODS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>Inception through June 30, 2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from electricity sales	\$ 475	\$ -
Payments to purchase electricity	(8,409,825)	-
Payments for staff compensation and benefits	(1,119,953)	-
Payments for consultants and other professional fees	(682,428)	-
Payments for customer communications	(222,415)	-
Payments for general and administration	(306,022)	-
Payments of deposits and collateral	(6,158,176)	-
Net cash provided (used) by operating activities	(16,898,344)	-
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Note proceeds from bank	18,800,000	-
Loan proceeds from Alameda County	2,393,800	-
Net cash provided (used) by non-capital financing activities	21,193,800	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(22,866)	-
Net change in cash and cash equivalents	4,272,590	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	\$ 4,272,590	\$ -
<b>Reconciliation to the Statement of Net Position</b>		
Cash and cash equivalents (unrestricted)	\$ 772,590	\$ -
Restricted cash	3,500,000	-
Cash and cash equivalents	\$ 4,272,590	\$ -

**Noncash Non-Capital Financing Activities:**

- Expenses of \$1,472,464 were financed from loan proceeds during the period ended June 30, 2017
- Expenses of \$770,392 were financed from loan proceeds during the period ended June 30, 2018

**EAST BAY COMMUNITY ENERGY AUTHORITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
PERIODS ENDED JUNE 30, 2018 AND 2017**

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

	<b>2018</b>	<b>Inception through June 30, 2017</b>
Operating income (loss)	\$ 5,321,002	\$ (1,803,530)
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	5,304	-
Expenses paid directly from loan proceeds	770,392	1,472,464
Revenue reduced for uncollectible accounts	76,539	-
(Increase) decrease in net accounts receivable	(15,215)	-
(Increase) decrease in accrued revenue	(16,203,729)	-
(Increase) decrease in prepaid expenses	(6,469,078)	-
(Increase) decrease in noncurrent deposits	(6,158,176)	-
Increase (decrease) in accounts payable	450,752	331,066
Increase (decrease) in accrued cost of electricity	5,175,476	-
Increase (decrease) in accrued payroll and related	148,389	-
Net cash provided (used) by operating activities	\$ (16,898,344)	\$ -

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

East Bay Community Energy Authority (EBCE) is a joint powers authority created on December 1, 2016 and its voting members consist of Alameda County and the cities and towns of Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Oakland, Piedmont, San Leandro, and Union City. At June 30, 2018, EBCE is governed by a thirteen member Board of Directors, consisting of one voting member appointed by the jurisdictions previously mentioned, and one non-voting member serving as part of a community advisory committee.

EBCE was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. 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 commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

**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.

**CASH AND CASH EQUIVALENTS**

For purpose of the statement of cash flows, EBCE has defined cash and cash equivalents to include cash on hand and demand deposits. Amounts restricted for debt collateral are not considered cash and cash equivalents. These restricted balances are presented separately in the Statements of Net Position.

**DEPOSITS**

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

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**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 and seven years for furniture and leasehold improvements. EBCE does not own any electric generation assets.

**OPERATING REVENUE**

Revenue from the sale of electricity to customers is considered operating revenue. During the fiscal year ending June 30, 2018, this was EBCE's only source of operating revenue.

**REVENUE RECOGNITION**

EBCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the 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.

**ELECTRICAL POWER PURCHASED**

Electrical power sold to customers was purchased through several energy suppliers. The cost of power and related delivery costs has been recognized as "cost of electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

EBCE primarily purchases renewable energy as a bundled product consisting of the energy and the associated Renewable Energy Certificates (REC) to comply with external mandates and self-imposed benchmarks. The RECs purchased by EBCE are commonly called "bundled", as they are purchased together with the associated renewable energy actually generated. EBCE procures RECs with the intent to retire them within the compliance period on a voluntary basis above the compliance requirements. It does not intend to hold RECs on a long-term basis to build a surplus. An expense is recognized at the point that the cost of the REC is due and payable to the supplier.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**STAFFING COSTS**

EBCE pays employees bi-weekly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. EBCE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. EBCE provides compensated time off, 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. As such it is not subject to federal or state income or franchise taxes.

**ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. CASH AND CASH EQUIVALENTS**

EBCE maintains its cash in non-interest-bearing accounts in several banks. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC 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. Risk is monitored on an ongoing basis. As part of the security agreement with its main suppliers, EBCE is required to maintain a cash balance of \$3,500,000 to ensure funds are available to purchase electrical power. This cash balance is reported as restricted in the Statements of Net Position.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**3. ACCOUNTS RECEIVABLE**

EBCE anticipates the majority of account collections will occur within the first few months following customer invoicing. EBCE will continue collection efforts on delinquent accounts that exceed a minimum balance, otherwise the accounts are written off. For delinquent accounts that are not written off and are above a certain level, EBCE will develop a policy for Board approval to address accounts with uncollectible amounts. EBCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts were \$77,000 at June 30, 2018.

**4. CAPITAL ASSETS**

Changes in capital assets were as follows:

	<u>Furniture &amp; Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Balances at June 30, 2017	\$ -	\$ -	\$ -
Additions	30,265	(5,304)	24,961
Balances at June 30, 2018	<u>\$ 30,265</u>	<u>\$ (5,304)</u>	<u>\$ 24,961</u>

**5. DEBT**

**Loans payable to Alameda County**

In April 2017, EBCE entered into a cooperative agreement with Alameda County. The purpose of the agreement was to reimburse the County for services, costs, and expenses incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement allowed for the repayment to be in the form of a loan not to exceed \$5,500,000, with interest accrued based on the Alameda County Pooled Investment Fund earnings rate plus two percent per annum. As of June 30, 2018, EBCE had drawn funds or become liable for expenses incurred of approximately \$4,637,000. Principal and interest payments dates are not specified in the agreement, but it is EBCE's intent to retire this debt within twelve months after June 30, 2018. Accordingly, this is reported as a current liability on the Statements of Net Position.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**5. DEBT (continued)**

**Note payable to bank**

In March 2018, EBCE arranged to borrow up to \$50 million from a financial institution to provide cash to pay for energy purchases and operating expense which are due before sufficient revenue is to be collected from customers. The loan is secured by assigning first priority security interest in pledged revenues as well as interest in certain bank accounts held by EBCE. Principal can be drawn as needed and interest is accrued on the outstanding balance. The stated maturity date is March 15, 2021, with interest payable each month commencing on November 1, 2018. Interest is computed at LIBOR plus 5.25%.

Loan principal activity and balances were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Ending</u>
Year ended June 30, 2017			
Alameda County	\$ -	\$ 1,472,464	\$ 1,472,464
Amounts due within one year			-
Amounts due after one year			<u>\$ 1,472,464</u>
Year ended June 30, 2018			
Alameda County	\$ 1,472,464	\$ 3,164,192	\$ 4,636,656
Bank	-	18,800,000	18,800,000
Total	<u>\$ 1,472,464</u>	<u>\$ 21,964,192</u>	<u>\$ 23,436,656</u>
Amounts due within one year			<u>4,636,656</u>
Amounts due after one year			<u>\$ 18,800,000</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**PERIODS ENDED JUNE 30, 2018 AND 2017**

**6. DEFINED CONTRIBUTION RETIREMENT PLAN**

EBCE provides retirement benefits through a 401(a) Retirement Plan (Plan). The Plan is a defined contribution (IRC 401(a)) retirement plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by LT Trust. At June 30, 2018, EBCE had 9 plan participants. EBCE is required to contribute 4% to 6% as a match to employee contributions. EBCE contributed approximately \$18,000 for the year ended June 30, 2018, the first year the Plan was effective. Plan provisions and contribution requirements as they apply to EBCE are established and may be amended by the Board of Directors.

**7. RISK MANAGEMENT**

EBCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year ended June 30, 2018, EBCE purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was \$3,000,000 with a \$1,000 deductible.

**8. PURCHASE COMMITMENTS**

EBCE had outstanding non-cancelable power purchase-related commitments of approximately \$270 million that has not yet been provided under power purchase agreements that continue to December 2020.

The following table are the obligations on existing energy, renewable contracts, and resource adequacy (RA) as of June 30, 2018.

Year ended June 30,	
2019	\$ 178,238,180
2020	86,483,655
2021	<u>5,515,013</u>
Total	<u>\$ 270,236,848</u>

As of June 30, 2018, EBCE had outstanding non-cancelable commitments to professional service providers for services yet to be performed of approximately \$13,600,000 through October 2020.

**EAST BAY COMMUNITY ENERGY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
PERIODS ENDED JUNE 30, 2018 AND 2017**

**9. FUTURE GASB PRONOUNCEMENTS**

The requirements of the following GASB Statement are effective for future fiscal years ending after June 30, 2018:

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

**10. SUBSEQUENT EVENTS**

In September 2018, new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. It is unknown at this time what the direct impact of this legislation will be on EBCE or how much commercial load might be eligible under this direct access expansion. However, EBCE anticipates that it will not have a material impact on fiscal year 2019 load.

On October 11, 2018, the California Public Utilities Commission (CPUC) passed an Alternative Proposed Decision (APD) regarding the calculation of the Power Charge Indifference Adjustment (PCIA). The decision will increase the PCIA for all of EBCE's customers. EBCE is evaluating the specific changes that will be required to EBCE's rates as a result of this decision.