



Staff Report Item 13

TO: East Bay Community Energy Board of Directors

FROM: Jason Bartlett, Finance Manager

SUBJECT: Fiscal Year 2020-2021 Audited Financial Statements (Action Item)

DATE: October 21, 2020

Recommendation

Accept and file the Fiscal Year 2020-2021 audited financial statements

Background and Discussion

EBCE hires an independent auditor to verify the annual financial statements each year. In June of 2019, EBCE selected Pimenti & 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, 2020, to June 30, 2021.

P&B engaged with an ad-hoc committee of board members throughout the audit process and was assisted by EBCE staff. The audit was reviewed in full by the Finance, Administrative, and Procurement Committee on Tuesday, October 6, 2021.

The final audited financial statements provide and independently verified, accurate portrait of EBCE's financial position as of June 30, 2021. 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:

Statements of Net Position (Balance Sheet)

- Total Assets increased from \$220.4MM to \$241.3MM
 - Primarily as increase in cash and equivalents and account receivables
 - \$15.8MM of deferred revenues increased from 12.7MM
- Total Liabilities decreased slightly from \$57.9MM to \$53.5 million due to a decrease in outstanding energy costs
- Total Net Position increased from \$149.8MM to \$171.9MM 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 \$423.5MM, after \$3.1MM was deferred to a Rate Stabilization Fund approved in September, 2020
- Operating Expenses were approximately \$401.2MM, with \$377.5MM in Cost of Electricity
- The Authority paid \$233k from non-operating activities as related to interest earned on holdings and interest paid on commitments
- Change in Net Position was \$22.1MM
 - $\text{Change in Net Position} = \text{Operating Revenue} - \text{Operating Expenses} + \text{Net Non-operating Activities}$

Fiscal Impact

This report has no fiscal impact.

Attachments

- A. EBCE's Audited Financial Statements June 30, 2021
- B. Presentation from the Auditor, Pisenti & Brinker



THE EAST BAY'S PUBLIC POWER AGENCY

Financial Statements

Years ended June 30, 2021 and 2020 with
Independent Auditor's Report



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At right: EBCE's Scott Haggerty Wind
Energy Center / 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 Financial Statements

We have audited the accompanying financial statements of East Bay Community Energy Authority (EBCE), as of and for the years ended June 30, 2021 and 2020, 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 responsibility 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.

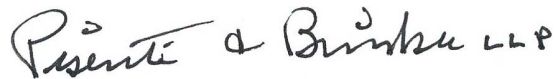
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EBCE as of June 30, 2021 and 2020, 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.

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.

A handwritten signature in black ink that reads "Presenti & Brinku LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
October 14, 2021

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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, 2021 and 2020. 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 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, 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 their service territory by adding approximately 80,000 accounts. As of June 30, 2021, EBCE had approximately 640,000 customers enrolled.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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 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, which provide additional details and information related to the basic financial statements.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 218,280,050	\$ 207,412,111	\$ 128,753,445
Noncurrent assets			
Capital assets, net of depreciation	115,816	148,053	48,842
Other noncurrent assets	22,855,208	12,821,208	22,507,440
Total noncurrent assets	<u>22,971,024</u>	<u>12,969,261</u>	<u>22,556,282</u>
Total assets	<u>241,251,074</u>	<u>220,381,372</u>	<u>151,309,727</u>
Current liabilities	53,525,550	57,899,438	57,423,768
Noncurrent liabilities	-	-	12,512,500
Total liabilities	<u>53,525,550</u>	<u>57,899,438</u>	<u>69,936,268</u>
Deferred inflows of resources	<u>15,814,000</u>	<u>12,680,000</u>	<u>-</u>
Net position			
Invested in capital assets	115,816	148,053	48,842
Restricted for collateral	10,000,000	11,000,000	17,100,000
Unrestricted	161,795,708	138,653,881	64,224,617
Total net position	<u>\$ 171,911,524</u>	<u>\$ 149,801,934</u>	<u>\$ 81,373,459</u>

Current assets

Current assets were approximately \$218,280,000 at the end of 2021 and are mostly comprised of \$129,848,000 in cash, \$43,911,000 in accounts receivable, \$27,952,000 in accrued revenue, \$6,247,000 in prepaid expenses and \$3,000,000 in restricted cash. Unrestricted cash increased each year as a result of operating surpluses. Accounts receivable decreased from 2020 to 2021 as EBCE reduced the rates charged to customers. In 2020, current restricted cash included \$7,000,000 held as collateral on a credit facility that expired within twelve months of that fiscal year end. At June 30, 2021 this collateral is expected to be required for longer than twelve months due to an extension in the credit facility. Accordingly, this restricted cash is being reported as a noncurrent asset.

Capital assets

Capital assets are reported net of depreciation. Changes in this account are due to leasehold improvements at EBCE's office and the acquisition of furniture and equipment. The balance in this account decreased from 2020 to 2021 as depreciation exceeded acquisitions of new furniture and equipment. EBCE does not own assets used for electricity generation or distribution.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

Other noncurrent assets

Included in other noncurrent assets at June 30, 2021, is \$15,814,000 in its Rate Stabilization Fund to be used in later years when financial results are stressed. By deferring revenue to be used in future years, EBCE will be better able to avoid sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances.

Also included in noncurrent assets at June 30, 2021, is \$7,000,000 in restricted cash that is collateral on a credit facility that expires in January 2023.

Current liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not due to be paid by EBCE at year end. Other components include trade accounts payable, taxes and surcharges due to other governments, and various other accrued liabilities. Total current liabilities were fairly level from 2019 to 2020 but decreased slightly from 2020 to 2021 mostly as a result of variations in market prices.

Noncurrent liabilities

As of June 30, 2019, EBCE had noncurrent liabilities of \$12,513,000 relating to outstanding debt. Subsequent to the end of fiscal year 2019, EBCE repaid the remaining balance of its bank debt ahead of schedule. EBCE maintains a credit facility that is primarily used to provide collateral in the form of letters of credit. These letters of credit reduce the available portion of the credit facility, but are not considered debt and are not reported on the Statements of Net Position. At June 30, 2021 and 2020, EBCE had no debt outstanding and no other noncurrent liabilities.

Deferred inflows of resources

EBCE directed \$3,134,000 and \$12,680,000 of electricity revenue to its Rate Stabilization Fund in fiscal year 2021 and 2020, respectively. The balance of the fund is classified as deferred inflows of resources until EBCE recognizes the revenue in the future.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 423,502,860	\$ 463,381,478	\$ 387,251,933
Investment income	636,395	1,357,175	248,702
Total income	424,139,255	464,738,653	387,500,635
Operating expenses	401,160,053	395,567,000	307,397,737
Nonoperating expenses	869,612	743,178	1,813,959
Total expenses	402,029,665	396,310,178	309,211,696
Change in net position	<u>\$ 22,109,590</u>	<u>\$ 68,428,475</u>	<u>\$ 78,288,939</u>

Operating revenues

EBCE expanded its service to residential accounts starting in November 2018. Total operating revenues increased during 2019-20 as it was the first full fiscal year that included residential accounts. In April 2021, EBCE expanded its service territory to include an additional 80,000 customer accounts. Despite this increase in customers during the final quarter of 2020-21, revenues dropped from the prior year due to substantial decreases in rates EBCE charges its customers. In 2021 EBCE directed \$3,134,000 to its Rate Stabilization Fund, effectively reducing revenue for that year and deferring the recognition to a future year. In 2020, EBCE directed \$12,680,000 to its Rate Stabilization Fund.

Investment income decreased from 2020 to 2021 as a result of decreased market interest rates.

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.

Nonoperating expenses

Nonoperating expenses represents interest and fees related to letters of credit and the unused portion of the credit facility. In conjunction with repayment of bank debt in early 2020, less interest was incurred in fiscal years 2020 and 2021.

Attachment Staff Report Item 13A

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

ECONOMIC OUTLOOK

California Independent System Operator (CAISO) system power prices experienced some level of volatility through the year ended June 30, 2021. This level of volatility was somewhat consistent with year to year historical volatility that occurs due to seasonal and annual weather changes, with some very notable exceptions. In August 2020, California experienced a short period of unforecasted heat extremes throughout the state combined with capacity shortages and this resulted in rolling blackouts implemented by CAISO. In February of 2021, Texas experienced a period of historically cold weather that caused significant freezing of natural gas power plants, disruption to wind farm generation, and record high energy loads. While this weather extreme was generally isolated to Texas and nearby regions, it did create price spikes to natural gas supply in California, which resulted in significantly elevated market prices throughout California. In June 2021, a record heat wave hit California and the Pacific Northwest. This increased energy loads and reduced the level of electricity imports available to deliver into CAISO from the Pacific Northwest. Combined with significant drought conditions, which reduce large hydro generation production, and retirements of natural gas units, this caused additional price spikes in June 2021.

While the COVID-19 pandemic is ongoing, energy loads were in line with forecasts and budget. Additionally, EBCE expanded to three new member cities – Newark, Pleasanton, and Tracy, which increased load by approximately 15%. To account for increased frequency of weather extremes, EBCE implemented changes to its load forecasting methodology early in the year to account for greater volatility in load demand.

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 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. Additionally, EBCE is engaged with the state to seek funds for COVID-19 related debt relief to assist customers during the pandemic and minimize the impact on customer arrearages.

**EAST BAY COMMUNITY ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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, 8th Floor, 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, 2021 AND 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 129,847,706	\$ 108,481,294
Accounts receivable, net of allowance	43,911,325	50,082,004
Accrued revenue	27,952,207	26,130,467
Market settlements receivable	5,025,939	1,980,256
Other receivables	708,188	111,261
Prepaid expenses	6,247,325	7,755,269
Deposits	1,587,360	1,871,560
Restricted cash	3,000,000	11,000,000
Total current assets	218,280,050	207,412,111
Noncurrent assets		
Cash and cash equivalents in Rate Stabilization Fund	15,814,000	12,680,000
Restricted cash	7,000,000	-
Capital assets, net of depreciation	115,816	148,053
Deposits	41,208	141,208
Total noncurrent assets	22,971,024	12,969,261
Total assets	241,251,074	220,381,372
LIABILITIES		
Current liabilities		
Accrued cost of electricity	38,815,244	50,320,296
Accounts payable	3,264,853	2,609,589
Other accrued liabilities	750,185	698,836
User taxes and energy surcharges due to other governments	3,857,146	4,200,717
Security deposits - energy suppliers	6,838,122	70,000
Total current liabilities	53,525,550	57,899,438
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization Fund	15,814,000	12,680,000
NET POSITION		
Invested in capital assets	115,816	148,053
Restricted for collateral	10,000,000	11,000,000
Unrestricted	161,795,708	138,653,881
Total net position	\$ 171,911,524	\$ 149,801,934

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Electricity sales, net	\$ 425,733,911	\$ 475,727,273
Revenue deferred to Rate Stabilization Fund	(3,134,000)	(12,680,000)
Other revenue	902,949	334,205
Total operating revenues, net	<u>423,502,860</u>	<u>463,381,478</u>
OPERATING EXPENSES		
Cost of electricity	377,480,734	373,477,417
Contract services	13,906,614	12,890,724
Staff compensation	7,134,883	5,852,793
General and administration	2,585,219	3,302,768
Depreciation	52,603	43,298
Total operating expenses	<u>401,160,053</u>	<u>395,567,000</u>
Operating income	<u>22,342,807</u>	<u>67,814,478</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	636,395	1,357,175
Financing expense	(869,612)	(743,178)
Nonoperating revenues (expenses), net	<u>(233,217)</u>	<u>613,997</u>
CHANGE IN NET POSITION	22,109,590	68,428,475
Net position at beginning of period	<u>149,801,934</u>	<u>81,373,459</u>
Net position at end of period	<u>\$ 171,911,524</u>	<u>\$ 149,801,934</u>

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 448,902,853	\$ 492,564,733
Other operating receipts	8,937,471	515,947
Payments to suppliers for electricity	(391,197,468)	(367,371,693)
Payments for other goods and services	(16,534,847)	(16,494,851)
Payments for staff compensation	(6,963,515)	(5,616,047)
Tax and surcharge payments to other governments	(19,163,570)	(20,380,830)
Net cash provided by operating activities	<u>23,980,924</u>	<u>83,217,259</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments on notes	-	(12,512,500)
Financing expense payments	(1,082,956)	(621,548)
Net cash used by non-capital financing activities	<u>(1,082,956)</u>	<u>(13,134,048)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(33,951)</u>	<u>(152,606)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>636,395</u>	<u>1,357,175</u>
Net change in cash and cash equivalents	23,500,412	71,287,780
Cash and cash equivalents at beginning of period	132,161,294	60,873,514
Cash and cash equivalents at end of period	<u>\$ 155,661,706</u>	<u>\$ 132,161,294</u>
Reconciliation to the Statement of Net Position		
Unrestricted cash and cash equivalents (current)	\$ 129,847,706	\$ 108,481,294
Restricted cash (current)	3,000,000	11,000,000
Unrestricted cash and cash equivalents (noncurrent)	15,814,000	12,680,000
Restricted cash (noncurrent)	7,000,000	-
Cash and cash equivalents	<u>\$ 155,661,706</u>	<u>\$ 132,161,294</u>

EAST BAY COMMUNITY ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2021 AND 2020

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

	<u>2021</u>	<u>2020</u>
Operating income	\$ 22,342,807	\$ 67,814,478
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	52,603	43,298
Revenue adjusted for allowance for uncollectible accounts	10,916,254	3,548,839
(Increase) decrease in:		
Accounts receivable	(4,745,575)	(10,079,467)
Market settlements receivable	(3,045,683)	4,744,686
Other receivables	(596,927)	(111,262)
Accrued revenue	(1,821,740)	1,994,598
Prepaid expenses	1,507,944	(2,938,640)
Deposits	384,200	5,156,591
Increase (decrease) in:		
Accrued cost of electricity	(11,505,052)	269,367
Accounts payable	882,193	(447,954)
Other accrued liabilities	171,368	254,622
Deferred revenue	(120,019)	101,693
User taxes due to other governments	(343,571)	716,410
Security deposits from energy suppliers	6,768,122	(530,000)
Rate Stabilization Fund	3,134,000	12,680,000
Net cash provided by operating activities	<u>\$ 23,980,924</u>	<u>\$ 83,217,259</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

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, 2021, 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	Tracy
	Livermore	Union City

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, 2021 AND 2020**

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, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Cash Flows, EBCE has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. For the purpose of the Statements of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements of Net Position includes collateral on a 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, 2021 AND 2020**

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 62 and GASB 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 \$3,134,000 and \$12,680,000 to the Rate Stabilization Fund for the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NON-OPERATING 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 “non-operating revenue.”

REVENUE RECOGNITION

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

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 the 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, 2021 AND 2020**

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 the 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, 2021 AND 2020**

2. CASH AND CASH EQUIVALENTS

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

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Accounts receivable from customers	\$60,398,009	\$55,652,434
Allowance for uncollectible accounts	<u>(16,486,684)</u>	<u>(5,570,430)</u>
Net accounts receivable	<u>\$43,911,325</u>	<u>\$50,082,004</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. EBCE expects lower than historical average collections success due primarily to the economic impacts of COVID-19 and has increased the allowance for uncollectible accounts accordingly.

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2021 and 2020, was as follows:

	<u>Furniture & Equipment</u>	<u>Leasehold Improvements</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at June 30, 2019	\$ 57,861	\$ 10,369	\$ (19,388)	\$ 48,842
Additions	139,344	3,165	(43,298)	99,211
Balances at June 30, 2020	<u>197,205</u>	<u>13,534</u>	<u>(62,686)</u>	<u>148,053</u>
Additions	20,366	-	(52,603)	(32,237)
Balances at June 30, 2021	<u>\$ 217,571</u>	<u>\$ 13,534</u>	<u>\$ (115,289)</u>	<u>\$ 115,816</u>

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

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 and enhances EBCE's overall liquidity for potential working capital needs and collateral requirements. This agreement terminates in January 2023. The borrowing rate on the credit facility is LIBOR plus 2.5%.

EBCE had no debt outstanding under its line of credit agreement at June 30, 2021 and 2020. However, EBCE did issue Standby Letters of Credit secured by the line of credit agreement. At June 30, 2021 these Letters of Credit reduce the available portion of the line by approximately \$26,500,000 but are not considered debt to EBCE.

In August 2019, EBCE paid off the balance of its revolving credit agreement that was in place at the time.

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

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2020				
Bank	\$ 12,512,500	\$ -	\$ (12,512,500)	\$ -
Amounts due within one year				-
Amounts due after one year				\$ -

6. 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, 2021, there were 34 plan members. EBCE is required to contribute a match up to 6% of annual covered payroll to the Plan and contributed \$816,000 and \$574,000 during the years ended June 30, 2021 and 2020, 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.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

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, 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 counter parties.

8. 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.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

8. PURCHASE COMMITMENTS (continued)

The following table details the obligations on existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2021:

Year ended June 30,	
2022	\$ 298,000,000
2023	214,000,000
2024	96,000,000
2025	59,000,000
2026	61,000,000
2027-2042	<u>856,000,000</u>
Total	<u><u>\$ 1,584,000,000</u></u>

9. OPERATING LEASE

Rental expense for EBCE's office space was \$429,000 and \$517,000 for the years ended June 30, 2021, and 2020, respectively. In February 2019, EBCE entered into a 39-month non-cancelable lease for its office premise from August 1, 2019 through October 31, 2022.

Future minimum lease payments under this lease are as follows:

Year ended June 30,	
2022	\$ 442,000
2023	<u>149,000</u>
Total	<u><u>\$ 591,000</u></u>

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2021:

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. When they become effective, the application of these standards may restate portions of these financial statements.

**EAST BAY COMMUNITY ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

11. SUBSEQUENT EVENT

EBCE purchased a commercial building in Oakland, California in September 2021 that will be used as its future headquarters. The purchase price was \$8,500,000 and EBCE paid in full with cash.



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*East Bay Community Energy
Report to the Board of Directors
October 20, 2021*

Introduction

- Brett Bradford, CPA
 - Audit Partner
 - 18 years in public accounting and performing audits of government entities
 - Currently working with several CCA's throughout California
- Andrea Lifto, CPA
 - Engagement Manager
 - 5 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, 2021 Financial Statements

Attachment Staff Report Item 13B

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, 2021

Attachment Staff Report Item 13B

Significant areas of focus

- Consider impact of current economic climate (COVID)
- 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, 2021

Attachment Staff Report Item 13B

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

Andrea Lifto: 707-559-7317



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