



FINANCIAL STATEMENTS

Years Ended
September 30, 2019 and 2018

WITH REPORT OF INDEPENDENT AUDITORS



**MONTEREY BAY COMMUNITY POWER AUTHORITY
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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Independent Auditor's Report

To the Board of Directors
Monterey Bay Community Power
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of Monterey Bay Community Power (MBCP), as of and for the year ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise MBCP'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 audit. We conducted our audit 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 MBCP as of September 30, 2019 and 2018, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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

Perenti & Brink LLP

Santa Rosa, California
February 7, 2020

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

BACKGROUND

The formation of MBCP 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.

MBCP was created as a California Joint Powers Authority (JPA) on February 21, 2017 to provide electric generation services to residents and businesses in Monterey, San Benito and Santa Cruz Counties and 16 cities incorporated within the 3 Counties. In December 2018, the Policy Board adopted a resolution approving certain amendments to the JPA Agreement to include the Cities of San Luis Obispo and Morro Bay with the start of service in January 2020. In December 2019, the Policy Board approved the inclusion of 11 new members, namely Del Rey Oaks (Monterey County), Arroyo Grande, Grover Beach, Paso Robles and Pismo Beach (San Luis Obispo County), Carpinteria, Goleta, Guadalupe and Santa Maria (Santa Barbara County) and the County of Santa Barbara.

MBCP's primary goals are to reduce GHG in the region, provide electric power at competitive price and stimulate and sustain the local economy by offering programs to promote electrification and electric service reliability backup power supply.

Prior to the creation of Monterey Bay Community Power Authority as a JPA, the County of Santa Cruz managed the financial and administrative activities related to the formation MBCP. Pursuant to the JPA, MBCP received a loan from the County of Santa Cruz to provide necessary funding for MBCP startup activities. Prior to launch, MBCP was able to procure additional financing from River City Bank. Both loans were repaid in September 2018.

In March 2018, MBCP began providing service to approximately 40,000 commercial, agriculture and industrial customers and on July 1st, MBCP started enrolling all residential customers accounts as part of its initial enrollment phase. At the end of fiscal year ended September 30, 2019 MBCP had enrolled approximately 277,000 customers. In January 2020, MBCP started enrolling residents and businesses from the Cities of San Luis Obispo and Morro Bay, thus adding another 25,000 customers to its current customer base. In 2021, MBCP expects to add approximately 160,000 customers that reside and operate in the 11 new jurisdictions that joined the agency in December 2019.

MBCP is governed by two Boards, a Policy Board and an Operations Board. Each Board is comprised of 17 members with 17 alternates representing the participating communities. Policy Board Members are elected officials from MBCP member communities; and Operations Board.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

BACKGROUND (continued)

Members are appointed executives leading the member cities and counties. MBCP has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. MBCP is responsible for the acquisition of electric power for its service area.

Financial Reporting

MBCP 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

The financial statements reflect all MBCP's activities that are funded through the sale of electricity to its customers and is divided into the following sections:

- Management discussion and analysis, which provides an overview of financial results for the years presented.
- The basic financial statements, which offer information on MBCP's financial status:
 - The *Statements of Net Position* include all MBCP's assets, liabilities, and net position using the accrual basis of accounting and include 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 MBCP's revenue and expenses for the years presented.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as financing and investing activities.
 - Notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

FINANCIAL HIGHLIGHTS

The following table is a summary of MBCP's assets, liabilities, and net position and a discussion of significant changes for the years ending September 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 157,058,261	\$ 66,884,917	\$ -
Noncurrent assets			
Capital assets, net	226,242	263,759	-
Other noncurrent assets	121,055	119,355	-
Total noncurrent assets	<u>347,297</u>	<u>383,114</u>	<u>-</u>
Total assets	<u>157,405,558</u>	<u>67,268,031</u>	<u>-</u>
Current liabilities	<u>37,708,844</u>	<u>26,788,999</u>	<u>363,369</u>
Total liabilities	<u>37,708,844</u>	<u>26,788,999</u>	<u>363,369</u>
Net position			
Investment in capital assets	226,242	263,759	-
Restricted for security collateral	3,100,000	3,600,000	-
Unrestricted	116,370,472	36,615,273	(363,369)
Total net position	<u>\$ 119,696,714</u>	<u>\$ 40,479,032</u>	<u>\$ (363,369)</u>

Current Assets

Current assets were \$157,058,000 at the end of September 30, 2019 and are mostly comprised of cash, accounts receivable, and accrued revenue. Accrued revenue differs from accounts receivable in that it is the result of electricity use by MBCP customers before invoicing to those customers has occurred. The total of current assets increased in 2019 as a result of MBCP's operating surplus and for operating with its entire customer base for a complete year.

Capital Assets

Capital assets were \$226,000, net of accumulated depreciation, primarily reflecting the acquisition of furniture and equipment accompanying MBCP's establishing its administrative office in 2018. MBCP does not own assets used for electric generation or distribution.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

Other Noncurrent Assets

Other noncurrent assets of \$121,000 consists of various deposits for regulatory and other operating purposes. Included are deposit postings with the California Public Utilities Commission (CPUC) and other operating deposits.

Current Liabilities

This category consists primarily of \$25,664,000 for the cost of electricity delivered to customers that is not yet due to be paid by MBCP. Also included in this category is \$7,687,000 in customer rebate liabilities that reflect the expected savings rebate that has yet to be applied to customers' accounts at the fiscal year end.

Current liabilities increased year-over-year due to operating activities associated with the enrollment of more customer accounts during 2019, the energy suppliers' security deposits, and staffing expenses.

Results of Operations

The following table is a summary of MBCP's results of operations and a discussion of significant changes for the years ending September 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 238,322,420	\$ 117,097,905	\$ -
Nonoperating revenues	1,320,685	14,248	-
Total income	<u>239,643,105</u>	<u>117,112,153</u>	<u>-</u>
Operating expenses	160,425,423	76,135,084	363,369
Nonoperating expenses	-	134,668	-
Total expenses	<u>160,425,423</u>	<u>76,269,752</u>	<u>363,369</u>
Change in net position	<u>\$ 79,217,682</u>	<u>\$ 40,842,401</u>	<u>\$ (363,369)</u>

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

Operating Revenues

MBCP enrolled its first wave of commercial, agricultural, industrial and municipal customer accounts in March 2018. In July 2018, MBCP began to phase in residential accounts, its final planned phase of customers. Operating revenues consist of electricity sales to these customers.

Operating revenues increased year-over-year as a result of 2019 being the first complete year of operations. MBCP's gross profit margin for 2019 was approximately 36.5%, as operating revenues exceeded the cost of electricity by \$87,025,000.

Operating Expenses

MBCP's largest operating expense for fiscal year 2019 was the purchase of electricity needed to provide for retail customer use. MBCP 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, data management and other general and administrative expenses increased in 2019 as the organization continued to grow with business demands.

ECONOMIC OUTLOOK

MBCP launched into the electricity retail business over a year ago. Since March 2018, MBCP enrolled over 272,000 customers, held participation at over 96%, which is one of the best amongst the CCAs in California, sourced 100% carbon-neutral electricity and provided several million dollars in rebates to our customers.

Our Power Supply Team has skillfully managed the risk of power supply price volatility, hedged energy cost several years in advance and executed three long-term power supply agreements that will provide MBCP with enough renewable energy to meet more than 20% of the agency's electricity demand.

Recently, MBCP launched several energy programs aimed at reducing emissions in the transportation sector through funding of electric vehicle (EV) charging stations and providing incentives for MBCP customers to buy or lease EVs. In addition, working with Grid Alternatives, we are rebating nearly the total cost for the installation of rooftop solar panels on 20 low-income homes in our community.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

ECONOMIC OUTLOOK (continued)

While working toward all of these important successes, MBCP has also carefully managed its financial position, fully paid off over \$6.2 million of debt incurred prior to and during the launch, accumulated over \$94 million in rate stabilization reserves and proved that Community Choice agencies can provide cleaner power, offer generous programs and lower rates while maintaining a very strong financial position.

It's these success stories that motivated the cities of San Luis Obispo and Morro Bay to join the MBCP community in December 2018. Unifying the Central Coast will have a tremendous benefit toward supporting MBCP's goals. In early 2019, MBCP engaged communities in San Luis Obispo and Santa Barbara to evaluate interest and eligibility in joining MBCP. In December 2019, the Policy Board adopted a resolution adding 11 new jurisdictions into MBCP as members.

REQUEST FOR INFORMATION

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

Please address any questions about this report or requests for additional financial information to 70 Garden Court, Suite 300, Monterey, CA 93940.

Respectfully submitted,

Tom Habashi, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 99,732,562	\$ 18,257,288
Accounts receivable, net of allowance	37,633,721	23,775,003
Accrued revenue	15,726,768	15,069,597
Energy settlements receivable	43,267	1,027,317
Other receivables	7,052	4,725
Prepaid expenses	340,390	5,150,987
Deposits	474,501	-
Restricted cash	3,100,000	3,600,000
Total current assets	157,058,261	66,884,917
Noncurrent assets		
Capital assets, net of depreciation	226,242	263,759
Deposits	121,055	119,355
Total noncurrent assets	347,297	383,114
Total assets	157,405,558	67,268,031
LIABILITIES		
Current liabilities		
Accrued cost of electricity	25,664,078	22,625,162
Accounts payable	1,152,275	876,060
Accrued payroll and benefits	289,026	164,400
Other accrued liabilities	214,631	23,200
Customer rebate liabilities	7,687,270	1,898,945
User taxes and surcharges due to other governments	1,441,564	1,201,232
Supplier security deposits	1,260,000	-
Total current liabilities	37,708,844	26,788,999
NET POSITION		
Investment in capital assets	226,242	263,759
Restricted for security collateral	3,100,000	3,600,000
Unrestricted	116,370,472	36,615,273
Total net position	\$ 119,696,714	\$ 40,479,032

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

MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Electricity sales, net of allowance	\$ 238,322,420	\$ 117,097,905
OPERATING EXPENSES		
Cost of electricity	151,297,414	70,469,276
Contract services	5,133,836	3,482,404
Staff compensation and benefits	3,015,804	1,598,439
General and administration	880,750	542,662
Depreciation	97,619	42,303
Total operating expenses	<u>160,425,423</u>	<u>76,135,084</u>
Operating income	77,896,997	40,962,821
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,283,253	13,156
Interest expense	-	(134,668)
Miscellaneous income	37,432	1,092
Total nonoperating revenues (expenses)	<u>1,320,685</u>	<u>(120,420)</u>
CHANGE IN NET POSITION	79,217,682	40,842,401
Net position at beginning of year	<u>40,479,032</u>	<u>(363,369)</u>
Net position at end of year	<u><u>\$ 119,696,714</u></u>	<u><u>\$ 40,479,032</u></u>

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

MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 235,188,689	\$ 82,513,866
Energy settlement receipts	13,532,343	1,932,084
Other operating receipts	1,349,451	502,467
Payments to suppliers for electricity	(156,029,610)	(56,514,495)
Payments for other goods and services	(5,588,881)	(3,001,536)
Payments for staff compensation	(2,891,178)	(1,434,038)
Tax and surcharge payments to other governments	(5,806,315)	(1,160,384)
Net cash provided by operating activities	79,754,499	22,837,964
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds from bank	-	5,600,000
Principal payments on loan from bank and Santa Cruz County	-	(6,155,903)
Interest and related expense payments	-	(134,668)
Net cash used by non-capital financing activities	-	(690,571)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(62,478)	(303,261)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	1,283,253	13,156
Net change in cash and cash equivalents	80,975,274	21,857,288
Cash and cash equivalents at beginning of year	21,857,288	-
Cash and cash equivalents at end of year	\$ 102,832,562	\$ 21,857,288
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 99,732,562	\$ 18,257,288
Restricted cash	3,100,000	3,600,000
Cash and cash equivalents	\$ 102,832,562	\$ 21,857,288

Noncash Non-Capital Financing Activities during the years presented:

Expenses of \$193,838 were financed from loan proceeds during the period ended September 30, 2018

**MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

	2019	2018
Operating income	\$ 77,896,997	\$ 40,962,821
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	97,619	42,303
Revenue adjusted for allowance for uncollectible accounts	1,255,927	606,680
Expenses paid directly from loan proceeds	-	193,838
Revenue from miscellaneous income	37,897	1,092
(Increase) decrease in:		
Accounts receivable	(15,567,459)	(24,381,683)
Energy settlements receivable	984,050	(1,027,317)
Accrued revenue	(657,171)	(15,069,597)
Other receivables	(640)	(4,725)
Prepaid expenses	4,810,597	(5,150,987)
Deposits	(527,754)	(119,355)
Increase (decrease) in:		
Accounts payable	276,439	871,956
Accrued cost of electricity	3,491,729	22,625,162
Accrued payroll and benefits	124,626	164,399
Accrued liabilities	191,431	23,200
Customer rebate liabilities	5,788,325	1,898,945
User taxes and surcharges due to other governments	240,332	1,201,232
Supplier security deposits	1,311,554	-
Net cash provided by operating activities	\$ 79,754,499	\$ 22,837,964

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Monterey Bay Community Power Authority (MBCP) is a joint powers authority created on February 21, 2017 and its jurisdictions consist of the following local governments:

Counties	Cities and Towns	
Monterey	Capitola	Salinas
San Benito	Carmel	San Juan Bautista
Santa Cruz	Gonzales	San Luis Obispo
	Greenfield	Sand City
	Hollister	Santa Cruz
	Marina	Scotts Valley
	Monterey	Seaside
	Morro Bay	Soledad
	Pacific Grove	Watsonville

MBCP is separate from and derives no financial support from its members. MBCP is governed by two Boards, a Policy Board and an Operations Board. Each Board is comprised of 12 members with 12 alternates representing the participating communities. Policy Board Members are elected officials from MBCP member communities; and Operations Board Members are appointed executives leading the members cities and counties.

MBCP was formed to acquire retail electricity for the residents and businesses within its members' jurisdiction, 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 MBCP 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.

MBCP began its energy delivery operations in March 2018. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company (PG&E).

BASIS OF ACCOUNTING

MBCP'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.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

MBCP'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.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, MBCP has defined cash and cash equivalents to include cash on hand and demand deposits. MBCP has cash that is restricted under various security agreements. This is reported as restricted cash on the Statement of Net Position and is included in cash and cash equivalents for the purpose of the Statement of Cash Flows.

DEPOSITS

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

CAPITAL ASSETS AND DEPRECIATION

MBCP'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. MBCP does not own any electric generation assets.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

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

Restricted for Security Collateral: 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” and “restricted for security collateral”.

OPERATING AND NON-OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. The vast majority of operating revenue is derived from these sales. Interest income is considered non-operating revenue.

REVENUE RECOGNITION

MBCP 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 as of the end of the period. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

OPERATING AND NON-OPERATING EXPENSES

Operating expenses include the cost of electricity, data management expenses, service fees – PG&E, consultant and other professional fees, legal, staff compensation and benefits, general and administrative expenses and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business MBCP 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 MBCP's participation in the California Independent System Operator's centralized market. The cost of 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), MBCP acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). MBCP obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. An expense is recognized at the point that the cost of the Certificate is due and payable to the supplier.

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

STAFFING COSTS

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

MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CUSTOMER REBATES

MBCP exactly matches PG&E rates and provides cost-savings through a 3% to 5% rebate on customer electric generation charges for the years ended September 30, 2018 and 2019 respectively. Residential customers receive their accumulated rebate as a bill credit on their December bill. Small to Medium Commercial customers receive rebates in June and December. Large Commercial customers receive rebates quarterly (March, June, September, and December). Net Energy Metering (NEM) customers receive their rebate on their true-up date which occurs at various points during the year. The unpaid portion of the rebate is shown in the liability section in the Statements of Net Position.

INCOME TAXES

MBCP 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.

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.

2. CASH AND CASH EQUIVALENTS

MBCP maintains its cash in interest and non-interest-bearing accounts. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. MBCP monitors its risk exposure on an ongoing basis. MBCP's investment policy permits the investment of funds in depository accounts, certificates of deposit, the California Local Agency Investment Funds (LAIF), United States Treasury obligations, and other investments provided in the general guidelines of California Government Code sections 53600, et seq. At September 30, 2019 all of MBCP's cash and cash equivalents were held in depository accounts or certificates of deposit.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

3. ACCOUNTS RECEIVABLE AND ENERGY SETTLEMENTS RECEIVABLE

ACCOUNTS RECEIVABLE

Accounts receivable were as follows at September 30:

	<u>2019</u>	<u>2018</u>
Accounts receivable from customers	\$ 39,496,328	\$ 24,381,683
Allowance for uncollectible accounts	(1,862,607)	(606,680)
Net accounts receivable	<u>\$ 37,633,721</u>	<u>\$ 23,775,003</u>

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

ENERGY SETTLEMENTS RECEIVABLE

MBCP receives generation scheduling and other services from a scheduling coordinator registered with the California Independent System Operator (CAISO). Energy settlements due from the scheduling coordinator for the years ended September 30, 2019 and 2018 were \$43,000 and \$1,027,000, respectively.

4. CAPITAL ASSETS

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

	<u>Furniture & Equipment</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at September 30, 2017	\$ -	\$ -	\$ -
Additions	306,062	(42,303)	263,759
Balances at September 30, 2018	306,062	(42,303)	263,759
Additions	63,637	(97,619)	(33,982)
Dispositions	(4,076)	541	(3,535)
Balances at September 30, 2019	<u>\$ 365,623</u>	<u>\$ (139,381)</u>	<u>\$ 226,242</u>

**MONTEREY BAY COMMUNITY POWER AUTHORITY
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5. DEBT

Loan payable to Santa Cruz County

As part of its Joint Powers Agreement, Santa Cruz County agreed to fund certain services, costs, and expenses that were incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. In September 2018, MBCP repaid the entire loan to the County.

Notes payable to bank

In October 2017, MBCP arranged to borrow up to \$13 million from River City Bank to provide cash to pay for energy purchases and operating expense which were due before sufficient cash was collected from customers. Principal could be drawn as needed and interest was accrued on the outstanding balance. During the year ended September 30, 2018, MBCP borrowed \$5,600,000. The stated maturity date for the non-revolving and revolving credit notes of the arrangement was 12 months from the date of the agreement. Interest was due monthly based on the LIBOR rate plus 1.25% for the non-revolving credit note and 1.75% for the revolving credit note. Both notes were repaid in September 2018. Interest paid in fiscal year 2018 was approximately \$135,000. No interest was due or paid in fiscal year 2019. In November 2018 MBCP renewed its revolving credit line, amended to provide for a \$10 million limit. No funds were drawn on this line, and it was not renewed after it expired in November 2019.

Debt principal activity and balances for all notes and loans were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended September 30, 2017				
Santa Cruz County	\$ -	\$ 362,065	\$ -	\$ 362,065
Amounts due within one year				362,065
Amounts due after one year				\$ -
Year ended September 30, 2018				
Santa Cruz County	\$ 362,065	\$ 193,838	\$ (555,903)	\$ -
Financial Institution	-	5,600,000	(5,600,000)	-
Total	<u>\$ 362,065</u>	<u>\$ 5,793,838</u>	<u>\$ (6,155,903)</u>	-
Amounts due within one year				-
Amounts due after one year				<u>\$ -</u>

MONTEREY BAY COMMUNITY POWER AUTHORITY
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6. DEFINED CONTRIBUTION RETIREMENT PLAN

MBCP provides retirement benefits to eligible employees 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 the Public Agency Retirement System (PARS). At September 30, 2019, MBCP had 19 plan participants. MBCP is required to contribute 10% of covered payroll as a match to required employee contributions. MBCP contributed approximately \$239,000 and \$76,000 for the years ended September 30, 2019 and 2018 respectively. Plan provisions and contribution requirements as they apply to MBCP are established and may be amended by the Board of Directors. MBCP has elected out of the Social Security system for employees eligible for the Plan. MBCP also provides a 457(b) Retirement Plan where employees can make tax deferred contributions.

7. RISK MANAGEMENT

MBCP 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, MBCP 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. MBCP has general liability coverage of \$1,000,000 with a deductible of \$1,000.

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

MONTEREY BAY COMMUNITY POWER AUTHORITY
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8. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, MBCP enters into various power purchase agreements to acquire renewable and other energy and electric capacity. The price and volume of purchased power is in most cases fixed and in some cases 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.

MBCP enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

The following table represents the expected, undiscounted, contractual obligations outstanding as of September 30, 2019:

Year ended September 30,	
2020	\$ 161,000,000
2021	147,000,000
2022	79,000,000
2023	37,000,000
2024	27,000,000
2025-2042	<u>343,000,000</u>
Total	<u>\$ 794,000,000</u>

As of September 30, 2019, MBCP had noncancelable contractual commitments to professional service providers through April 30, 2022, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be \$7.6 million.

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9. OPERATING LEASE

Rental expense for MBCP’s office space was \$238,000 and \$127,000 for the years ended September 30, 2019 and 2018, respectively. During the year ended September 30, 2018, MBCP entered into a non-cancelable lease for its office premises through December 31, 2022.

Future minimum lease payments under this lease are as follows:

Year ended September 30,			
2020	\$	242,000	
2021		242,000	
2022		242,000	
2023		61,000	
Total	\$	<u>787,000</u>	

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after September 30, 2020:

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.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
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11. PG&E BANKRUPTCY

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

12. CONTINGENCIES

In September 2018, new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. It's expected that less than 2% of customer consumption is eligible to directly access the supplier of their choice once the legislation goes into effect.

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 MBCP's customers. MBCP is evaluating the specific changes that will be required to MBCP's rates as a result of this decision.

13. SUBSEQUENT EVENTS

In December 2019, MBCP's Board of Directors authorized the expansion of services to the following jurisdictions with the start of service expected in January 2021:

1. The City of Del Rey Oaks (Monterey County);
2. The City of Arroyo Grande (San Luis Obispo County);
3. The City of Grover Beach (San Luis Obispo County);
4. The City of Paso Robles (San Luis Obispo County);
5. The City of Pismo Beach (San Luis Obispo County);
6. The City of Carpinteria (Santa Barbara County);
7. The City of Goleta (Santa Barbara County);
8. The City of Guadalupe (Santa Barbara County);
9. The City of Santa Maria (Santa Barbara County);
10. The City of Solvang (Santa Barbara County), and;
11. The County of Santa Barbara representing the unincorporated areas of the county.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
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13. SUBSEQUENT EVENTS (continued)

The adopted Second Amendment to the MBCP JPA Agreement establishes five new seats to the MBCP Policy and Operations Boards, as follows:

1. One seat for the County of Santa Barbara;
2. One seat for the City of Santa Maria;
3. One shared seat for the Cities of Pismo Beach, Grover Beach, and Arroyo Grande;
4. One shared seat for the Cities of Guadalupe and Solvang, and;
5. One shared seat for the Cities of Goleta and Carpinteria.

Additionally, the City of Del Rey Oaks is added to the shared seat held by the Cities of Marina, Seaside, and Sand City. Finally, the City of Paso Robles is added to the shared seat held by the Cities of Morro Bay and San Luis Obispo. As a result, the Policy Board and the Operations Board will each consist of 17 members with 17 alternates.