



Central Coast
**Community
Energy**

CLEAN ENERGY. LOCAL CONTROL.

FINANCIAL STATEMENTS

Years Ended September 30, 2020
and 2019

WITH REPORT OF INDEPENDENT AUDITORS



CENTRAL COAST COMMUNITY ENERGY
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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Independent Auditor's Report

To the Board of Directors
Central Coast Community Energy
Monterey, California

Report on the Financial Statements

We have audited the accompanying financial statements of Central Coast Community Energy (3CE), formerly Monterey Bay Community Power (MBCP), as of and for the year ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise 3CE'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 3CE as of September 30, 201 and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, Monterey Bay Community Power amended the Joint Powers Agreement to change the entity's legal name to Central Coast Community Energy as of September 4, 2020.

Parenti & Brink LLP

Santa Rosa, California
March 16, 2021

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

The Management's Discussion and Analysis provides an overview of Central Coast Community Energy's (3CE) financial activities as of and for the years ended September 30, 2020 and 2019. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of 3CE 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.

3CE is a Community Choice Aggregator established on February 21, 2017 pursuant to Public Utilities Code Section 366.2 and operating as a Joint Powers Authority (JPA) pursuant to Government Code section 6500 et seq. 3CE currently serves residential, commercial and agricultural/industrial customers in communities located within the unincorporated areas of the counties of Monterey, San Benito and Santa Cruz and the Cities of Capitola, Carmel, Gonzales, Greenfield, Hollister, Marina, Monterey, Morro Bay, Pacific Grove, Salinas, San Juan Bautista, San Luis Obispo, Sand City, Santa Cruz, Scotts Valley, Seaside, Soledad and Watsonville. In 2021, 3CE will begin serving the unincorporated areas of the county of Santa Barbara and the Cities of Arroyo Grande, Carpinteria, Del Rey Oaks, Goleta, Grover Beach, Guadalupe, Paso Robles, Pismo Beach, Santa Maria and Solvang.

3CE serves approximately 295,000 accounts expected to consume approximately 3,100 GWh in 2020. Beginning in 2021, 3CE will serve more than 400,000 accounts and an estimated 5,000 GWh per year. 3CE is committed to reducing greenhouse gas (GHG) emissions through long-term contracts for existing and new utility scale renewable electricity generation, charging competitive retail rates, and offering innovative energy programs to facilitate the electrification of the transportation and built environments. 3CE has established an innovative procurement strategy to accelerate the reduction of GHG emissions. This strategy will commit to achieve a clean and renewable resource mix of long-term renewable portfolio to meet 60% of demand by the year 2025 and 100% by the year 2030.

3CE 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. The Policy Board is comprised of elected officials from member jurisdictions and the Operations Board is comprised of City Managers, County Administrative Officers, and other high-level executive staff. 3CE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. 3CE is responsible for the acquisition of electric power for its service area.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Financial Reporting

3CE 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 3CE'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 3CE's financial status:
 - The *Statements of Net Position* include all 3CE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of 3CE'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 capital asset acquisitions and investing activities.
 - Notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS

The following table is a summary of 3CE's assets, liabilities, and net position and a discussion of significant changes for the years ending September 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 194,879,069	\$ 157,058,261	\$ 66,884,917
Noncurrent assets			
Capital assets, net	314,877	226,242	263,759
Other noncurrent assets	123,182	121,055	119,355
Total noncurrent assets	<u>438,059</u>	<u>347,297</u>	<u>383,114</u>
Total assets	<u>195,317,128</u>	<u>157,405,558</u>	<u>67,268,031</u>
Current liabilities	<u>36,578,478</u>	<u>37,708,844</u>	<u>26,788,999</u>
Total liabilities	<u>36,578,478</u>	<u>37,708,844</u>	<u>26,788,999</u>
Net position			
Investment in capital assets	314,877	226,242	263,759
Restricted for security collateral	1,500,000	3,100,000	3,600,000
Unrestricted	<u>156,923,773</u>	<u>116,370,472</u>	<u>36,615,273</u>
Total net position	<u>\$ 158,738,650</u>	<u>\$ 119,696,714</u>	<u>\$ 40,479,032</u>

Current Assets

Current assets were approximately \$194,879,000 as of September 30, 2020, 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 3CE customers before invoicing to those customers has occurred. The total of current assets increased in 2020 as a result of 3CE's operating surplus for the year.

Capital Assets

Capital assets were approximately \$315,000, net of accumulated depreciation, primarily reflecting the acquisition of furniture and equipment for employees. The changes each year represent furniture and equipment, and leasehold improvements acquisitions, reduced by depreciation expense.

3CE does not own assets used for electric generation or distribution.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Other Noncurrent Assets

Other noncurrent assets of \$123,000 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 \$32,123,000 for the cost of electricity delivered to customers that is not yet due to be paid by 3CE. Current liabilities also include amounts owed for trades payable, personnel costs, taxes and surcharges owed to other governments, and deposits received from suppliers. Current liabilities remained stable year-over-year.

Results of Operations

The following table is a summary of 3CE's results of operations and a discussion of significant changes for the years ending September 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 233,915,415	\$ 238,322,420	\$ 117,097,905
Nonoperating revenues	2,417,363	1,320,685	14,248
Total income	<u>236,332,778</u>	<u>239,643,105</u>	<u>117,112,153</u>
Operating expenses	197,290,842	160,425,423	76,135,084
Nonoperating expenses	-	-	134,668
Total expenses	<u>197,290,842</u>	<u>160,425,423</u>	<u>76,269,752</u>
Change in net position	<u>\$ 39,041,936</u>	<u>\$ 79,217,682</u>	<u>\$ 40,842,401</u>

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Operating Revenues

In January 2020, 3CE enrolled approximately 25,000 additional commercial, agricultural, industrial and municipal customer accounts from the cities of San Luis Obispo and Morro Bay, growing the total customers served to approximately 295,000. Despite the increased customer base, revenues decreased by 1.4% from 2019 to 2020 primarily due to COVID-19 relief bill discounts of 50% provided to customers in May 2020 and June 2020, respectively.

3CE's gross profit margin for 2020 was approximately 19% in 2020 as compared to 37% in 2019. This decrease was primarily driven by the COVID-19 relief bill discounts mentioned previously, as well as overall increases in the prices 3CE paid for certain energy products.

Operating Expenses

3CE's largest operating expense for fiscal year 2020 was the purchase of electricity delivered to its customers. 3CE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. The cost of energy increased from 2019 to 2020 due to an increase in the number of customers and the effects of rising market prices. Expenses for staff compensation, consulting, data management and other general and administrative expenses increased in 2020 as the organization continued to grow with business demands.

ECONOMIC OUTLOOK

FY 2019-20 Has Been a Challenging Year

We started the fiscal year optimistic, fueled by the excitement of enrolling the cities of San Luis Obispo and Morro Bay into 3CE and the pending expansion into the Counties of SLO and Santa Barbara, to serve the largest geographical footprint of any California community choice aggregator (CCA). We expected, and planned for, a reasonable net margin that allowed us to offer rates 7 percent below comparable rates offered by PG&E, while ensuring that the balance of the Rate Stabilization Reserve will reach the target of 50% of operating expenses.

That initial excitement waned as news of a possible pandemic became a world-wide reality, changing societal and operational norms and bringing severe economic and social impacts to every state in our Nation. The entertainment and hospitality sectors of the economy, a staple job provider in our communities, were devastated by the closure of hotels, restaurants and the cancellation of events and conferences. 3CE was not exempted from these impacts.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

ECONOMIC OUTLOOK (continued)

Overall demand for electricity declined by an average of six to seven percent. That reduction in demand, along with anticipated higher uncollectable than planned, was a clear sign that the net margin would be lower than forecasted. Yet, 3CE board recognized that the financial impact on 3CE dwarfs in comparison to that suffered by residents and businesses of our Central Coast community. Accordingly, the Board quickly enacted a 50% rate deferment for May and June 2020. This action by the Board is a testament of the value that community choice energy brings to the region. That agility and the willingness to make tough decisions to tackle climate change head on have been key to approving several long-term power purchase agreements for renewable resources that will provide sufficient energy to meet 35% of 3CE's total demand.

In September 2020, the 3CE Policy Board approved our new procurement policy to achieve measurable reductions in GHG emissions by focusing its power supply acquisition toward accelerating the deployment of utility scale clean and renewable resources. Instead of acquiring carbon free attributes to offset unspecified power acquired to meet a self-imposed obligation to 100% carbon free energy, 3CE will enter into long-term agreements for renewable resources that will be sufficient to meet 60% of retail demand by 2025, five years ahead of SB100's statutory mandate, and 100% of demand by 2030, exceeding the state goal by 40%. To contribute to grid reliability, 3CE will balance its renewable supply and customer demand monthly as opposed to the current annual balancing approach by 2030.

FY 2020-21 Brings More Exciting News and Initiatives

On October 16, 2020, 3CE received an 'A' investment grade credit rating and stable outlook from Standard & Poor's (S&P), the highest rating received by a CCA. The 'A' rating recognizes 3CE's stability within the CCA market and the strong socio-economic conditions of 3CE's growing service area. S&P's rating action stressed 3CE's strong economic fundamentals, comprehensive governance structure, robust energy risk management policy, and experienced executive leadership as contributing factors to 3CE being the first CCA to receive an 'A' rating and "stable" outlook. It enables 3CE to continue providing electric service and innovative energy programs at competitive rates to its 33 member agencies and over 400,000 agriculture, commercial, and residential customers. In addition, it will aid in increasing the number of counterparties competing for 3CE wholesale contracts, lower transaction costs, and make innovative financing structures accessible to help 3CE continue to develop solutions to California's greatest energy challenges.

3CE successfully expanded through California's five-county Central Coast. Beginning in 2021, 3CE will enroll 11 new member agencies, extending membership to 32 jurisdictions, over 450,000 customers, and expanding service area footprint to more than 8,000 square miles. The City of Buellton (Santa Barbara County) has taken steps to join 3CE and will become 3CE's 33rd member with enrollment expected in early 2022.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

REQUEST FOR INFORMATION

This financial report is designed to provide 3CE's customers and creditors with a general overview of the organization's finances and to demonstrate 3CE'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

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 146,400,665	\$ 99,732,562
Accounts receivable, net of allowance	27,579,594	37,633,721
Energy settlements receivable	10,391	43,267
Accrued revenue	17,158,246	15,726,768
Other receivables	235,305	7,052
Prepaid expenses	861,060	340,390
Deposits	1,133,808	474,501
Restricted cash	1,500,000	3,100,000
Total current assets	194,879,069	157,058,261
Noncurrent assets		
Capital assets, net of depreciation	314,877	226,242
Deposits	123,182	121,055
Total noncurrent assets	438,059	347,297
Total assets	195,317,128	157,405,558
LIABILITIES		
Current liabilities		
Accrued cost of electricity	32,123,426	25,664,078
Accounts payable	478,731	1,152,275
Accrued staff compensation and benefits	526,743	289,026
Other accrued liabilities	450,000	214,631
Customer rebate liabilities	315,719	7,687,270
User taxes and energy surcharges due to other governments	1,497,359	1,441,564
Supplier security deposits	1,186,500	1,260,000
Total current liabilities	36,578,478	37,708,844
NET POSITION		
Investment in capital assets	314,877	226,242
Restricted for security collateral	1,500,000	3,100,000
Unrestricted	156,923,773	116,370,472
Total net position	\$ 158,738,650	\$ 119,696,714

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

**CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
OPERATING REVENUES		
Electricity sales, net of allowance	\$ 228,515,415	\$ 238,322,420
Liquidated damages	5,400,000	-
Total operating revenues	233,915,415	238,322,420
OPERATING EXPENSES		
Cost of electricity	185,543,815	151,297,414
Contract services	6,077,542	5,133,836
Staff compensation and benefits	4,368,744	3,015,804
General and administration	1,193,093	880,750
Depreciation	107,648	97,619
Total operating expenses	197,290,842	160,425,423
Operating income	36,624,573	77,896,997
NONOPERATING REVENUES		
Interest income	2,356,175	1,283,253
Miscellaneous income	61,188	37,432
Total nonoperating revenues	2,417,363	1,320,685
CHANGE IN NET POSITION	39,041,936	79,217,682
Net position at beginning of year	119,696,714	40,479,032
Net position at end of year	\$ 158,738,650	\$ 119,696,714

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

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 235,640,742	\$ 235,188,689
Receipts from liquidated damages	5,400,000	-
Receipts from suppliers and energy settlements	4,494,836	13,532,343
Other operating receipts	61,188	1,349,451
Payments to suppliers for electricity	(184,974,504)	(156,029,610)
Payments for other goods and services	(7,776,318)	(5,588,881)
Payments for staff compensation and benefits	(4,131,027)	(2,891,178)
Payments of taxes and energy surcharges to other governments	(5,818,435)	(5,806,315)
Net cash provided by operating activities	<u>42,896,482</u>	<u>79,754,499</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(184,554)</u>	<u>(62,478)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>2,356,175</u>	<u>1,283,253</u>
Net change in cash and cash equivalents	45,068,103	80,975,274
Cash and cash equivalents at beginning of year	<u>102,832,562</u>	<u>21,857,288</u>
Cash and cash equivalents at end of year	<u>\$ 147,900,665</u>	<u>\$ 102,832,562</u>
 Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 146,400,665	\$ 99,732,562
Restricted cash	<u>1,500,000</u>	<u>3,100,000</u>
Cash and cash equivalents	<u>\$ 147,900,665</u>	<u>\$ 102,832,562</u>

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

**CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

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

	2020	2019
Operating income	\$ 36,624,573	\$ 77,896,997
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	107,648	97,619
Revenue adjusted for uncollectible accounts	2,478,816	1,255,927
Revenue from miscellaneous income	61,188	37,897
(Increase) decrease in:		
Accounts receivable	7,575,312	(15,567,459)
Energy settlements receivable	32,876	984,050
Accrued revenue	(1,431,478)	(657,171)
Other receivables	(228,253)	(640)
Prepaid expenses	(520,670)	4,810,597
Deposits	(754,110)	(527,754)
Increase (decrease) in:		
Accrued cost of electricity	6,459,348	3,491,729
Accounts payable	(685,273)	276,439
Accrued payroll and benefits	237,717	124,626
Other accrued liabilities	235,369	191,431
Customer rebate liabilities	(7,371,551)	5,788,325
User taxes and energy surcharges due to other governments	55,795	240,332
Supplier security deposits	19,175	1,311,554
Net cash provided by operating activities	\$ 42,896,482	\$ 79,754,499

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Central Coast Community Energy (3CE) is a joint powers authority created on February 21, 2017, and its jurisdictions consist of the following local governments as of September 30, 2020:

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

3CE is separate from and derives no financial support from its members. 3CE 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 3CE member communities; and Operations Board Members are executives leading the member cities and counties.

3CE 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 3CE 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.

3CE 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).

Effective September 4, 2020, the authority changed its name to Central Coast Community Energy from Monterey Bay Community Power. This new name reflects the expanded service area from Santa Cruz, Monterey, and San Benito counties to San Luis Obispo and Santa Barbara counties, unifying access to clean energy and local control for over 400,000 residential, commercial, and agricultural customers throughout the Central Coast.

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

3CE'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.

3CE'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 3CE's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, 3CE defines cash and cash equivalents to include cash on hand and demand deposits. 3CE 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.

PREPAID EXPENSES AND DEPOSITS

Contracts to purchase energy may require 3CE to provide the supplier with advanced payments or security deposits. Deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of time the deposits will be outstanding. While these energy contract-related deposits make up most of this item, other components of prepaid expenses and deposits include those for regulatory and other operating purposes.

CAPITAL ASSETS AND DEPRECIATION

3CE'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. 3CE does not own any electric generation assets.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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. 3CE did not have any outstanding borrowings as of September 30, 2020 and 2019.

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

Operating revenues include revenue derived from the provision of energy to customers. Interest income and miscellaneous income are considered non-operating revenue.

REVENUE RECOGNITION

3CE 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 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.

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business 3CE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from contracts with energy suppliers as well as generation credits, and load and other charges arising from 3CE'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), 3CE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). 3CE 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.

3CE purchases capacity commitments from qualifying generators to comply with the California Public Utility 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

3CE pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. 3CE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. 3CE provides compensated time off, and the related liability is recorded in these financial statements.

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CUSTOMER REBATES

During calendar year 2019, 3CE matched PG&E rates and provided cost-savings through a 5% rebate on customer electric generation charges. Residential customers received their accumulated rebate as a bill credit on their December 2019 bill. Small to medium commercial customers received rebates in June and December. Large commercial customers received rebates quarterly (March, June, September, and December). Net energy metering (NEM) customers received 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. Beginning in calendar year 2020, 3CE simply set customer rates at a discount to PG&E rates.

INCOME TAXES

3CE 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. These reclassifications did not result in any change in previously reported net position or change in net position.

2. CASH AND CASH EQUIVALENTS

3CE 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%. 3CE monitors its risk exposure on an ongoing basis. 3CE'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, 2020 all of 3CE's cash and cash equivalents were held in depository accounts or certificates of deposit.

CENTRAL COAST COMMUNITY ENERGY
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3. ACCOUNTS RECEIVABLE AND ENERGY SETTLEMENTS RECEIVABLE

ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of September 30:

	<u>2020</u>	<u>2019</u>
Accounts receivable from customers	\$ 31,921,016	\$ 39,496,328
Allowance for uncollectible accounts	(4,341,422)	(1,862,607)
Net accounts receivable	<u>\$ 27,579,594</u>	<u>\$ 37,633,721</u>

The majority of account collections will occur within the first few months following customer invoicing. 3CE estimates that a portion of the billed accounts will not be collected. 3CE continues collection efforts on delinquent 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, 3CE continues to have success in collecting older accounts. The allowance for uncollectible accounts includes amounts billed during the current and prior fiscal years.

ENERGY SETTLEMENTS RECEIVABLE

3CE 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, 2020 and 2019 were approximately \$10,000 and \$43,000, respectively.

4. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2020 and 2019 was as follows:

	<u>Furniture & Equipment</u>	<u>Leasehold Improvements</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at:				
September 30, 2018	\$ 306,062	\$ -	\$ (42,303)	\$ 263,759
Additions	60,814	2,823	(97,619)	(33,982)
Dispositions	(4,076)	-	541	(3,535)
September 30, 2019	<u>362,800</u>	<u>2,823</u>	<u>(139,381)</u>	<u>226,242</u>
Additions	125,837	70,446	(107,648)	88,635
September 30, 2020	<u>\$ 488,637</u>	<u>\$ 73,269</u>	<u>\$ (247,029)</u>	<u>\$ 314,877</u>

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5. DEFINED CONTRIBUTION RETIREMENT PLAN

3CE 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). As of September 30, 2020, there were 27 plan participants. 3CE is required to contribute 10% of covered payroll as a match to required employee contributions. 3CE contributed approximately \$331,000 and \$239,000 for the years ended September 30, 2020 and 2019, respectively. Plan provisions and contribution requirements as they apply to 3CE are established and may be amended by the Board of Directors. 3CE has elected out of the Social Security system for employees eligible for the Plan. 3CE also provides a 457(b) Retirement Plan where employees can make tax deferred contributions.

6. RISK MANAGEMENT

3CE 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, 3CE 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. 3CE has general liability coverage of \$1,000,000 with a deductible of \$1,000.

3CE 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, 3CE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

CENTRAL COAST COMMUNITY ENERGY
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7. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, 3CE 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.

3CE 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, 2020:

Year ended September 30,	
2021	\$ 191,000,000
2022	179,000,000
2023	150,000,000
2024	118,000,000
2025	99,000,000
2026-2043	<u>1,146,000,000</u>
Total	<u>\$ 1,883,000,000</u>

As of September 30, 2020, 3CE had noncancelable contractual commitments to service providers through September 30, 2022, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be \$5,100,000.

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8. OPERATING LEASE

3CE entered into non-cancelable leases for its satellite and primary office premises that terminate March 31, 2022 and through December 31, 2022, respectively. Rental expense for 3CE's office space was \$271,000 and \$238,000 for the years ended September 30, 2020 and 2019, respectively.

Future minimum lease payments under these leases are as follows:

Year ended September 30,	
2021	\$ 276,000
2022	263,000
2023	<u>62,000</u>
Total	<u>\$ 601,000</u>

9. FUTURE GASB PRONOUNCEMENTS

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

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*. Management is analyzing its activity to determine the effect of the new guidance on its operating results and financial condition.

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10. SUBSEQUENT EVENTS

COVID-19

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of which the ongoing response to and impacts of COVID-19 will affect 3CE’s operational and financial performance are unknown at this time and will be monitored by management. To date, 3CE has continued to provide electricity across its entire service territory without interruption.

EXPANSION PLAN

In January 2021, 3CE enrolled the following 9 jurisdictions in the PG&E service area: The cities of Del Rey Oaks, Paso Robles, Arroyo Grande, Pismo Beach, Grover Beach, Guadalupe, Solvang, Santa Maria, and the northern portion of unincorporated Santa Barbara County.

In October 2021, 3CE will enroll the following 3 jurisdictions in the Southern California Edison service area: The cities of Carpinteria, Goleta as well as the southern portion of unincorporated Santa Barbara County.

In early 2022, 3CE will enroll the City of Buellton (Santa Barbara County) in the PG&E service area.