

Financial Statements



Years Ended September 30, 2022 and 2021
INCLUDING REPORT OF INDEPENDENT AUDITORS



**CENTRAL COAST COMMUNITY ENERGY
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of Central Coast Community Energy (3CE), as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise 3CE's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 3CE as of September 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of 3CE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 3CE's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 3CE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 3CE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Independent Auditor's Report (continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise 3CE's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the related notes to the schedule of expenditures of federal awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2023, on our consideration of 3CE's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 3CE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 3CE's internal control over financial reporting and compliance.



Santa Rosa, California
April 17, 2023

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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, 2022 and 2021. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

3CE's formation was made possible in 2002 by the passage of California Assembly Bill 117, which enabled communities to purchase power on behalf of their residents and businesses as an alternative to legacy Investor-Owned Utilities (IOU).

3CE is a Community Choice Aggregator (CCA) 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 its service area.¹

3CE serves approximately 450,000 customer accounts forecast to consume 5,000 gigawatt hours (GWh) per year. 3CE is committed to charging competitive retail rates, offering innovative energy programs to facilitate electrification and reducing greenhouse gas (GHG) emissions through long-term contracts for existing and new utility scale renewable electricity generation. 3CE has established an innovative procurement strategy to accelerate the reduction of GHG emissions, committing 3CE to developing a resource mix which delivers clean renewable energy for 60% of 3CE demand by the year 2025 and 100% of 3CE demand by the year 2030.

3CE is governed by a Policy Board and an Operations Board. The Policy Board consists of elected officials from member jurisdictions, while the Operations Board consists of senior staff from those jurisdictions. The Policy Board provides guidance and approval in strategic planning and goal setting, budgets, rates, large capital expenditures, and financing. The Operations Board provides guidance and approval on contracts, agreements, and policies that govern day-to-day operations. 3CE has the rights and powers to set rates for its services, incur debt, and issue bonds or other obligations.

¹ As of September 30, 2022, 3CE's members included the California Cities and Towns of Arroyo Grande, Atascadero, Buellton, Carpinteria, Capitola, Carmel-by-the-Sea, Del Rey Oaks, Goleta, Gonzales, Greenfield, Grover Beach, Guadalupe, Hollister, Marina, Monterey, Morro Bay, Pacific Grove, Paso Robles, Pismo Beach, Salinas, San Juan Bautista, San Luis Obispo, San City, Santa Cruz, Santa Maria, Scotts Valley, Seaside, Soledad Solvang and Watsonville as well as the Counties of Monterey, San Benito, Santa Cruz and Santa Barbara.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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

This report is divided into the following sections:

- Management's discussion and analysis.
- The basic financial statements:
 - The *Statements of Net Position* include all of 3CE's assets, liabilities, and net position and provide information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report 3CE's revenue and expenses for the years shown.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as capital asset acquisitions and investing activities.
 - The *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, 2022 AND 2021**

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 ended September 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 259,993,090	\$ 229,102,332	\$ 194,879,069
Noncurrent assets			
Capital assets, net	219,319	328,942	314,877
Other noncurrent assets	1,731,180	79,280	123,182
Total noncurrent assets	<u>1,950,499</u>	<u>408,222</u>	<u>438,059</u>
Total assets	<u>261,943,589</u>	<u>229,510,554</u>	<u>195,317,128</u>
Current liabilities	45,601,781	32,490,845	36,578,478
Noncurrent liabilities	9,131,250	7,031,250	-
Total liabilities	<u>54,733,031</u>	<u>39,522,095</u>	<u>36,578,478</u>
Net position			
Investment in capital assets	219,319	328,942	314,877
Restricted for security collateral	294,000	294,000	1,500,000
Unrestricted	206,697,239	189,365,517	156,923,773
Total net position	<u>\$ 207,210,558</u>	<u>\$ 189,988,459</u>	<u>\$ 158,738,650</u>

Current Assets

Current assets were approximately \$259,993,000 at the end of 2022 and consist of cash, accounts receivable, accrued revenue, investments, and deposits. Accrued revenue is revenue from energy delivered but not invoiced to customers. Accounts receivable reflects energy delivered and invoiced but not paid for by customers. Total current assets increased each year as a result of 3CE's operating surplus for the years.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

Noncurrent Assets

Capital assets, net of accumulated depreciation, were approximately \$219,000 at the end of 2022 primarily reflecting the acquisition of furniture and equipment for employees. The change in 2022 mostly reflects depreciation expense.

3CE does not own assets used for electricity generation, transmission or distribution.

Other noncurrent assets consist of the long-term portion (\$1,708,000) of a \$2,000,000 loan made in 2022 to the County of Santa Cruz regarding their acquisition of generator equipment.

Also included in other noncurrent assets are deposits for regulatory and other operating purposes.

Current Liabilities

Current liabilities of \$45,602,000 as of September 30, 2022 consist primarily of 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. Accrued cost of electricity at the end of 2022 increased compared to the prior year. This was a result of increased prices of electricity purchased as well as a small increase in the volume of purchased electricity outstanding. There was a small decrease in this account from 2020 to 2021 as market price fluctuations were not as pronounced.

Noncurrent Liabilities

Some contracts require the supplier to provide 3CE with a security deposit. These deposits are held by 3CE until certain contract milestones are met or contracts are completed. As part of its risk management policy, 3CE requires energy suppliers to post collateral deposits in some cases.

Summary of Revenues, Expenses, and Changes in Net Position

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

	2022	2021	2020
Operating revenues	\$ 401,698,835	\$ 287,931,441	\$ 233,915,415
Nonoperating revenues	3,800,219	702,036	2,417,363
Total income	405,499,054	288,633,477	236,332,778
Operating expenses	388,276,955	257,383,668	197,290,842
Change in net position	\$ 17,222,099	\$ 31,249,809	\$ 39,041,936

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

Operating Revenues

Operating revenues from electricity sales increased approximately \$54,900,000 from 2020 to 2021 due primarily to the addition of approximately 100,000 new customer accounts in January 2021.

Operating revenues from electricity sales increased from 2021 to 2022 by approximately \$111,219,000 as a result of both 3CE's customer base coming entirely online for the full year in 2022, and rate increases that went into effect during the year.

Included in operating revenues in 2022 is liquidated damages revenue earned as a result of performance issues from energy suppliers.

Nonoperating Revenues

The nonoperating revenues increase from 2021 to 2022 was primarily the result of grant income from the California Arrearage Payment Plan (CAPP) that was received in 2022.

Operating Expenses

3CE's largest operating expense continues to be the purchase of electricity delivered to its customers. 3CE purchases energy products from markets and is developing a balanced diversified renewable power portfolio. Operating expenses increased each year due to an increase in the number of customers and rising market prices.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

ECONOMIC OUTLOOK

The fiscal year ended September 30, 2022 was a year of continued growth and resilience as the nation emerged from the Covid-19 pandemic. 3CE began service to eight new cities and unincorporated Santa Barbara County. It now serves over 440,000 residential, commercial and agricultural/industrial customer meters in a service area spanning five counties: Santa Cruz, Monterey, San Benito, San Luis Obispo, and Santa Barbara.

Operating revenues grew over \$114,000,000, driven primarily by the addition of new members and rate adjustments to reflect the increased cost of energy. Operating expenses, comprised primarily of energy costs, increased approximately \$131,000,000 due to a combination of rising market prices, higher volumes to serve new members, and delays in new power projects resulting from supply chain and inflationary pressures.

Over time, 3CE's growing portfolio of renewable energy and storage is expected to lower the cost and volatility of the energy it supplies to customers, helping it maintain a robust financial position. 3CE's non-energy administrative costs - which include contract services, staffing costs, and general and administrative expenses, but exclude energy program costs, remained under 6% of revenues, reflecting its focus on delivering value for customers.

3CE's cost of service rate (COS) structure ensures that customers pay only what it costs to serve them and keeps 3CE competitive with legacy Investor-Owned Utility (IOU) Rates. Fiscal year 2022 was the first year with COS rates for the PG&E service area. 3CE is among the first CCAs to implement COS rates, a framework in which costs are functionalized, classified, and allocated to customer classes. This approach, which is distinct from the indexed approach prevalent among CCAs, led to significant average customer savings versus IOU rates in 2022 and has continued to do so in 2023. These savings strengthen 3CE's competitive position. 3CE will explore expanding the COS approach to its Southern California Edison service area in the next two years.

3CE has not been immune to the impact of the pandemic and the shifting regulatory landscape. Supply chain and inflationary challenges have delayed power projects and increased costs. Regulatory risk has increased in the past year and continues to impact energy procurement costs.

Despite these challenges, investments from the Inflation Reduction Act, a renewed political focus on developing new renewable resources, and the significant compliance value in battery storage provide an opportunity for 3CE to continue providing new resources at cost competitive rates. As a result, 3CE's financial position and foundation remains strong and it is positioned for continued success.

**CENTRAL COAST COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 150,096,869	\$ 159,444,623
Accounts receivable, net of allowance	47,107,600	37,376,299
Accrued revenue	18,161,946	20,011,097
Energy settlements receivable	-	7,856,108
Loan receivable	292,002	-
Other receivables	2,003,955	919,329
Prepaid expenses	308,419	1,538,193
Deposits	8,293,930	1,662,683
Restricted cash	294,000	294,000
Investments	33,434,369	-
Total current assets	<u>259,993,090</u>	<u>229,102,332</u>
Noncurrent assets		
Deposits	23,182	79,280
Loan receivable	1,707,998	-
Capital assets, net of depreciation	219,319	328,942
Total noncurrent assets	<u>1,950,499</u>	<u>408,222</u>
Total assets	<u>261,943,589</u>	<u>229,510,554</u>
LIABILITIES		
Current liabilities		
Accrued cost of electricity	40,074,582	28,649,424
Accounts payable	1,589,211	1,231,718
Other accrued liabilities	1,996,024	1,151,069
User taxes and energy surcharges due to other governments	1,941,964	1,458,634
Total current liabilities	<u>45,601,781</u>	<u>32,490,845</u>
Noncurrent liabilities		
Security deposits - energy suppliers	9,131,250	7,031,250
Total liabilities	<u>54,733,031</u>	<u>39,522,095</u>
NET POSITION		
Investment in capital assets	219,319	328,942
Restricted for security collateral	294,000	294,000
Unrestricted	206,697,239	189,365,517
Total net position	<u>\$ 207,210,558</u>	<u>\$ 189,988,459</u>

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, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Electricity sales, net	\$ 399,149,960	\$ 287,931,441
Liquidated damages	2,548,875	-
Total operating revenues	<u>401,698,835</u>	<u>287,931,441</u>
OPERATING EXPENSES		
Cost of electricity	366,610,134	241,714,336
Contract services	9,288,170	7,125,240
Staff compensation	6,089,226	5,875,005
Other general and administration	6,200,745	2,565,883
Depreciation	88,680	103,204
Total operating expenses	<u>388,276,955</u>	<u>257,383,668</u>
Operating income	13,421,880	30,547,773
NONOPERATING REVENUES		
Interest and investment income	1,040,759	702,036
Grant revenue	2,759,460	-
Nonoperating revenues	<u>3,800,219</u>	<u>702,036</u>
CHANGE IN NET POSITION	17,222,099	31,249,809
Net position at beginning of year	<u>189,988,459</u>	<u>158,738,650</u>
Net position at end of year	<u><u>\$ 207,210,558</u></u>	<u><u>\$ 189,988,459</u></u>

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 398,416,283	\$ 281,231,391
Receipts from liquidated damages	2,401,875	-
Receipts from suppliers	11,219,952	16,752,388
Payments to suppliers for electricity	(362,585,390)	(265,819,342)
Payments for other goods and services	(15,119,128)	(9,339,942)
Payments for staff compensation	(6,178,169)	(5,559,337)
Payments of taxes and energy surcharges to other governments	(6,812,737)	(5,997,661)
Net cash provided by operating activities	<u>21,342,686</u>	<u>11,267,497</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from grantor	<u>2,759,460</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(1,113)</u>	<u>(131,575)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	970,035	702,036
Purchase of investments	(32,418,822)	-
Loan issued	(2,000,000)	-
Net cash provided (used) by investing activities	<u>(33,448,787)</u>	<u>702,036</u>
Net change in cash and cash equivalents	(9,347,754)	11,837,958
Cash and cash equivalents at beginning of year	159,738,623	147,900,665
Cash and cash equivalents at end of year	<u>\$ 150,390,869</u>	<u>\$ 159,738,623</u>
Reconciliation to the Statements of Net Position		
Cash and cash equivalents (unrestricted)	\$ 150,096,869	\$ 159,444,623
Restricted cash	294,000	294,000
Cash and cash equivalents	<u>\$ 150,390,869</u>	<u>\$ 159,738,623</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, 2022 AND 2021

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

	<u>2022</u>	<u>2021</u>
Operating income	\$ 13,421,880	30,547,773
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	88,680	103,204
Provision for uncollectible accounts	2,309,127	2,108,070
(Increase) decrease in:		
Accounts receivable, net	(12,040,428)	(11,904,775)
Accrued revenue	1,849,150	(2,852,851)
Energy settlements receivable	7,856,108	(7,845,717)
Other receivables	(1,069,449)	(684,024)
Prepaid expenses	1,251,830	(677,133)
Deposits	(6,575,149)	(484,973)
Increase (decrease) in:		
Accrued cost of electricity	11,425,158	(3,474,002)
Accounts payable	357,493	767,293
Other accrued liabilities	(115,044)	(141,393)
User taxes and energy surcharges due to other governments	483,330	(38,725)
Security deposits - energy suppliers	2,100,000	5,844,750
Net cash provided by operating activities	<u>\$ 21,342,686</u>	<u>\$ 11,267,497</u>

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

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, 2022:

Counties	Cities and Towns	
Monterey	Arroyo Grande	Morro Bay
San Benito	Atascadero	Pacific Grove
Santa Barbara	Buellton	Paso Robles
Santa Cruz	Capitola	Pismo Beach
	Carpinteria	Salinas
	Carmel-by-the-Sea	San Juan Bautista
	Del Rey Oaks	San Luis Obispo
	Goleta	Sand City
	Gonzales	Santa Cruz
	Greenfield	Santa Maria
	Grover Beach	Scotts Valley
	Guadalupe	Seaside
	Hollister	Soledad
	Marina	Solvang
	Monterey	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. Some of the 17 members represent more than one jurisdiction. Policy Board Members are elected officials from 3CE member communities. 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' jurisdictions, 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) and Southern California Edison (SCE).

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

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, and then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, 3CE defines cash and cash equivalents to include cash on hand, demand deposits and short-term investments with an original maturity of three months or more. 3CE has cash that is restricted under various security agreements. This is reported as restricted cash on the Statements of Net Position and is included in cash and cash equivalents for the purpose of the Statements 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. Also included are prepaid expenses and deposits 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, transmission or distribution assets.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

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, 2022 or 2021.

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” or “restricted for security collateral.”

OPERATING AND NONOPERATING REVENUES

Operating revenues include revenue derived from the provision of energy to customers. Interest and investment income are considered nonoperating revenues.

REVENUE RECOGNITION

3CE recognizes revenue on an accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered, but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded and revenues are reported net of this allowance.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of electricity and services. Expenses not meeting this definition are reported as nonoperating expenses.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

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 (CAISO) 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. 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 CAISO 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, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

3CE 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 or change in net position.

2. CASH AND CASH EQUIVALENTS

3CE maintains its cash in both interest-bearing and non-interest-bearing deposit accounts in several banks. 3CE's deposits are subject to California Government Code Section 16521, which requires banks to collateralize public funds in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 by 110%. Certain short-term investments with original maturities of less than three months are classified as cash and cash equivalents, which are not subject to the collateral requirement or FDIC coverage previously mentioned. Accordingly, the amount of risk is not disclosed. 3CE monitors its risk exposure on an ongoing basis.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

3. RECEIVABLES AND DEPOSITS

ACCOUNTS RECEIVABLE

Accounts receivable was as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Accounts receivable from customers	\$ 55,979,470	\$ 43,825,791
Allowance for uncollectible accounts	(8,871,870)	(6,449,492)
Net accounts receivable	<u>\$ 47,107,600</u>	<u>\$ 37,376,299</u>

The majority of account collections 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 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 at the end of a period includes amounts billed during the current and prior fiscal years. During 2022, 3CE recorded an increase of approximately \$2,422,000 in its reserve for uncollectible balance. This account is affected by accounts receivable write-offs, increases to its allowance for uncollectible accounts on current year revenue, and California Arrearage Payment Program (CAPP) funds applied. In 2022, 3CE received CAPP funds (see Note 6) that helped recover for previously written off accounts receivable.

ENERGY SETTLEMENTS RECEIVABLE

3CE receives generation scheduling and other services from a scheduling coordinator registered with the CAISO. Energy settlements due from the scheduling coordinator for the years ended September 30, 2022 and 2021 were approximately \$0 and \$7,856,000, respectively.

OTHER RECEIVABLES

Other receivables of \$10,609,000 consists primarily of amounts due from energy suppliers, either for liquidated damages from non-performance, or as a result of certain wholesale transactions for energy products.

DEPOSITS

Current and noncurrent deposits were approximately \$8,317,000 and \$1,742,000 as of September 30, 2022 and 2021, respectively. The majority of current deposits relate to collateral posted with the CAISO, which is determined based on 3CE's market exposure at a given time. Also included in current assets are funds provided to an energy program implementer to issue customer incentive payments.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

4. INVESTMENTS

During the year ended September 30, 2022, 3CE purchased investments with original maturities of three months or more. As of September 30, the fair value of investments were as follows:

	<u>2022</u>	<u>2021</u>
Current Investments:		
Certificate of deposits	\$ 12,551,681	\$ -
Commercial paper	2,435,226	-
U.S. government & agency obligations	14,584,200	-
Municipal obligations	3,863,262	-
Total investments	<u>\$ 33,434,369</u>	<u>\$ -</u>

FAIR VALUE MEASUREMENT

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. 3CE's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of September 30, 2022 and 2021, 3CE's investments are considered Level 1 inputs.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, 3CE would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in 3CE's name, and are held by the counterparty.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

4. INVESTMENTS (continued)

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. 3CE manages its exposure to declines in fair values by limiting the weighted average maturity of its investments.

All investments had a maturity of less than one year as of September 30, 2022.

5. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2022 and 2021 was as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Total
Balances at:				
September 30, 2020	\$ 488,637	\$ 73,269	\$ (247,029)	\$ 314,877
Additions	109,795	7,474	(103,204)	14,065
September 30, 2021	598,432	80,743	(350,233)	328,942
Additions	1,113	-	(88,680)	(87,567)
Dispositions	-	(22,056)	-	(22,056)
September 30, 2022	<u>\$ 599,545</u>	<u>\$ 58,687</u>	<u>\$ (438,913)</u>	<u>\$ 219,319</u>

6. GRANT REVENUE

3CE administers a grant from CAPP that offers financial assistance for California energy utility customers to help reduce past due energy account balances that increased during the COVID-19 pandemic. This program is funded through the federal American Rescue Plan Act (ARPA) with Coronavirus State and Local Fiscal Recovery Funds. Grant revenue recognized for the year ended September 30, 2022 was \$2,759,460.

CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

7. DEFINED CONTRIBUTION RETIREMENT PLAN

3CE provides retirement benefits to eligible employees through a 401(a) Retirement Plan (Plan). The Plan is a defined contribution (Internal Revenue Code 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, 2022, there were 34 plan participants. 3CE is required to contribute 10% of covered payroll as a match to required employee contributions. 3CE contributed approximately \$462,000 and \$439,000 for the years ended September 30, 2022 and 2021, 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.

8. 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
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

9. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, 3CE enters into power purchase agreements to acquire energy and electric capacity. The price and volume of purchased power is largely fixed. Variable priced power, which is a small part of 3CE's portfolio, is generally linked to the market price of either natural gas or power at the date of delivery. Variable volume is generally associated with contracts to purchase energy from resources with varying availability and production, such as solar, wind and hydroelectric facilities.

3CE enters into long-term power purchase agreements to ensure stable competitive rates for its customers and to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products.

The following table represents the expected, undiscounted, contractual obligations outstanding as of September 30, 2022:

Year ending September 30,	
2023	\$ 304,000,000
2024	236,000,000
2025	156,000,000
2026	141,000,000
2027	136,000,000
2028-2053	<u>2,280,000,000</u>
Total	<u><u>\$ 3,253,000,000</u></u>

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after September 30, 2022:

GASB has approved GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, GASB Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, GASB Statement No. 99, *Omnibus 2022*, GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, and GASB Statement No. 101, *Compensated Absences*. Management is evaluating the effect of implementation of these statements.

SUPPLEMENTARY INFORMATION

**CENTRAL COAST COMMUNITY ENERGY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2022**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of the Treasury			
California Department of Community Services and Development (CSD)			
COVID-19 American Rescue Plan Act (ARPA)			
Coronavirus State and Local Fiscal Recovery Funds			
California Arrearage Payment Program (CAPP)	21.027	68-0283471	\$ 2,759,460
Total U.S. Department of the Treasury			<u>2,759,460</u>
Total expenditures of federal awards			<u><u>\$ 2,759,460</u></u>

**CENTRAL COAST COMMUNITY ENERGY
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2022**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Central Coast Community Energy (3CE) under programs of the federal government for the year ended September 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 3CE, it is not intended to and does not present the financial position, changes in the net position or cash flows of 3CE.

All federal awards received directly from federal agencies, as well as federal awards passed through nonfederal agencies and organizations are included in the Schedule. Pass-through entity identifying numbers are presented when available.

The reporting entity for 3CE is based upon criteria established by the Governmental Accounting Standards Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARDS

Expenditures on the accompanying Schedule are reported on an accrual basis of accounting. Expenditures are recognized when incurred. Expenditures for federal awards are recognized following the cost principles contained in the Uniform Guidance. Under these cost principles certain types of expenditures are not allowable or are limited as to reimbursement.

3. SUB-RECIPIENTS

Of the federal expenditures presented in the Schedule, 3CE did not provide federal awards to sub-recipients for the year ended September 30, 2022.

4. INDIRECT COSTS

3CE did not elect to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Central Coast Community Energy
Monterey, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Central Coast Community Energy (3CE), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise 3CE's basic financial statements, and have issued our report thereon dated April 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 3CE's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 3CE's internal control. Accordingly, we do not express an opinion on the effectiveness of 3CE's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of 3CE's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards (continued)**

Independent Auditor's Report (continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 3CE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 3CE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 3CE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Santa Rosa, California
April 17, 2023



**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Central Coast Community Energy
Monterey, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Central Coast Community Energy's (3CE) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of 3CE's major federal programs for the year ended September 30, 2022. 3CE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, 3CE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of 3CE and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of 3CE's compliance with the compliance requirements referred to above.

**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance (continued)**

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to 3CE's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on 3CE's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about 3CE's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding 3CE's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of 3CE's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of 3CE's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance (continued)**

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness over internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pasenti & Brinkman LLP

Santa Rosa, California
April 17, 2023

Schedule of Findings and Questioned Costs

Year Ended September 30, 2022

I. Summary of Auditor's Results***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No
Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No
Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Assistance Listing Number (s)	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2022

II. Financial Statement Findings

No matters are reportable

III. Federal Award Findings and Questioned Costs

No matters are reportable

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2022

No Uniform Guidance audit performed in prior year.