Financial Statements

Central Coast Community Energy
CLEAN ENERGY. LOCAL CONTROL.

Years Ended September 30, 2023 and 2022
INCLUDING REPORT OF INDEPENDENT AUDITORS

CENTRAL COAST COMMUNITY ENERGY
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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Independent Auditor's Report

To the Board of Directors
Central Coast Community Energy

Opinion

We have audited the accompanying financial statements of Central Coast Community Energy (3CE), as of and for the years ended September 30, 2023 and 2022, 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, 2023 and 2022, 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). 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 within one year after the date that the financial statements are issued or available to be issued.

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 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.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audits of the Financial Statements (continued)

In performing an audit in accordance with GAAS, 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.

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.

Pisenti & Brinker LLP

Santa Rosa, California
February 13, 2024

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, 2023 and 2022. 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. 3CE is committed to charging competitive retail generation 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's demand by the year 2025 and 100% of 3CE's 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, 2023, 3CE's members included the California Cities and Towns of Arroyo Grande, Atascadero, Buellton, Capitola, Carpinteria, 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, Sand City, Santa Cruz, Santa Maria, Scotts Valley, Seaside, Soledad, Solvang and Watsonville as well as the Counties of Monterey, San Benito, Santa Barbara, San Luis Obispo, and Santa Cruz. 3CE anticipates initiating service in the City of Atascadero and the County of San Luis Obispo in January 2025.

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 provides information about the nature and amounts 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 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.

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:

	2023	2022	2021
Current assets	$ 324,238,888	$ 259,993,090	$ 229,102,332
Noncurrent assets			
Capital and lease assets, net	2,008,218	219,319	328,942
Other noncurrent assets	1,543,979	1,731,180	79,280
Total noncurrent assets	3,552,197	1,950,499	408,222
Total assets	327,791,085	261,943,589	229,510,554
Current liabilities	54,996,528	45,601,781	32,490,845
Noncurrent liabilities	30,923,232	9,131,250	7,031,250
Total liabilities	85,919,760	54,733,031	39,522,095
Net position			
Net investment in capital assets	520,678	219,319	328,942
Restricted for security collateral	294,000	294,000	294,000
Unrestricted	241,056,647	206,697,239	189,365,517
Total net position	$ 241,871,325	$ 207,210,558	$ 189,988,459

Current Assets

Current assets were approximately $324,239,000 at the end of 2023 and consist of cash, accounts receivable, accrued revenue, investments, and deposits. Accrued revenue is revenue from energy delivered but not invoiced to customers at year-end. Accounts receivable represents 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 each year.

Noncurrent Assets

Capital assets are reported net of depreciation. Changes during the years include acquisition of furniture and equipment, leasehold improvements, and software, less depreciation and amortization. 3CE does not own assets used for electricity generation, transmission or distribution.

A lease asset is reported in accordance with *Governmental Accounting Standards Board No. 87 (GASB 87)*. 3CE entered into a lease in October 2022 for its office space, which accounts for the increase in capital and lease assets.

Other noncurrent assets consist of the long-term portion ($1,521,000) 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 approximately $54,997,000 as of September 30, 2023 consist primarily of the cost of electricity delivered to customers that is due to be paid by 3CE after the fiscal year. 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 increased each year 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. Additionally, current liabilities increased significantly in 2023 due to deposits received from energy suppliers.

Noncurrent Liabilities

The increase in noncurrent liabilities in 2023 is the result of several energy supply contracts entered into or negotiated during the year that required the suppliers to post collateral. 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. Deposits are determined to be a noncurrent liability if they are not expected to be returned to the supplier within one year of the financial statement date.

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:

	2023	2022	2021
Operating revenues	$ 451,619,272	$ 401,698,835	$ 287,931,441
Nonoperating revenues	9,635,091	3,800,219	702,036
Total income	461,254,363	405,499,054	288,633,477
Operating expenses	426,540,098	388,276,955	257,383,668
Nonoperating expenses	53,498	-	-
Total expenses	426,593,596	388,276,955	257,383,668
Change in net position	$ 34,660,767	$ 17,222,099	$ 31,249,809

Operating Revenues

Rate increases in effect during 2023 account for the majority of the increase in revenue compared to 2022.

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.

Nonoperating Revenues

The 2023 increase in nonoperating revenues is a result of increased investment returns related to an increase in market interest rates. The 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 and diversified renewable power portfolio. Operating expenses increased each year due to an increase in the number of customers and rising market prices.

ECONOMIC OUTLOOK

The fiscal year ended September 30, 2023 was a year of stable operations and growing cost pressures from increased costs of energy and resource adequacy compliance. 3CE serves over 450,000 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. 3CE serves approximately 94% of all eligible customers in the service area, and that rate of participation is expected to remain stable in 2024.

Operating revenues grew over $49,900,000, driven primarily by the rate adjustments to reflect the increased cost of energy. Operating expenses, comprised primarily of energy costs, increased by approximately $38,300,000 due to a combination of rising energy and resource adequacy (RA) costs, and delays in new power projects resulting from interconnection delays, supply chain, and inflationary pressures. Even with the rising energy and RA compliance costs, the net position grew by almost $34,700,000 over the prior year.

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. The portfolio continues to include Power Purchase Agreements (PPAs). Six projects supported by PPAs are online as of fiscal year 2022-23. 3CE's non-energy administrative costs, including contract services, staffing, and general and administrative expenses, were 6% of revenue, reflecting 3CE's focus on delivering value for customers.

3CE has implemented cost-based rates that ensure customers pay what it costs to serve them and keeps 3CE competitive with legacy Investor-Owned Utility (IOU) rates. Fiscal year 2022-23 was the second year with cost-based rates for the Pacific Gas and Electric (PG&E) service area. This approach led to significant average customer savings versus IOU rates and will continue to do so in 2024. These savings strengthen 3CE's competitive position. 3CE will explore expanding the cost based rate approach to its Southern California Edison service area anticipated to start in 2025.

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. 3CE will continue investing in renewable innovation and initiatives to reach 100% clean and renewable energy through the commitment to new, emerging, scalable technologies and programs.

Management intends to continue its conservative use of financial resources and continues to build credit capacity through increased cash reserves, complying with the energy risk management policy, and entering into favorable energy purchase commitments. As a result, 3CE's financial position and foundation remain strong and positioned for continued success.

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,

Robert Shaw, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	$ 195,739,869	$ 150,096,869
Accounts receivable, net of allowance	32,759,275	47,107,600
Accrued revenue	24,865,108	18,161,946
Other receivables	4,273,462	2,003,955
Loan receivable	187,201	292,002
Prepaid expenses	380,211	308,419
Deposits	6,494,094	8,293,930
Cash - restricted	294,000	294,000
Investments	59,245,668	33,434,369
Total current assets	324,238,888	259,993,090
Noncurrent assets		
Deposits	23,182	23,182
Loan receivable	1,520,797	1,707,998
Lease asset, net of amortization	1,426,467	-
Capital assets, net of depreciation and amortization	581,751	219,319
Total noncurrent assets	3,552,197	1,950,499
Total assets	327,791,085	261,943,589
LIABILITIES		
Current liabilities		
Accrued cost of electricity	48,922,476	40,074,582
Accounts payable	2,777,101	1,589,211
Other accrued liabilities	741,801	1,996,024
User taxes and energy surcharges due to other governments	1,753,727	1,941,964
Lease liability	300,423	-
Security deposits - energy suppliers	501,000	-
Total current liabilities	54,996,528	45,601,781
Noncurrent liabilities		
Security deposits - energy suppliers	29,756,280	9,131,250
Lease liability	1,166,952	-
Total noncurrent liabilities	30,923,232	9,131,250
Total liabilities	85,919,760	54,733,031
NET POSITION		
Net investment in capital assets	520,678	219,319
Restricted for security collateral	294,000	294,000
Unrestricted	241,056,647	206,697,239
Total net position	$ 241,871,325	$ 207,210,558

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, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Electricity sales, net	$ 450,713,404	$ 399,149,960
Liquidated damages	750,000	2,548,875
Other income	155,868	-
Total operating revenues	451,619,272	401,698,835
OPERATING EXPENSES		
Cost of electricity	398,746,769	366,610,134
Contract services	10,820,099	9,288,170
Staff compensation	6,200,592	6,089,226
Program incentives	8,484,775	4,374,729
Other operating expenses	1,869,295	1,826,016
Depreciation and amortization	418,568	88,680
Total operating expenses	426,540,098	388,276,955
Operating income	25,079,174	13,421,880
NONOPERATING REVENUES (EXPENSES)		
Interest and investment returns	8,184,122	1,040,759
Grant revenue	1,450,969	2,759,460
Financing costs	(53,498)	-
Nonoperating revenues	9,581,593	3,800,219
CHANGE IN NET POSITION	34,660,767	17,222,099
Net position at beginning of year	207,210,558	189,988,459
Net position at end of year	$ 241,871,325	$ 207,210,558

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

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 466,288,740	$ 398,416,283
Receipts of liquidated damages	897,000	2,401,875
Other operating receipts	155,868	-
Receipts of deposits and collateral	53,684,900	11,219,952
Payments to suppliers for electricity	(392,088,215)	(345,208,662)
Payments of deposits and collateral	(30,759,035)	(17,376,728)
Payments for other goods and services	(12,022,290)	(10,922,374)
Payments for program incentives	(7,797,967)	(4,196,754)
Payments of staff compensation	(6,467,227)	(6,178,169)
Payments of taxes and energy surcharges to other governments	(8,274,859)	(6,812,737)
Net cash provided by operating activities	63,616,915	21,342,686
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant revenue	1,450,969	2,759,460
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of lease liability	(264,318)	-
Payments to acquire capital assets	(509,105)	(1,113)
Net cash used by capital and related financing activities	(773,423)	(1,113)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	7,060,790	970,035
Proceeds from investment sales	111,223,174	-
Principal payments received on loan receivable	292,002	-
Purchase of investments	(137,227,427)	(32,418,822)
Loan issued	-	(2,000,000)
Net cash used by investing activities	(18,651,461)	(33,448,787)
Net change in cash and cash equivalents	45,643,000	(9,347,754)
Cash and cash equivalents at beginning of year	150,390,869	159,738,623
Cash and cash equivalents at end of year	$ 196,033,869	$ 150,390,869
Reconciliation to the Statement of Net Position		
Cash and cash equivalents - unrestricted	$ 195,739,869	$ 150,096,869
Cash - restricted	294,000	294,000
Cash and cash equivalents	$ 196,033,869	$ 150,390,869
SUPPLEMENTAL CASH FLOW INFORMATION		
Capital asset acquisitions included in accounts payable and other liabilities	$ 20,165	-

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

CENTRAL COAST COMMUNITY ENERGY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2023	2022
Operating income	$ 25,079,174	$ 13,421,880
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	418,568	88,680
(Increase) decrease in:		
Accounts receivable, net of allowance	14,348,325	(9,731,301)
Accrued revenue	(6,703,164)	1,849,150
Energy settlements receivable	-	7,856,108
Other receivables	(1,913,221)	(1,069,449)
Prepaid expenses	(71,792)	1,251,830
Deposits	1,799,836	(6,575,149)
Increase (decrease) in:		
Accrued cost of electricity	8,847,894	11,425,158
Accounts payable	1,167,725	357,493
Other accrued liabilities	(294,223)	(115,044)
User taxes and surcharges due to other governments	(188,237)	483,330
Security deposits - energy suppliers	21,126,030	2,100,000
Net cash provided by operating activities	$ 63,616,915	$ 21,342,686

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

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, 2023:

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).

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 less. 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.

INVESTMENTS

Investments are stated at fair value based on prices listed on a national exchange for debt securities. Certificates of deposits are stated at cost. 3CE intends to hold its securities to maturity. Investments with a maturity of less than one year are shown as current assets in the Statement of Net Position.

3CE's Investment Policy permits the investment of funds in depository accounts, certificates of deposit and the Local Agency Investment Fund (LAIF) program operated by the California State Treasury, United States Treasury obligations, Federal Agency Securities, commercial paper, and money market funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASE ASSET AND LEASE LIABILITY

3CE recognizes an asset and liability when it enters into certain leasing arrangements. The leased asset is amortized over the term of the lease. The lease liability is the present value of payments expected to be paid to the lessor during the lease term. 3CE's leased asset and liability relate to its office premises.

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.

SECURITY DEPOSITS-ENERGY SUPPLIERS

Various energy contracts entered into by 3CE require the supplier to provide 3CE with a security deposit. These deposits are generally held for the term of the contract or until the completion of certain benchmarks. Deposits are classified as current or noncurrent depending on the length of time the deposits will be held.

NET POSITION

Net position is presented in the following components:

Net investment in capital assets: This component of net position consists of capital assets, lease asset, net of accumulated depreciation and amortization, and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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 "net investment in capital assets" or "restricted for security collateral."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NONOPERATING REVENUES

Operating revenues include energy sales to retail and wholesale customers, and liquidated damages from suppliers that fail to meet delivery commitments.

Investment income includes interest earned on bank deposits as well as unrealized gains and losses on its investment holdings. Interest and investment income are considered nonoperating revenues.

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 at year-end. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of electricity, staffing, contractor services, program incentives, and other operating expenses. Expenses not meeting this definition are reported as nonoperating expenses.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAFFING COSTS

3CE pays employees bi-weekly 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.

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.

3. RECEIVABLES AND DEPOSITS

ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of September 30:

	2023	2022
Accounts receivable from customers	$ 43,313,058	$ 55,979,470
Allowance for uncollectible accounts	(10,553,783)	(8,871,870)
Net accounts receivable	$ 32,759,275	$ 47,107,600

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 2023 and 2022, 3CE recorded $6,864,000 and $6,192,000, respectively, as an increase to the allowance in anticipation of uncollectible accounts. Bad debt expense is reported as a reduction in electricity sales on the Statement of Revenues, Expenses and Changes in Net Position. Other changes in the allowance for uncollectible accounts from year to year are the result of account write-offs. In 2023 and 2022, 3CE received CAPP funds (see Note 6) that helped recover for previously written off accounts receivable.

OTHER RECEIVABLES

Other receivables consists primarily of amounts due from energy suppliers, generally as a result of certain wholesale transactions for energy products.

DEPOSITS

Combined current and noncurrent deposits were approximately $6,517,000 and $8,317,000 as of September 30, 2023 and 2022, 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.

4. INVESTMENTS

During the years ended September 30, 2023 and 2022, 3CE purchased investments with original maturities of three months or more. As of September 30, investments were as follows:

	2023	2022
Investments at Fair Value:		
Commercial paper	$ 3,700,088	$ 2,435,226
U.S. government & agency obligations	45,545,580	14,584,200
Municipal obligations	-	3,863,262
Total investments at fair value	49,245,668	20,882,688
Certificate of deposits	10,000,000	12,551,681
Total investments	$ 59,245,668	$ 33,434,369

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, 2023 and 2022, 3CE's investments are considered Level 1 inputs, except for certificates of deposits, which are based on the nominal value. Quoted prices in active markets were used for determining fair value measurement.

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. Certain investments, such as obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, are not considered to have credit risk. Credit risk for other investments is not available.

3CE's investment policy addresses this risk. 3CE limits investments to those allowed by Section 53601 of the California Government Code that addresses the risk allowable for each investment.

4. INVESTMENTS (continued)

CUSTODIAL CREDIT RISK – CERTIFICATE OF DEPOSITS

Custodial credit risk is the risk that in the event of a financial institution failure, 3CE's deposits may not be returned to 3CE. 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%.

As of September 30, 2023 and 2022, none of 3CE's bank balances are known to be individually exposed to custodial credit risk.

CUSTODIAL CREDIT RISK - INVESTMENTS

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. All of 3CE's investments are exposed to custodial credit risk.

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, 2023 and 2022. 3CE intends to hold investments to maturity.

5. CAPITAL ASSETS AND LEASE ASSET

Capital asset activity for the years ended September 30, 2023 and 2022 was as follows:

	Furniture & Equipment	Leasehold Improvements	Software	Accumulated Depreciation and Amortization	Total
Balances at September 30, 2021	$ 598,432	$ 80,743	$ -	$ (350,233)	$ 328,942
Additions	1,113	-	-	(88,680)	(87,567)
Dispositions	-	(22,056)	-	-	(22,056)
Balances at September 30, 2022	599,545	58,687	-	(438,913)	219,319
Additions	97,171	31,974	400,126	(166,838)	362,432
Balances at September 30, 2023	$ 696,716	$ 90,661	$ 400,126	$ (605,751)	$ 581,751

Lease asset activity for the years ended September 30, 2023 and 2022 was as follows:

	Lease Asset	Accumulated Amortization	Total
Balances at September 30, 2021	$ -	$ -	$ -
Additions	-	-	-
Dispositions	-	-	-
Balances at September 30, 2022	-	-	-
Additions	1,678,197	(251,730)	1,426,467
Dispositions	-	-	-
Balances at September 30, 2023	$ 1,678,197	$ (251,730)	$ 1,426,467

6. GRANT REVENUE

3CE administers a grant from the California Arrearage Payment Program (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. In 2022 this program was funded through the federal American Rescue Plan Act (ARPA) with Coronavirus State and Local Fiscal Recovery Funds. The program was funded by the State of California in 2023. Grant revenue recognized for the years ended September 30, 2023 and 2022 was $1,451,000 and $2,759,000, respectively.

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 $502,000 and $462,000 for the years ended September 30, 2023 and 2022, respectively. Plan provisions and contribution requirements as they apply to 3CE are established and may be amended by the Board of Directors. 3CE 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.

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, 2023:

Year ending September 30,	
2024	$ 496,000,000
2025	344,000,000
2026	196,000,000
2027	191,000,000
2028	186,000,000
2029-2053	2,755,000,000
Total	$ 4,168,000,000

10. LEASES

A lease asset is reported in accordance with Governmental Accounting Standards Board No. 87 (GASB 87). According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease assets and liabilities that previously were not recognized on the statement of net position.

On October 27, 2022, 3CE entered into a 3-year non-cancelable lease commencing on January 1, 2023 for its office premises. The rental agreement includes an option to renew the lease for two additional one-year terms.

Rental payments under this lease were $330,000 for the year ended September 30, 2023.

As of September 30, 2023, future minimum lease payments under this lease were as follows:

Year ending September 30,	Principal	Interest	Total
2024	$ 300,423	$ 59,931	$ 360,354
2025	325,259	45,905	371,164
2026	351,568	30,731	382,299
2027	379,426	14,342	393,768
2028	110,699	878	111,577
Total	$ 1,467,375	$ 151,787	$ 1,619,162

11. JOINT VENTURE

3CE participates in a joint powers agreement (JPA) through the California Community Choice Financing Authority (CCCFA). CCCFA was formed as a conduit issuer to assist its members by undertaking the financing or refinancing of energy prepayments that can be financed with tax advantaged bonds on behalf of one or more of the members by, among other things, issuing or incurring bonds and entering into related contracts with its members. Any debt or liability incurred by CCCFA on behalf of a member to prepay for renewable energy is not a debt or liability of that member. Furthermore, the assets of CCCFA in the form of prepaid energy or reserves held by the respective bond trustees for any prepayment transaction undertaken on behalf of a member does not constitute an asset or reserve of that member.

In December 2023, CCCFA issued bonds in the amount of $647,750,000, excluding original issue premium, the proceeds of which to be used to finance energy purchases that will be delivered to 3CE. No debt, liability, or obligation of CCCFA is a debt, liability, or obligation of 3CE. 3CE will purchase energy from CCCFA in the same manner as it purchases energy from other suppliers. 3CE did not purchase any energy from CCCFA during fiscal year 2023. The outstanding purchase commitments related to these financing facilities are included in Note 9.

Each member of CCCFA is responsible for paying an equal portion of CCCFA's general and administrative operating costs as determined by its board. During the years ended September 30 2023, and 2022, 3CE contributed approximately $18,000 and $28,000, respectively, to CCCFA to assist in its operating activities.

The financial statements of CCCFA are available online at http://www.cccfa.org/key-documents.html.

12. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after September 30, 2023:

GASB has approved 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.