



FINANCIAL STATEMENTS

Periods Ended September 30, 2018
and 2017

WITH REPORT OF INDEPENDENT AUDITORS



MONTEREY BAY COMMUNITY POWER AUTHORITY
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Monterey Bay Community Power (MBCP), as of and for the year ended September 30, 2018 and the period from February 21, 2017 through September 30, 2017, and the related notes to the financial statements, which collectively comprise MBCP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBCP as of September 30, 2018 and September 30, 2017, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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

Perenti & Brink LLP

Santa Rosa, California
February 5, 2019

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

The Management's Discussion and Analysis provides an overview of Monterey Bay Community Power Authority's (MBCP) financial activities as of and for the period ended September 30, 2018, and from inception to September 30, 2017. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of MBCP was made possible in 2002 by the passage of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

MBCP was created as a California Joint Powers Authority (JPA) on February 21, 2017. MBCP was formed to provide locally controlled electricity to residents and businesses in Monterey, San Benito and Santa Cruz Counties (Tri-Counties). In addition to providing electric power at competitive costs, MBCP provides other benefits within the Tri-Counties, including reducing greenhouse gas emissions related to the use of power; providing electric power and other forms of energy to customers at affordable rates that are competitive with the incumbent utility; carrying out programs to reduce energy consumption; stimulating and sustaining the local economy by lowering electric rates and creating local jobs as a result of MBCP's CCE program; as well as promoting long-term electric rate stability and energy security and reliability for residents through local control of electric generation resources. MBCP is governed by two Boards, a Policy Board and an Operations Board. Each Board is comprised of 11 members with 11 alternates representing the participating communities. Policy Board Members are elected officials from MBCP member communities; and Operations Board Members are appointed executives leading the member cities and counties. MBCP has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. MBCP is responsible for the acquisition of electric power for its service area. MBCP serves the unincorporated areas of the Counties of Monterey, San Benito, Santa Cruz, and the cities and towns of Capitola, Carmel, Gonzales, Greenfield, Hollister, Marina, Monterey, Pacific Grove, Salinas, San Juan Bautista, Sand City, Santa Cruz, Scotts Valley, Seaside, Soledad and Watsonville. In December 2018, MBCP's Board of Directors authorized the expansion of services to the City of San Luis Obispo and the City of Morro Bay with the start of service expected in January 2020.

Prior to the creation of Monterey Bay Community Power Authority as a JPA, the County of Santa Cruz managed the financial and administrative activities related to the formation of this community choice aggregation program. Pursuant to the JPA, MBCP received a loan from the County of Santa Cruz to provide funding for costs to initiate the entity and its programs incurred prior to formation and until MBCP was able to procure additional financing.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

In March 2018, MBCP began providing service to its first approximately 40,000 customer accounts as part of its initial enrollment phase. This initial phase included commercial, agricultural, industrial and municipal accounts. Residential enrollment began in July 2018. At the end of the fiscal year ended September 30, 2018 MBCP had approximately 270,000 enrolled customers.

Financial Reporting

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

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

FINANCIAL HIGHLIGHTS

The following table is a summary of MBCP's assets, liabilities, and net position as of September 30:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 66,884,917	\$ -
Noncurrent assets		
Capital assets, net	263,759	-
Other noncurrent assets	<u>119,355</u>	<u>-</u>
Total noncurrent assets	<u>383,114</u>	<u>-</u>
Total assets	<u>67,268,031</u>	<u>-</u>
Current liabilities	<u>26,788,999</u>	<u>363,369</u>
Total liabilities	<u>26,788,999</u>	<u>363,369</u>
Net position		
Investment in capital assets	263,759	-
Restricted for security collateral	3,600,000	-
Unrestricted (deficit)	<u>36,615,273</u>	<u>(363,369)</u>
Total net position (deficit)	<u>\$ 40,479,032</u>	<u>\$ (363,369)</u>

Current Assets

Current assets reached \$66,885,000 by the end of September 30, 2018 and are mostly comprised of the following major categories: \$21,857,000 in cash and restricted cash, \$23,775,000 in accounts receivable, \$15,070,000 in accrued revenue, and \$5,151,000 in prepaid expenses. Cash is held in both interest and non-interest earning bank accounts. \$3,600,000 in cash is restricted for use as part of a security agreement with various suppliers. Accrued revenue differs from accounts receivable in that it is the result of electricity use by MBCP customers before invoicing to those customers has occurred. Prepaid expenses consist of purchases of electricity and capacity for delivery after the fiscal year.

Capital Assets

2018 results Capital assets were \$264,000, net of accumulated depreciation, primarily reflecting the acquisition of furniture and equipment accompanying MBCP's establishing its administrative office during the year. This amount is reported net of depreciation. MBCP does not own assets used for electric generation or distribution.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

Other Noncurrent Assets

2018 results Other noncurrent assets of \$119,000 consists of various deposits for regulatory and other operating purposes. Included are deposit postings with the California Public Utilities Commission (CPUC) and MBCP's scheduling coordinator responsible for interacting directly with the electricity market through the California Independent System Operator.

Current Liabilities

Current liabilities of \$26,789,000 at the end of 2018 consists primarily of \$22,625,000 for the cost of electricity delivered to customers that is not yet due to be paid by MBCP. Other liabilities include \$1,899,000 in customer rebate liabilities, \$1,201,000 in user taxes and surcharges due to other governments, and \$876,000 in accounts payable. Customer rebate liabilities reflect the expected savings rebate that has yet to be applied to customers' accounts at the fiscal year end. MBCP charges and collects various state and local taxes from customers. During the fiscal years 2018 and 2017, MBCP borrowed funds from the County of Santa Cruz as well as a separate financial institution. MBCP repaid all of its debt in September 2018 and had no debt at the end of fiscal year 2018.

Results of Operations

The following table is a summary of MBCP's results of operations as of September 30:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 117,097,905	\$ -
Operating expenses	(76,135,084)	(363,369)
Nonoperating revenues	14,248	-
Nonoperating expenses	(134,668)	-
Total nonoperating revenues (expenses)	<u>(120,420)</u>	<u>-</u>
Change in net position	<u>\$ 40,842,401</u>	<u>\$ (363,369)</u>

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

Operating Revenues

MBCP enrolled its first wave of commercial, agricultural, industrial and municipal customer accounts in March 2018. In July 2018, MBCP began to phase in residential accounts, its final planned phase of customers. Operating revenues consist of electricity sales to these customers. MBCP did not have significant operating revenue from any other source during the year. MBCP's gross profit margin for 2018 was approximately 40%, as operating revenues exceeded the cost of electricity by \$46,629,000.

Operating Expenses

MBCP's largest operating expense for fiscal year 2018 is the purchase of electricity needed to provide for retail customer use. These power supply costs greatly exceed all other operating expenses. MBCP procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. Expenses for staff compensation, consulting, data management and other general and administrative expenses increased in 2018 as the organization continued to grow with business demands.

ECONOMIC OUTLOOK

Opportunities abound and MBCP's path is clear, guided by lasting values and a well-defined mission. In less than one year, we have negotiated a long-term agreement for wind generation and will be executing two other agreements for solar and storage capacity. The expected energy from these projects combined will be enough to meet 20% of MBCP's electricity demand.

However, threats are also looming. Sensing the popularity of the Community Choice model and forecasting that Community Choice Aggregators (CCAs) are likely to dominate the California electricity-generation market in the next ten years, the incumbent investor-owned utility and independent power producers are targeting legislators and regulators. Their efforts to tilt the playing field in their favor and slow CCA expansion are relentless.

As of January 2019, MBCP serves approximately 97.5% of all eligible customers in the Tri-Counties, and is expected to remain stable at that rate of participation into the future. MBCP also filed an implementation plan in December 2018 with the California Public Utilities Commission (CPUC) for expansion into the City of San Luis Obispo and the City of Morro Bay with the expected start of service in January 2020. In addition, San Luis Obispo County is likely to become a major hub for developing and integrating new renewable resources in California. Offshore wind is being considered in Morro Bay and the decommissioning of Diablo Canyon nuclear facilities in 2025 will open the door for developing storage facilities that are becoming key to the proliferation of renewable resources in California. Having access to these resources will advance MBCP's goal for 100% renewables.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

ECONOMIC OUTLOOK (continued)

MBCP will begin developing programs that focus on a variety of quantitative and qualitative objectives, including Greenhouse Gas (GHG) emissions reduction, incremental local jobs, brand awareness, and access to technologies for disadvantaged communities:

- **Transportation Electrification** programs are designed to encourage the community to switch from fossil fuel-powered vehicles to clean electric options.
- **Building Electrification** programs will motivate customers to upgrade building stock by switching from gas to clean electric appliances and efficient building equipment.
- **Local Energy Resources** programs prioritize opportunities to support local development, reduce grid dependence and include storage and demand management programs.

MBCP has a strong focus on building credit capacity through building cash reserves and entering into favorable energy purchase commitments with the intent of securing a strong credit rating in 2021. This will help create a stable environment for MBCP and its ratepayers.

REQUEST FOR INFORMATION

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

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

Respectfully submitted,

Tom Habashi, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,257,288	\$ -
Accounts receivable, net of allowance	23,775,003	-
Energy settlements receivable	1,027,317	-
Accrued revenue	15,069,597	-
Other receivables	4,725	-
Prepaid expenses	5,150,987	-
Restricted cash	3,600,000	-
Total current assets	66,884,917	-
Noncurrent assets		
Capital assets, net of depreciation	263,759	-
Deposits	119,355	-
Total noncurrent assets	383,114	-
Total assets	67,268,031	-
LIABILITIES		
Current liabilities		
Accounts payable	876,060	1,304
Accrued cost of electricity	22,625,162	-
Accrued payroll and benefits	164,400	-
Other accrued liabilities	23,200	-
Customer rebate liabilities	1,898,945	-
User taxes and surcharges due to other governments	1,201,232	-
Loan payable to Santa Cruz County	-	362,065
Total current liabilities	26,788,999	363,369
NET POSITION		
Investment in capital assets	263,759	-
Restricted for security collateral	3,600,000	-
Unrestricted (deficit)	36,615,273	(363,369)
Total net position (deficit)	\$ 40,479,032	\$ (363,369)

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	Inception through September 30, 2017
OPERATING REVENUES		
Electricity sales, net of allowance	\$ 117,097,905	\$ -
Total operating revenues	117,097,905	-
OPERATING EXPENSES		
Cost of electricity	70,469,276	-
Staff compensation and benefits	1,598,439	-
Data management	1,178,238	-
Service fees - PG&E	280,918	-
Consultants and other professional fees	1,067,506	340,002
Legal	355,008	22,063
Communications and noticing	600,734	-
General and administration	542,662	1,304
Depreciation	42,303	-
Total operating expenses	76,135,084	363,369
Operating income (loss)	40,962,821	(363,369)
NONOPERATING REVENUES (EXPENSES)		
Interest income	13,156	-
Interest expense	(134,668)	-
Miscellaneous income	1,092	-
Total nonoperating revenues (expenses)	(120,420)	-
CHANGE IN NET POSITION	40,842,401	(363,369)
Net position (deficit) at beginning of period	(363,369)	-
Net position (deficit) at end of period	\$ 40,479,032	\$ (363,369)

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

MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF CASH FLOWS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	Inception to September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 80,608,088	\$ -
Receipts from other income	1,092	-
Tax and surcharge receipts from customers	1,905,778	-
Energy settlements received	1,932,084	-
Deposits and collateral received	501,375	-
Payments to purchase electricity	(55,893,765)	-
Payments for staff compensation and benefits	(1,434,038)	-
Payments for consultants and other professional fees	(2,451,759)	-
Payments for general and administration	(549,777)	-
Payments of deposits and collateral	(620,730)	-
User tax and surcharge payments to other governments	(1,160,384)	-
Net cash provided (used) by operating activities	22,837,964	-
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds from bank	5,600,000	-
Principal payments on loan from bank and Santa Cruz County	(6,155,903)	-
Interest and related expense payments	(134,668)	-
Net cash provided (used) by non-capital financing activities	(690,571)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(303,261)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	13,156	-
Net change in cash and cash equivalents	21,857,288	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of period	\$ 21,857,288	-
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 18,257,288	-
Restricted cash	3,600,000	-
Cash and cash equivalents	\$ 21,857,288	\$ -

Noncash Non-Capital Financing Activities during the period presented:

- Expenses of \$362,065 were financed directly from loan proceeds during the period ended September 30, 2017
- Expenses of \$193,838 were financed directly from loan proceeds during the period ended September 30, 2018

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	2018	Inception through September 30, 2017
Operating income (loss)	\$ 40,962,821	\$ (363,369)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	42,303	-
Revenue reduced for uncollectible accounts	606,680	-
Expenses paid directly from loan proceeds	193,838	362,065
Revenue from miscellaneous income	1,092	-
(Increase) decrease in accounts receivable	(24,381,683)	-
(Increase) decrease in energy settlements receivable	(1,027,317)	-
(Increase) decrease in accrued revenue	(15,069,597)	-
(Increase) decrease in other receivables	(4,725)	-
(Increase) decrease in prepaid expenses	(5,150,987)	-
(Increase) decrease in deposits	(119,355)	-
Increase (decrease) in accounts payable	871,956	1,304
Increase (decrease) in accrued cost of electricity	22,625,162	-
Increase (decrease) in accrued payroll and benefits	164,399	-
Increase (decrease) in accrued liabilities	23,200	-
Increase (decrease) in customer rebate liabilities	1,898,945	-
Increase (decrease) user taxes and surcharges due to other governments	1,201,232	-
Net cash provided (used) by operating activities	\$ 22,837,964	\$ -

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

MBCP is separate from and derives no financial support from its members. MBCP is governed by two Boards, a Policy Board and an Operations Board. Each Board is comprised of 11 members with 11 alternates representing the participating communities. Policy Board Members are elected officials from MBCP member communities; and Operations Board Members are appointed executives leading the members cities and counties.

MBCP was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of MBCP is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

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

BASIS OF ACCOUNTING

MBCP's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

MBCP's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories, investment in capital assets, restricted, and unrestricted (deficit).

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, MBCP has defined cash and cash equivalents to include cash on hand and demand deposits.

DEPOSITS

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

CAPITAL ASSETS AND DEPRECIATION

MBCP's policy is to capitalize furniture and equipment valued over \$1,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture and leasehold improvements. MBCP does not own any electric generation assets.

OPERATING AND NON-OPERATING REVENUE

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased through several energy suppliers. The cost of power and related delivery costs have been recognized as “cost of electricity” in the Statements of Revenues, Expenses and Changes in Net Position. As part of the security agreement with its main suppliers, MBCP is required to maintain a cash balance of \$3,600,000 to ensure funds are available to purchase electrical power. This cash balance is reported as restricted in the Statements of Net Position.

MBCP purchases renewable energy as a bundled product consisting of the energy and the associated Renewable Energy Certificates (REC) to comply with external mandates and self-imposed benchmarks. The RECs purchased by MBCP are commonly called “bundled”, as they are purchased together with the associated renewable energy actually generated. MBCP procures RECs with the intent to retire them within the compliance period on a voluntary basis above the compliance requirements and does not engage in the activity of building a surplus of RECs. An expense is recognized at the point that the cost of the REC is due and payable to the supplier.

STAFFING COSTS

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CUSTOMER REBATES

MBCP exactly matches PG&E rates and provides cost-savings through a 3% rebate on customer electric generation charges. Residential customers receive their accumulated rebate as a bill credit on their December bill, Small to Medium Commercial customers receive rebates in June and December, Large Commercial customers receive rebates quarterly (March, June, September, and December), and NEM customers receive their rebate on their true-up date. The unpaid portion of the rebate is shown in the liability section in the Statements of Net Position.

INCOME TAXES

MBCP is a joint powers authority under the provision of the California Government Code. As such it is not subject to federal or state income or franchise taxes.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

MBCP maintains its cash in several interest and non-interest-bearing accounts. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. MBCP has no deposit or investment policy that addresses a specific type of risk that would impose restrictions beyond this code. Accordingly, the amount of risk is not disclosed. Risk is monitored on an ongoing basis.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

3. ACCOUNTS RECEIVABLE AND ENERGY SETTLEMENTS RECEIVABLE

ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable from customers	\$ 24,381,683	\$ -
Allowance for uncollectible accounts	(606,680)	-
Net accounts receivable	<u>\$ 23,775,003</u>	<u>\$ -</u>

The majority of account collections will occur within the first few months following customer invoicing. MBCP will continue collection efforts on delinquent accounts that exceed a minimum balance, otherwise the accounts are written off. For delinquent accounts that are not written off and are above a certain level, MBCP will close the account to minimize further loss. The allowance of uncollectible accounts at the end of a period includes amounts billed through the current fiscal year. An allowance for uncollectible accounts is determined on billed amounts as well as on accrued revenue that is not yet billed. MBCP records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts were \$607,000 at September 30, 2018.

ENERGY SETTLEMENTS RECEIVABLE

MBCP receives generation scheduling and other services from a scheduling coordinator registered with the California Independent System Operator (CAISO). Energy settlements due from the scheduling coordinator was \$1,027,000 as of September 30, 2018.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	<u>Furniture & Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Balances at September 30, 2017	\$ -	\$ -	\$ -
Additions	306,062	(42,303)	263,759
Balances at September 30, 2018	<u>\$ 306,062</u>	<u>\$ (42,303)</u>	<u>\$ 263,759</u>

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

5. DEBT

Loan payable to Santa Cruz County

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

Notes payable to bank

In October 2017, MBCP arranged to borrow up to \$13 million from River City Bank to provide cash to pay for energy purchases and operating expense which are due before sufficient cash is to be collected from customers. Principal could be drawn as needed and interest was accrued on the outstanding balance. During 2017-18, MBCP borrowed \$5,600,000. The stated maturity date for the non-revolving and revolving credit notes of the arrangement was 12 months from the date of the agreement. Interest was due monthly based on the LIBOR rate plus 1.25% for the non-revolving credit note and 1.75% for the revolving credit note. Both notes were repaid in September 2018.

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

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

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

6. DEFINED CONTRIBUTION RETIREMENT PLAN

MBCP provides retirement benefits to eligible employees through a 401(a) Retirement Plan (Plan). The Plan is a defined contribution (IRC 401(a)) retirement plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by the Public Agency Retirement System (PARS). At September 30, 2018, MBCP had 14 plan participants. MBCP is required to contribute 10% of covered payroll as a match to employee contributions. MBCP contributed approximately \$76,000 for the year ended September 30, 2018, the first year the Plan was effective. Plan provisions and contribution requirements as they apply to MBCP are established and may be amended by the Board of Directors. MBCP has elected out of the Social Security system for employees eligible for the 401(a) Plan. MBCP also provides a 457(b) Retirement Plan where employees can make tax deferred contributions.

7. RISK MANAGEMENT

MBCP is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year ended September 30, 2018, MBCP purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was \$2,000,000 with \$1,000 deductible.

8. PURCHASE COMMITMENTS

MBCP had outstanding non-cancelable power purchase-related commitments of approximately \$757 million that have not yet been provided under power purchase agreements that continue to October 2041.

The following table is the approximated obligations on existing energy, renewable contracts, and resource adequacy (RA) as of September 30, 2018.

Year ended September 30,	
2019	\$ 137,200,000
2020	141,700,000
2021	55,100,000
2022	32,100,000
2023	29,700,000
2024-2042	<u>360,900,000</u>
Total	<u><u>\$ 756,700,000</u></u>

MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017

9. OPERATING LEASE

During the year ended September 30, 2018, MBCP entered into a 5 year and ½ month non-cancelable lease for its office premises until December 31, 2022. Rental expense under this lease was approximately \$127,000 for 2017-18.

Future minimum lease payments under the lease are as follows:

Year ended September 30,	
2019	\$ 232,260
2020	232,260
2021	232,260
2022	232,260
2023	58,065
Total	<u>\$ 987,105</u>

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after September 30, 2018:

GASB Statement No. 87, Leases, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**MONTEREY BAY COMMUNITY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

11. SUBSEQUENT EVENTS

In September 2018, new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. It is unknown what the impact of this will be on MBCP or how much commercial load might be eligible under this direct access expansion.

On October 11, 2018, the California Public Utilities Commission (CPUC) passed an Alternative Proposed Decision (APD) regarding the calculation of the Power Charge Indifference Adjustment (PCIA). The decision will increase the PCIA for all of MBCP's customers. MBCP is evaluating the specific changes that will be required to MBCP's rates as a result of this decision.

In December 2018, MBCP's Board of Directors authorized the expansion of services to the City of San Luis Obispo and the City of Morro Bay with the start of service expected in January 2020.

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