PENINSULA CLEAN ENERGY

FINANCIAL STATEMENTS

Years Ended June 30, 2018
and June 30, 2017
With Report of Independent Auditor

PENINSULA CLEAN ENERGY AUTHORITY
YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditor's Report

To the Board of Directors
Peninsula Clean Energy Authority
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of Peninsula Clean Energy Authority (PCEA), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise PCEA'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 audits. We conducted our audits 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 PCEA as of June 30, 2018 and 2017, 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.

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

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.

Pisenti & Brinker LLP

Santa Rosa, California
October 18, 2018

The Management's Discussion and Analysis provides an overview of Peninsula Clean Energy Authority's (PCE) financial activities as of and for the year ended June 30, 2018, and June 30, 2017. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

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

PCE's procures cleaner and greener electricity, at rates 5% lower than the incumbent investor-owned utility, PG&E. These customer rate savings translate into $17 million annually. PCE continues to maintain a high percentage of enrolled customers throughout San Mateo County, with an opt-out rate of only 2.4%. In 2018, PCE's default product, ECOplus, was comprised of 50% renewable and 85% greenhouse gas free, accelerating the State's 2030 goal of 50% renewable content by over a decade.

PCE was created as a California Joint Powers Authority (JPA) on February 29, 2016. PCE's mission is to reduce greenhouse gas emissions and offer customer choice for electric power at competitive rates. PCE serves the unincorporated areas of San Mateo County and the cities and towns of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and Woodside. It is governed by a board of directors consisting of twenty-two members, one elected representative from each of the cities and towns served and two elected representatives from San Mateo County.

Prior to the creation of Peninsula Clean Energy as a JPA, the County of San Mateo managed the financial and administrative activities related to the formation of this community choice aggregation program. Pursuant to the JPA, PCE accepted an obligation to reimburse the County of San Mateo for specified costs to initiate the entity and its programs which were incurred prior to the JPA agreement. PCE fully reimbursed the County for all of those costs in December 2017.

In October 2016, PCE began providing service to its first 79,000 customer accounts as part of its initial enrollment phase. PCE completed its customer enrollment in April 2017 and as of June 30, 2018, PCE serves approximately 300,000 customer accounts.

Financial Reporting

PCE 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 report reflects all PCE activities that are funded through the sale of energy to its customers and is divided into the following sections:

- Management's discussion and analysis, which provides an overview of operations.
- The Basic financial statements, which offer information on PCE's financial status:

    - The *Statements of Net Position* includes all of PCE's assets, liabilities, and net position using the accrual basis of accounting. The Statements of Net Position 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 all of PCE'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 debt financing.

    - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

FINANCIAL HIGHLIGHTS

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

	2018	2017	2016
Current assets	$ 110,290,589	$ 53,560,046	$ 3,832,768
Noncurrent assets			
Capital assets, net	302,333	18,913	-
Other noncurrent assets	1,193,560	1,720,611	1,500,000
Total noncurrent assets	1,495,893	1,739,524	1,500,000
Total assets	111,786,482	55,299,570	5,332,768
Current liabilities	25,912,705	27,533,241	317,530
Noncurrent liabilities	508,287	6,055,800	6,059,467
Total liabilities	26,420,992	33,589,041	6,376,997
Net position			
Net investment in capital assets	302,333	18,913	-
Unrestricted (deficit)	85,063,157	21,691,616	(1,044,229)
Total net position	$ 85,365,490	$ 21,710,529	$ (1,044,229)

Current Assets

2018 compared to 2017 Current assets ended 2018 at approximately $110.3 million, an increase of approximately $56.7 million as compared to 2017. The most significant contributor to the overall increase in current assets was an increase in cash of approximately $47.8 million. Net accounts receivable, $23.1 million as of the end of 2018, increased by approximately $2.0 million over the 2017 year. Fiscal Year 2018 was the first full year that PCE provided electricity to customers. Since service to customers began, PCE has operated at a surplus which has resulted in the growth of all categories of current assets. Accrued revenue differs from accounts receivable in that it is the result of electricity use by PCE customers before invoicing to those customers has occurred. Deposits primarily consist of cash deposits made with energy providers held as collateral for energy purchases. These deposits will be returned to PCE at the completion of the related contract or as other milestones are met. The deposits included in current assets represent amounts that are expected to be released within a one-year period.

Capital Assets

2018 compared to 2017 Capital assets increased nearly $0.3 million in 2018 as a result of capital improvements to leased facilities and purchases of furniture and equipment. This amount is reported net of depreciation. PCE does not own assets used for electric generation or distribution.

Other Noncurrent Assets

2018 compared to 2017 Overall, other noncurrent assets declined to approximately $1.5 million by the end of 2018, a decrease of approximately $0.2 million. However, the small decrease was the result of offsetting changes. The amount of deposits, primarily consisting of cash deposits for regulatory and other operating purposes for longer than a one-year period, increased approximately $1.0 million during 2018 related to a significantly higher level of operations than the prior year. Offsetting that increase, a $1.5 million reserve for restricted cash was eliminated as a result of collateral release.

Current Liabilities

2018 compared to 2017 Current liabilities of approximately $25.9 million at the end of 2018 decreased by $1.6 million. Despite higher liabilities in a number of current liability categories, the approximately $22.9 million accrued cost of electricity delivered to customers not paid at the end of the fiscal year by PCE was $1.5 million less than at the end of 2017. PCE paid off $1,500,000 of previously- current debt owed to the County of San Mateo in December 2017.

Noncurrent Liabilities

2018 compared to 2017 Total noncurrent liabilities ended 2018 at approximately $0.5 million, a decrease of approximately $5.5 million. During the fiscal year 2017-18, PCE repaid the full amount of two long-term loans that had been outstanding at the end of 2017. The first loan, $2,980,800, was the amount owed to the County of San Mateo. PCE also paid off $3,000,000 of debt owed to Barclays Bank for working capital. No debt was owed as of June 30, 2018. A component of noncurrent liabilities at the end of June 30, 2018 is approximately $0.5 million in security deposits received from energy suppliers. Similar to collateral, this will be held by PCE in the event the energy suppliers do not meet agreed upon milestones.

Net Position

2018 compared to 2017 The combined result of the above changes resulted in PCE's net position increasing by $63.7 million to reach approximately $85.4 million at the end of fiscal year 2018.

The following table is a summary of PCE's results of operations.

	2018	**2017**	**2016**
Operating revenues	$ 244,737,709	$ 93,128,916	-
Investment income	150,466	-	-
Total income	244,888,175	93,128,916	-
Operating expenses	180,970,374	70,103,766	$ 1,040,967
Interest and related expense	262,840	279,835	3,262
Total expenses	181,233,214	70,383,601	1,044,229
Change in net position	$ 63,654,961	$ 22,745,315	$ (1,044,229)

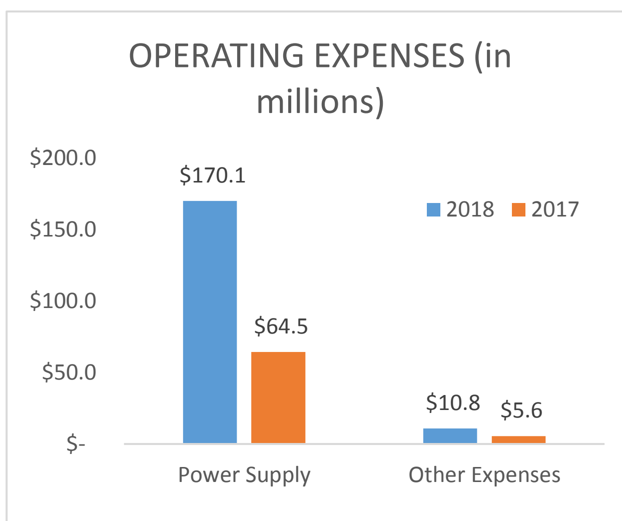
Operating Revenues

2018 results: PCE's customer base was stable throughout fiscal year 2018 with approximately 300,000 customers enrolled. PCE operating revenues grew by $151.6 million, reaching $244.7 million, as a result of PCE serving its entire 300,000 customers throughout FY 2018 while only a portion of those were customers in the 2017 year. Over 99% of PCE's operating revenue is from the sale of electricity to its customer base, which consists of residential, commercial, industrial and agricultural customers.

2017 results: PCE's customer base grew throughout fiscal year 2017, with its first approximately 79,000 customers enrolled in October 2016 and another 213,000 enrolled in April 2017. Accordingly, even though fiscal year 2017 was the first year of PCE revenues, it did not constitute an entire year with a full customer base.

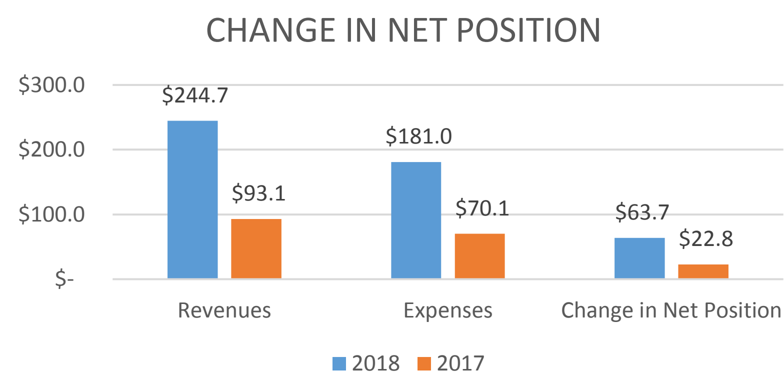
Operating Expenses

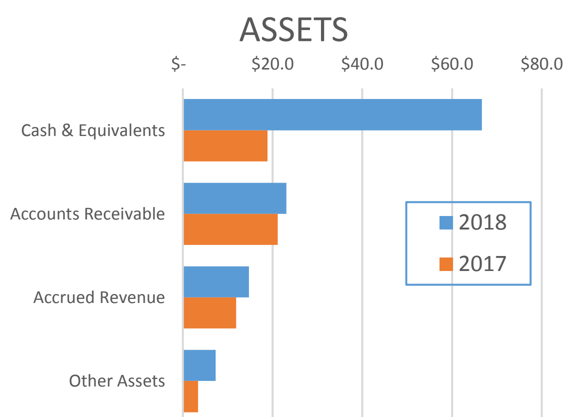
2018 compared to 2017: Operating expenses increased $110.9 million over the prior year primarily due to significantly increased energy purchases to provide for the entire PCE retail customer base. As seen in the chart to the right, power supply costs greatly exceed all other operating expenses comprising more than 95% of the total increase in operating expenses. PCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio.

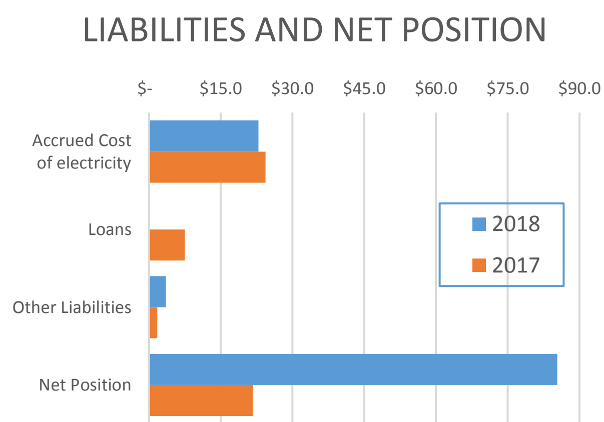


FINANCIAL SUMMARY (in millions)

FISCAL YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017







$ in millions

Assets		2018		2017
Cash & Equivalents	$	66.7	$	18.9
Accounts Receivable		23.1		21.1
Accrued Revenue		14.7		11.9
Other Assets		7.3		3.4
Total Assets	**$**	**111.8**	**$**	**55.3**

$ in millions

Liabilities & Net Position		2018		2017
Accrued Cost of electricity	$	22.9	$	24.4
Loans		-		7.5
Other Liabilities		3.5		1.7
Net Position		85.4		21.7
Total Liabilities & Net Position	**$**	**111.8**	**$**	**55.3**

ECONOMIC OUTLOOK

PCE's mission is to reduce greenhouse gas emissions and offer customer choice at competitive rates. The three key contributors to greenhouse gas emissions are electricity, transportation, and buildings.

In December 2017, PCE published its first Integrated Resource Plan (IRP), which outlines the procurement strategy to fulfill the State's regulatory mandates, while also accelerating the State's decarbonization goals. The IRP describes PCE's approach to mitigating risk by diversifying our power portfolio through contract term length, project ownership, location, technology, size, and additionality.

PCE is developing energy programs to reduce greenhouse gas emission from transportation. "Ride and Drive" events to familiarize consumers with electric vehicles are being held along with electric vehicle dealer promotions to reduce the costs of these vehicles. Funding for a grant program for community pilots to advance PCE's mission to reduce greenhouse gas emissions, support PCE's workforce policy, and serve a high number of PCE customers were approved with grant awards expected in the first quarter of FY2018-2019.

PCE has met its objective of building cash reserves and establishing a strong net position. In June 2018, the Board approved a financial reserves policy to maintain at least 120 days cash on hand for operating expenses, including power costs. This operating / working capital reserve provides contingency to mitigate against volatility in the power markets and uncertainty in the regulatory and legislative arenas.

REQUEST FOR INFORMATION

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

Please address any questions about this report or requests for additional financial information to 2075 Woodside Rd, Redwood City, CA 94061.

Respectfully submitted,

Janis Pepper, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 66,689,412	$ 18,881,698
Accounts receivable, net of allowance	23,091,118	21,124,838
Other receivables	128,806	33,817
Accrued revenue	14,712,826	11,870,119
Prepaid expenses	2,198,024	224,524
Deposits	3,470,403	1,425,050
Total current assets	110,290,589	53,560,046
Noncurrent assets		
Capital assets, net of accumulated depreciation	302,333	18,913
Deposits	1,193,560	220,611
Restricted cash - debt reserve	-	1,500,000
Total noncurrent assets	1,495,893	1,739,524
Total assets	111,786,482	55,299,570
LIABILITIES		
Current liabilities		
Accounts payable	816,121	756,809
Accrued cost of electricity	22,914,791	24,387,515
Accrued interest payable	-	34,130
Accrued payroll and related liabilities	157,216	116,005
Supplier security deposits	1,190,000	50,000
User taxes and energy surcharges due to other governments	834,577	688,782
Loan payable to County of San Mateo	-	1,500,000
Total current liabilities	25,912,705	27,533,241
Noncurrent liabilities		
Loan payable to bank	-	3,000,000
Loan payable to County of San Mateo	-	2,980,800
Supplier security deposits	508,287	75,000
Total noncurrent liabilities	508,287	6,055,800
Total liabilities	26,420,992	33,589,041
NET POSITION		
Net investment in capital assets	302,333	18,913
Unrestricted	85,063,157	21,691,616
Total net position	$ 85,365,490	$ 21,710,529

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Electricity sales, net	$ 243,139,132	$ 92,906,457
Green electricity premium	1,467,553	222,459
Electricity sales for resale	123,500	-
Miscellaneous income	7,524	-
Total operating revenues	244,737,709	93,128,916
OPERATING EXPENSES		
Cost of electricity	170,134,856	64,500,795
Data manager	4,069,698	1,471,147
Staff compensation and benefits	2,171,487	1,017,677
Service fees - PG&E	1,437,448	481,301
Legal Services	1,183,569	914,070
General and administration	820,895	164,227
Communications and noticing	584,827	1,208,403
Consultants and other professional fees	511,915	342,413
Depreciation	55,679	3,733
Total operating expenses	180,970,374	70,103,766
Operating income	63,767,335	23,025,150
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	150,466	9,443
Interest and related expense	(262,840)	(279,835)
Net nonoperating expenses	(112,374)	(270,392)
CHANGE IN NET POSITION	63,654,961	22,754,758
Net position at beginning of year	21,710,529	(1,044,229)
Net position at end of year	$ 85,365,490	$ 21,710,529

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	$ 239,839,562	$ 60,414,492
Receipts from sales for resale	92,000	-
Receipts from miscellaneous income	7,524	-
Receipts from supplier security deposits	1,573,287	125,000
Tax and surcharge receipts from customers	4,068,556	1,066,953
Payments to purchase electricity	(173,625,040)	(40,345,139)
Payments for staff compensation and benefits	(2,135,190)	(929,318)
Payments for data manager	(4,060,928)	(1,934,534)
Payments for service fees - PG&E	(1,463,469)	-
Payments for consultants and other professional fees	(480,109)	-
Payments for legal services	(1,095,435)	(914,070)
Payments for communications and noticing	(650,764)	(1,125,252)
Payments for general and administration expenses	(813,507)	(163,283)
Tax and surcharge payments to other governments	(3,964,625)	(658,703)
Net cash provided by operating activities	57,291,862	15,536,146
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds from bank notes and loans	-	1,421,333
Principal payments on loans	(7,480,800)	-
Deposits and collateral paid	(6,547,771)	(1,645,821)
Deposits and collateral received	3,426,120	-
Interest and related expense payments	(296,970)	(248,967)
Net cash used by non-capital financing activities	(10,899,421)	(473,455)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(235,751)	(22,646)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	151,024	8,885
Net change in cash and cash equivalents	46,307,714	15,048,930
Cash and cash equivalents at beginning of period	20,381,698	5,332,768
Cash and cash equivalents at end of period	$ 66,689,412	$ 20,381,698
Reconciliation to the statement of Net Position		
Cash and cash equivalents (unrestricted)	$ 66,689,412	$ 18,881,698
Restricted cash	-	1,500,000
Cash and cash equivalents	$ 66,689,412	$ 20,381,698

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2018	2017
Operating income	$ 63,767,335	$ 23,025,150
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	55,679	3,733
Revenue reduced for uncollectible accounts	859,130	327,096
(Increase) decrease in accounts receivable	(2,825,410)	(21,451,934)
(Increase) decrease in other receivables	(95,547)	(33,259)
(Increase) decrease in accrued revenue	(2,842,707)	(11,870,119)
(Increase) decrease in prepaid expenses	(1,973,500)	(224,364)
Increase (decrease) in accounts payable	59,312	468,187
Increase (decrease) in accrued payroll and related	41,211	90,359
Increase (decrease) in accrued cost of electricity	(1,472,723)	24,387,515
Increase (decrease) in user taxes and energy surcharges due to other governments	145,795	688,782
Increase (decrease) in supplier security deposits	1,573,287	125,000
Net cash provided by operating activities	$ 57,291,862	$ 15,536,146

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Peninsula Clean Energy Authority (PCE) is a joint powers authority created on February 29, 2016 and its voting members consist of the County of San Mateo, the cities and towns of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and Woodside. At June 30, 2018, PCE is governed by a twenty-two member Board of Directors, one appointed by each of the members, and two appointed by the County of San Mateo.

PCE 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. The core function of PCE 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.

PCE began its energy delivery operations in October 2016. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

BASIS OF ACCOUNTING

PCE'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.

PCE'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.

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, PCE has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. Investments purchased with an original maturity of three months or fewer are considered cash and cash equivalents. Cash and cash equivalents include restricted cash which was the amounts restricted for debt collateral at June 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS

Various energy contracts entered into by PCE require PCE 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

PCE'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.

SUPPLIER SECURITY DEPOSITS

Certain energy contracts entered into by PCE require the supplier to provide PCE with security deposits. Similar to collateral, this will be held by PCE in the event the energy supplier cannot fulfill various agreed upon requirements. If the supplier satisfies these requirements, then PCE will return the deposit. PCE held approximately $1.7 million and $0.1 million in these deposits at June 30, 2018 and June 30, 2017, respectively. Of the $1.7 million as of June 30, 2018, approximately $1.2 million was short-term deposits while approximately $0.5 million was long-term deposits.

OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. During the fiscal year ending June 30, 2018 and 2017, this was PCE's only significant source of operating revenue.

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

Electrical power sold to customers is purchased through several energy suppliers. The cost of power and related delivery costs has been recognized as "cost of electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

As part of the security agreement with its main suppliers, PCE is required to maintain a cash balance of $2,500,000 in a bank account to ensure funds are available to purchase electrical power. This cash balance is included in cash and cash equivalents as presented in the Statements of Net Position.

PCE 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 PCE are commonly called "bundled", as they are purchased together with the associated renewable energy actually generated. PCE procures RECs with the intent to retire them 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

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

INCOME TAXES

PCE 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.

RECLASSIFICATION

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

2. CASH AND CASH EQUIVALENTS

PCE maintains its cash in interest and non-interest-bearing accounts in several banks. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of $250,000 by 110%. In April 2018, PCE opened an investment account comprised of investments with original maturities of less than 90 days, hence, it is classified as cash and cash equivalents. The balance on June 30, 2018 was approximately $50.1 million. The balance was invested in fixed-income money market and U.S. Treasury securities in accordance with PCE's investment guidelines. Investments are recorded at amortized cost in accordance with GASB 31. Risk is monitored on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	2018	2017
Accounts receivable from customers	$ 24,277,344	$ 21,451,934
Allowance for uncollectible accounts	(1,186,226)	(327,096)
Net accounts receivable	$ 23,091,118	$ 21,124,838

The majority of account collections occur within the first few months following customer invoicing. PCE continues 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, PCE will close the account to minimize further loss. PCE 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.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Furniture & Equipment	Accumulated Depreciation	Net
Balances at June 30, 2016	$ -	$ -	$ -
Additions	22,646	(3,733)	18,913
Balances at June 30, 2017	22,646	(3,733)	18,913
Additions	339,099	(55,679)	283,420
Balances at June 30, 2018	$ 361,745	$ (59,412)	$ 302,333

5. DEBT

Loans payable to the County of San Mateo

In June 2016, PCE entered into two agreements with the County of San Mateo. The purpose of one of the agreements was to reimburse the County for services, costs, and expenses incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement allowed for the repayment to be in the form of a loan totaling $2,981,000. Of this loan, $300,000 did not bear interest. The remainder, which was received in multiple draws, accrued interest based on the San Mateo County Pooled Investment Fund earnings rate. Principal and interest payments were not required until July 1, 2021. In December 2017, PCE fully repaid this loan with the County of San Mateo.

The second agreement with the County of San Mateo provided for collateral needed to support a loan with Barclays Bank. The agreement allowed for up to $6,000,000 to be used as collateral, which was initially determined at 50% of the principal drawn from Barclays Bank loan. In June 2016, PCE had drawn $1,500,000 from this County of San Mateo loan for this purpose. This loan accrued interest at the greater of (1) the San Mateo County Pooled Investment Fund earnings rate or (2) the actual interest earned on the amount drawn. Principal payments, plus interest, were due on the earlier of (1) two years from the date each portion is received by PCE or (2) ten days after the release of collateral by Barclays Bank. In December 2017, PCE fully repaid this loan with the County of San Mateo.

5. DEBT (continued)

Loan payable to financial institution

In June 2016, PCE arranged to borrow up to $12 million from Barclays Bank to provide cash to pay for energy purchases and operating expense which are due before revenue is to be collected from customers. The loan was secured by cash deposits of fifty percent of the outstanding loan. Principal could be drawn as needed and interest accrued on the outstanding balance and was payable each month and computed at LIBOR plus 3.1%. In December 2017, PCE fully repaid this loan with Barclays Bank. PCE continues to maintain a $12 million line of credit as a term loan with Barclays Bank with no amount outstanding. The commitment fees to maintain the term loan from January 1, 2017 to and including December 8, 2017 was 1.925% per annum and the commitment fees from and including December 9, 2017 and thereafter is 1.40% per annum. The termination date is in June 2021.

Loan principal activity and balances were as follows:

	Beginning	Additions	Payments	Ending
Year ended June 30, 2017				
County of San Mateo ($2.98M)	$ 1,559,467	$ 1,421,333	$ -	$ 2,980,800
County of San Mateo ($6M)	1,500,000	-	-	1,500,000
Barclays PLC	3,000,000	-	-	3,000,000
Total	**$ 6,059,467**	**$ 1,421,333**	**$ -**	**7,480,800**
Amounts due within one year				(1,500,000)
Amounts due after one year				$ 5,980,800
Year ended June 30, 2018				
County of San Mateo ($2.98M)	$ 2,980,800	$ -	$(2,980,800)	$ -
County of San Mateo ($6M)	1,500,000	-	(1,500,000)	-
Barclays PLC	3,000,000	-	(3,000,000)	-
Total	**$ 7,480,800**	**$ -**	**$(7,480,800)**	**-**
Amounts due within one year				-
Amounts due after one year				$ -

6. DEFINED CONTRIBUTION RETIREMENT PLAN

PCE provides retirement benefits through the County of San Mateo 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 Massachusetts Mutual Life Insurance Company. At June 30, 2018, PCE had 15 plan participants. PCE is required to contribute 6% of covered payroll and up to an additional 4% of covered payroll as a match to employee contributions. PCE contributed approximately $168,000 and $77,000 at June 30, 2018 and June 30, 2017, respectively. Plan provisions and contribution requirements as they apply to PCE are established and may be amended by the Board of Directors.

7. RISK MANAGEMENT

PCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the years ending June 30, 2018 and 2017, PCE purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was $1,000,000 with a $1,000 deductible.

8. PURCHASE COMMITMENTS

PCE had outstanding non-cancelable power purchase-related commitments of approximately $929 million, and $37 million for Energy and Resource Adequacy, respectively that has not yet been provided under power purchase agreements that continue to November 2044. Some of these purchase commitments are contingent upon the construction of generation facilities. PCE will not own the facility upon construction or have an option to buy the facility after the contract period.

The following table are the obligations on existing energy, renewable contracts, and resource adequacy (RA).

Year ending June 30,	
2019	$ 152,732,000
2020	110,153,000
2021	66,622,000
2022	54,626,000
2023	52,114,000
2024-45	530,045,000
Total	**$ 966,292,000**

8. PURCHASE COMMITMENTS (continued)

As of June 30, 2018, PCE had outstanding non-cancelable commitments to professional service providers for services yet to be performed of approximately $8 million through July 2020.

9. OPERATING LEASE

During 2017, PCE entered into an 86-month non-cancelable lease for its office premises. The lease commencement date was August 1, 2017. The rental agreement includes an option to renew the lease for two additional five-year terms. Rental expense under this lease was $300,000 for the year ended June 30, 2018.

Prior to this lease taking effect, PCE rented temporary office space under a lease with a term of less than one year. Rental expense under this lease was $10,000 and $61,000 for the year ended June 30, 2018 and June 30, 2017, respectively.

Future minimum lease payments under the lease are as follows:

Year ending June 30,	
2019	$ 367,927
2020	378,965
2021	390,334
2022	402,044
2023	414,105
2024-2025	535,558
Total	$ 2,488,933

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after June 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. When the Statement becomes effective, restatement of these financial statements may be required.

11. SUBSEQUENT EVENT

In September 2018, the Governor of the State of California signed new legislation that was passed in the legislature that expands direct access for commercial customers throughout the State. Direct access allows commercial customers to procure generation from an electric service provider, rather than the incumbent utility or CCA. It is unknown what the impact of this will be on PCE 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 PCE's customers. PCE is evaluating the specific changes that will be required to PCE's rates as a result of this decision.