

FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2020 AND 2019
WITH REPORT OF
INDEPENDENT AUDITORS



PENINSULA
CLEAN ENERGY

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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 (PCE), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise PCE'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 PCE as of June 30, 2020 and 2019, 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

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.

Parenti & Brinkman LLP

Santa Rosa, California

October 15, 2020

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The Management's Discussion and Analysis provides an overview of Peninsula Clean Energy Authority's (PCE) financial activities as of and for the years ended June 30, 2020 and 2019. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of PCE 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.

PCE was created as a California Joint Powers Authority (JPA) on February 29, 2016. PCE was established to provide electric power at competitive cost as well as to provide other benefits within San Mateo County, including reducing greenhouse gas emissions related to the use of power, procuring energy with a priority on the use and development of local renewable resources, stimulating local job creation through various programs and development, promoting personal and community ownership of renewable resources, as well as promoting long-term electric rate stability and energy reliability for residents and businesses.

PCE serves twenty-one jurisdictions including 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, in addition to the unincorporated areas of San Mateo County. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction (Board), PCE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. PCE is responsible for the acquisition of electric power for its service area.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Financial Reporting

PCE presents its financial statements as an enterprise fund under the economic resources measurement focus and the 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 discussion and analysis.
- The basic financial statements:
 - The *Statements of Net Position* include all of PCE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of 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 capital asset acquisitions and investment.
 - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS

The following table is a summary of PCE's assets, liabilities, and net position and a discussion of significant changes during the years ending June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets			
Cash and cash equivalents	\$ 16,051,116	\$ 48,873,644	\$ 64,689,412
Investments	81,408,338	65,195,764	-
Other current assets	74,461,769	58,204,377	45,601,177
Total current assets	<u>171,921,223</u>	<u>172,273,785</u>	<u>110,290,589</u>
Noncurrent assets			
Capital assets, net	427,683	335,445	302,333
Investments	80,169,968	-	-
Other noncurrent assets	134,840	135,355	1,193,560
Total noncurrent assets	<u>80,732,491</u>	<u>470,800</u>	<u>1,495,893</u>
Total assets	<u>252,653,714</u>	<u>172,744,585</u>	<u>111,786,482</u>
Current liabilities	61,988,549	31,048,989	25,912,705
Noncurrent liabilities	1,593,433	1,556,468	508,287
Total liabilities	<u>63,581,982</u>	<u>32,605,457</u>	<u>26,420,992</u>
Net position			
Investment in capital assets	427,683	335,445	302,333
Restricted for security collateral	5,618,194	13,165,799	2,000,000
Unrestricted	183,025,855	126,637,884	83,063,157
Total net position	<u>\$189,071,732</u>	<u>\$140,139,128</u>	<u>\$ 85,365,490</u>

Current assets

Current assets were approximately \$171,921,000 at the end of 2020 and were mostly comprised of cash and equivalents of \$16,051,000, accounts receivable of \$22,909,000, investments of \$81,408,000, accrued revenue of \$13,742,000, and restricted cash of \$32,387,000. Notably, cash and investments (current and noncurrent) increased each year as a result of operating surpluses.

Capital assets

Capital assets are reported net of depreciation. Each year, the increase is mostly due to leasehold improvements at PCE's office and the acquisition of furniture and equipment. PCE does not own assets used for electricity generation or distribution.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Investments - noncurrent

During 2020, PCE acquired investments with maturities of over one year for investment of excess cash reserves. These investments are valued at \$80,170,000 and are reported as a noncurrent assets in the Statement of Net Position. See note 4 for further discussion regarding investments.

Other noncurrent assets

Other noncurrent assets held fairly stable from 2019 to 2020. This account consists of various deposits for regulatory and other operating purposes expected to be held longer than a year. Included are deposit postings with the California Public Utilities Commission (CPUC), rent deposits, and collateral held by PCE from energy suppliers.

Current liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by PCE and deposits with energy suppliers. During 2020, PCE received a \$27,000,000 deposit from an energy supplier that is held as collateral until the supplier satisfies specified performance obligations. PCE anticipates these funds will be returned to the supplier in the subsequent fiscal year. Other components of current liabilities include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities.

Noncurrent liabilities

Other noncurrent liabilities increased by \$37,000 at the end of 2019 as compared to the end of the prior year. This increase reflects additions to cash deposits made with energy providers held as collateral for energy purchases. These deposits will be returned by PCE at the completion of the related contract or as other milestones are met. The remaining balance is comprised of various deposits for regulatory and other operating purposes. There were no major changes in 2020 as compared to 2019.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The following table is a summary of PCE's results of operations and a discussion of significant changes for years ending June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 278,092,535	\$ 259,781,823	\$ 244,737,709
Investment and other income	2,268,796	2,074,258	150,466
Total income	<u>280,361,331</u>	<u>261,856,081</u>	<u>244,888,175</u>
Operating expenses	231,337,227	206,912,110	180,970,374
Finance costs	91,500	170,333	262,840
Total expenses	<u>231,428,727</u>	<u>207,082,443</u>	<u>181,233,214</u>
Change in net position	<u>\$ 48,932,604</u>	<u>\$ 54,773,638</u>	<u>\$ 63,654,961</u>

Operating revenues

PCE's operating revenues are derived from the sale of electricity to commercial and residential customers throughout its territory. PCE's customer base was fairly stable each year, with approximately 300,000 customers enrolled. The increase in revenue is directly related to changes in billing rates and customer usage patterns. PCE reports its revenue net of an allowance for uncollectible accounts.

Investment income increased each year as a result of rising cash and investment balances.

Operating expenses

PCE's largest expense each year was the purchase of electricity delivered to retail customers. PCE procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs. Expenses for staff compensation, contract services, and other general and administrative expenses increased each year as the organization continued to grow to support its business demands.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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 its power portfolio through contract term length, project ownership, location, technology, size, and additionality (increasing “steel in the ground”).

PCE is developing energy programs to reduce greenhouse gas emission from transportation. Significant programs have been initiated to provide rebates and support for electrical vehicle charging infrastructure in PCE’s service territory. In addition, “Ride and Drive” events to familiarize consumers with electric vehicles have being held along with electric vehicle dealer promotions to reduce the cost of electric vehicles to its customers. PCE has also approved and funded grants 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.

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 Road, Redwood City, CA 94061.

Respectfully submitted,

Janis Pepper, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,051,116	\$ 48,873,644
Accounts receivable, net of allowance	22,908,592	24,061,873
Investments	81,408,338	65,195,764
Other receivables	1,735,534	230,096
Accrued revenue	13,741,725	16,161,421
Prepaid expenses	3,689,358	4,309,618
Deposits	-	275,570
Restricted cash	32,386,560	13,165,799
Total current assets	171,921,223	172,273,785
Noncurrent assets		
Capital assets, net of depreciation	427,683	335,445
Investments	80,169,968	-
Deposits	134,840	135,355
Total noncurrent assets	80,732,491	470,800
Total assets	252,653,714	172,744,585
LIABILITIES		
Current liabilities		
Accounts payable	1,209,764	1,048,410
Accrued cost of electricity	28,835,532	24,428,956
Accrued payroll and benefits	358,214	218,425
Deferred revenue and other liabilities	1,706,137	170,338
Deposits from energy suppliers	29,021,513	4,320,987
User taxes and energy surcharges due to other governments	857,389	861,873
Total current liabilities	61,988,549	31,048,989
Noncurrent liabilities		
Deposits from energy suppliers	1,593,433	1,556,468
Total liabilities	63,581,982	32,605,457
NET POSITION		
Investment in capital assets	427,683	335,445
Restricted for security collateral	5,618,194	13,165,799
Unrestricted	183,025,855	126,637,884
Total net position	\$ 189,071,732	\$ 140,139,128

**PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Electricity sales, net	\$ 275,534,022	\$ 257,336,291
Green electricity premium	2,558,513	2,445,532
Total operating revenues	<u>278,092,535</u>	<u>259,781,823</u>
OPERATING EXPENSES		
Cost of electricity	216,065,641	194,034,947
Contract services	8,819,490	8,389,878
Staff compensation and benefits	4,522,471	3,075,990
General and administration	1,836,501	1,336,933
Depreciation	93,124	74,362
Total operating expenses	<u>231,337,227</u>	<u>206,912,110</u>
Operating income	<u>46,755,308</u>	<u>52,869,713</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	2,511	35,679
Investment income	2,266,285	2,038,579
Finance costs	(91,500)	(170,333)
Nonoperating revenues (expenses), net	<u>2,177,296</u>	<u>1,903,925</u>
CHANGE IN NET POSITION	48,932,604	54,773,638
Net position at beginning of year	<u>140,139,128</u>	<u>85,365,490</u>
Net position at end of year	<u>\$ 189,071,732</u>	<u>\$ 140,139,128</u>

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 286,315,796	\$ 261,689,317
Receipts from supplier security deposits	26,880,331	4,229,168
Payments to suppliers for electricity	(212,273,709)	(194,452,975)
Payments to suppliers for other goods and services	(10,906,287)	(9,594,065)
Payments for staff compensation and benefits	(4,382,683)	(3,009,867)
Payments of taxes and surcharges to other governments	(4,652,257)	(4,263,796)
Net cash provided by operating activities	80,981,191	54,597,782
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Deposits and collateral received	276,085	10,553,402
Deposits and collateral paid	-	(6,300,364)
Finance costs	(91,500)	(170,333)
Net cash provided by non-capital financing activities	184,585	4,082,705
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(211,215)	(66,448)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investment sales	190,855,243	34,154,969
Investment income received	2,116,407	1,709,030
Purchase of investments	(287,527,978)	(99,128,007)
Net cash used by investing activities	(94,556,328)	(63,264,008)
Net change in cash and cash equivalents	(13,601,767)	(4,649,969)
Cash and cash equivalents at beginning of year	62,039,443	66,689,412
Cash and cash equivalents at end of year	\$ 48,437,676	\$ 62,039,443
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 16,051,116	\$ 48,873,644
Restricted cash	32,386,560	13,165,799
Cash and cash equivalents	\$ 48,437,676	\$ 62,039,443

**PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019**

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

	2020	2019
Operating income	\$ 46,755,308	\$ 52,869,713
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	93,124	74,362
Revenue adjusted for uncollectible accounts	177,235	(398,278)
Miscellaneous income	2,511	35,679
(Increase) decrease in:		
Accounts receivable	976,046	(572,477)
Other receivables	(1,065,367)	5,533
Accrued revenue	2,419,696	(1,448,595)
Prepaid expenses	620,260	(2,111,594)
Increase (decrease) in:		
Accounts payable	187,209	196,264
Accrued payroll and benefits	139,788	61,209
Accrued cost of electricity	4,406,575	1,514,164
Deferred revenue and other accrued liabilities	1,535,799	165,338
User taxes and energy surcharges due to other governments	(4,484)	27,296
Supplier security deposits	24,737,491	4,179,168
Net cash provided by operating activities	\$ 80,981,191	\$ 54,597,782

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Peninsula Clean Energy Authority (PCE) is a joint powers authority created on February 29, 2016. As of June 30, 2020, parties to its Joint Powers Agreement consist of the following local governments.

<u>County</u>	<u>Cities and Towns</u>	
San Mateo	Atherton	Menlo Park
	Belmont	Millbrae
	Brisbane	Pacifica
	Burlingame	Portola Valley
	Colma	Redwood City
	Daly City	San Bruno
	East Palo Alto	San Carlos
	Foster City	San Mateo
	Half Moon Bay	South San Francisco
	Hillsborough	Woodside

PCE is separate from and derives no financial support from its members. PCE is governed by a Board of Directors whose membership is composed of elected officials representing the member governments.

A core function of PCE is to provide electric service that includes renewable sources and it operates as a Community Choice Aggregation Program subject to California Public Utilities Code Section 366.2.

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

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, PCE 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. For the purpose of the Statements of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements of Net Position includes collateral for letters of credit, certain deposits from energy suppliers, as well as a required minimum balance to be maintained in one of PCE's bank accounts.

PREPAID EXPENSES AND DEPOSITS

Contracts to purchase energy may require PCE to provide the supplier with advanced payments or security deposits. Deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of time the deposits will be outstanding. Also included are prepaid expenses and deposits for regulatory and other operating purposes.

CAPITAL ASSETS AND DEPRECIATION

PCE's policy is to capitalize furniture and equipment valued over \$5,000 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, seven years for furniture and ten years for leasehold improvements. PCE does not own any electric generation assets.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. PCE did not have any such outstanding borrowings as of June 30, 2020 and 2019.

Restricted: This component of net position consists of constraints placed on net asset use primarily imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net position that does not meet the definition of “investment in capital assets” or “restricted”.

OPERATING AND NON-OPERATING REVENUES

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers. Many of PCE’s retail customers have opted to purchase a 100% renewable electricity product and pay a \$.01 per kilowatt hour premium. Revenues derived from this premium are reported throughout these financial statements as “Green electricity premium.”

Investment income is considered “non-operating revenue.”

REVENUE RECOGNITION

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

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of electricity and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business, PCE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from PCE's participation in the California Independent System Operator's centralized market. The cost of electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, PCE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). PCE obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. PCE recognizes an expense on a monthly basis that corresponds to the volume sold to its customers for its various renewable and carbon free products. This expense recognition increases accrued cost of electricity reported on the Statements of Net Position. Payments made to suppliers reduce accrued cost of electricity.

PCE purchases capacity commitments from qualifying generators to comply with the California Public Utilities Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

STAFFING COSTS

PCE fully 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.

SECURITY DEPOSITS FROM ENERGY SUPPLIERS

Various contracts entered into by PCE require the supplier to provide PCE 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 liabilities depending on the length of the time the deposits will be held.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

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

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

2. CASH AND CASH EQUIVALENTS

PCE maintains its cash in both interest-bearing and non-interest-bearing deposit accounts in several banks. PCE'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 limit of \$250,000 by 110%. PCE classifies certain short-term investments with original maturities of less than three months as cash and cash equivalents which are not subject to the collateral requirement or FDIC coverage previously mentioned. PCE has no deposit or investment policy that addresses a specific type of risk that would impose restrictions beyond this requirement. Accordingly, the amount of risk is not disclosed. PCE monitors its risk exposure on an ongoing basis.

At the end of each year, PCE had restricted cash that was held as collateral for letters of credit posted by PCE and for supplier security deposits received by PCE.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Accounts receivable from customers	\$23,873,775	\$24,849,821
Allowance for uncollectible accounts	(965,183)	(787,948)
Net accounts receivable	<u>\$22,908,592</u>	<u>\$24,061,873</u>

The majority of account collections occur within the first few months following customer invoicing. PCE estimates that a portion of the billed accounts will not be collected. PCE 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, PCE 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.

4. INVESTMENTS

During the years ended June 30, 2020 and 2019, PCE purchased investments with original maturities of three months or more. As of the year end, the fair value of investments was as follows:

	<u>2020</u>	<u>2019</u>
Current Investments:		
U.S. Treasury Securities	\$ 56,235,021	\$ 46,541,093
Corporate bonds	25,173,317	18,654,671
Total current investments	<u>\$ 81,408,338</u>	<u>\$ 65,195,764</u>
	<u>2020</u>	<u>2019</u>
Noncurrent Investments:		
U.S. Treasury Securities	\$ 63,515,713	\$ -
Corporate bonds	16,654,255	-
Total noncurrent investments	<u>\$ 80,169,968</u>	<u>\$ -</u>

**PENINSULA CLEAN ENERGY AUTHORITY
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4. INVESTMENTS (continued)

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; 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. PCE'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 June 30, 2020 and 2019, PCE's investments are considered Level 1 inputs.

CUSTODIAL CREDIT RISK

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

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. PCE manages its exposure to declines in fair values by limiting the weighted average maturity of its investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>	
		<u>Less than 1 year</u>	<u>1-5 years</u>
U.S. Treasury Securities	\$ 119,750,734	\$ 56,235,021	\$ 63,515,713
Corporate bonds-U.S.	27,737,862	11,190,865	16,546,997
Corporate bonds-foreign	13,982,452	13,982,452	-
State and local obligations	107,258	-	107,258
	<u>\$ 161,578,306</u>	<u>\$ 81,408,338</u>	<u>\$ 80,169,968</u>

**PENINSULA CLEAN ENERGY AUTHORITY
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5. CAPITAL ASSETS

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

	<u>Furniture & Equipment</u>	<u>Leasehold Improvements</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at June 30, 2018	\$ 297,642	\$ 64,103	\$ (59,412)	\$ 302,333
Additions	66,908	40,566	(74,362)	33,112
Balances at June 30, 2019	364,550	104,669	(133,774)	335,445
Additions	75,134	108,564	(91,460)	92,238
Balances at June 30, 2020	<u>\$ 439,684</u>	<u>\$ 213,233</u>	<u>\$ (225,234)</u>	<u>\$ 427,683</u>

6. DEBT

At June 30, 2020 PCE had an available bank line of credit in the amount of \$12,000,000 to provide additional liquidity for operations as needed. There is no collateral requirement related to the line of credit and PCE has not drawn any funds against it.

7. 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. As of June 30, 2020, there were 28 active plan participants. PCE is required to contribute 6% of annual covered payroll and up to an additional 4% of annual covered payroll as a match to employee contributions. PCE contributed \$332,000 and \$237,000 during the years ended June 30, 2020 and June 30, 2019, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

PENINSULA CLEAN ENERGY AUTHORITY
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8. 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 year ended June 30, 2020, PCE purchased liability and property insurance from commercial carriers. Coverage includes property, general liability, errors and omissions and non-owned automobile. PCE has general liability coverage of \$2,000,000 as well as a \$10,000,000 umbrella policy. Deductibles on the various policies range from \$0 to \$10,000.

9. PURCHASE COMMITMENTS

In the ordinary course of business, PCE enters into various power purchase agreements in order to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydro-electric facilities.

The following table details the obligations to purchase existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2020:

Year ending June 30,	
2021	\$ 184,400,000
2022	142,200,000
2023	99,500,000
2024	55,600,000
2025	29,700,000
2026-45	<u>430,100,000</u>
Total	<u><u>\$ 941,500,000</u></u>

As of June 30, 2020, PCE had outstanding non-cancelable commitments to professional service providers through June 2024, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be approximately \$13.4 million.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

10. OPERATING LEASE

On August 1, 2017, PCE entered into an 86-month non-cancelable lease for its office premises. The rental agreement includes an option to renew the lease for two additional five-year terms. In September 2019, the lease was extended an additional two years to September 30, 2026. In addition to the extension, PCE leased additional office space through the same termination date.

Rental expense under this lease was \$428,000 and \$368,000 for the years ended June 30, 2020 and 2019, respectively,

As of June 30, 2020, future minimum lease payments under this lease were projected as follows:

Year ending June 30,	
2021	\$ 501,000
2022	516,000
2023	531,000
2024	547,000
2025	564,000
2026-27	729,000
Total	<u><u>\$ 3,388,000</u></u>

11. FUTURE GASB PRONOUNCEMENTS

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

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management is analyzing its activity to determine the effect of the new guidance on its operating results and financial condition.

**PENINSULA CLEAN ENERGY AUTHORITY
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12. SUBSEQUENT EVENT

Covid-19

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