

# **Redwood Coast Energy Authority**

Financial Statements

June 30, 2019 and 2018

# Redwood Coast Energy Authority

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## **Independent Auditors' Report**

To the Board of Directors of  
Redwood Coast Energy Authority

We have audited the accompanying financial statements of Redwood Coast Energy Authority, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Redwood Coast Energy Authority'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.

### **Auditors' 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 auditors' 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 Redwood Coast Energy Authority'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 Redwood Coast Energy Authority'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 Redwood Coast Energy Authority as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

The financial statements of the Redwood Coast Energy Authority as of June 30, 2017, prior to restatement, were audited by other auditors whose report dated December 7, 2018, expressed an unmodified opinion on those statements.

As part of the audit of the June 30, 2018 financial statements, we also audited the adjustments described in Note 8 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the Redwood Coast Energy Authority other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

## **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.

*Baker Tilly US, LLP*

Madison, Wisconsin  
October 16, 2023

## **Management's Discussion and Analysis, Years Ended June 30, 2018, and 2019**

The Management's Discussion and Analysis provides an overview of Redwood Coast Energy Authority's financial activities as of and for the years ended June 30, 2018, and 2019. The information presented here should be considered in conjunction with the audited financial statements.

### **BACKGROUND**

The Redwood Coast Energy Authority (RCEA) was formed in 2003 as a Joint Powers Authority (JPA) of the seven incorporated cities of Humboldt County, California, and the County of Humboldt, with the subsequent addition of Humboldt Bay Municipal Water District. The mission of RCEA is to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient, and renewable resources available in the region.

As a JPA, RCEA is governed by a board of appointed directors from each member agency. RCEA further amended the JPA in 2016 to operate as a Community Choice Aggregator (CCA) providing electric power and related benefits within RCEA's service area.

### **Financial reporting**

RCEA presents its financial statements as an enterprise fund under the accrual basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

RCEA's basic financial statements are comprised of four components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows and 4) Notes to the basic financial statements.

The Statements of Net Position include all RCEA's assets and liabilities with the difference reported as net position and provides information about the nature and amounts of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses, and Changes in Net Position report all RCEA'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 and capital activities.

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 RCEA's assets, liabilities, and net position and a discussion of significant changes for the years ending June 30:

	<b>2019</b>	<b>2018</b>	<b>Restated 2017</b>
Current assets	\$11,419,561	\$9,475,941	\$8,167,669
Noncurrent assets	982,040	157,633	151,725
Total assets	<u>12,401,601</u>	<u>9,633,547</u>	<u>8,319,394</u>
Current liabilities	3,784,458	3,184,472	6,804,598
Noncurrent liabilities	40,293	92,519	775,095
Total liabilities	<u>3,824,751</u>	<u>3,276,991</u>	<u>7,579,693</u>
Net position			
Investment in capital assets	981,245	154,930	147,112
Unrestricted	<u>7,595,605</u>	<u>6,201,653</u>	<u>592,589</u>
Total net position	<u><u>\$8,576,850</u></u>	<u><u>\$6,356,583</u></u>	<u><u>\$739,701</u></u>

2017 has been restated to correct errors recorded related to accounts receivable and electric sales revenue. See Note 8 for more details.

### Current assets

Current assets were approximately \$11,420,000 at the end of 2019 and were primarily comprised of cash of \$4,018,000, accounts receivable of \$4,719,000, and accrued revenue of \$2,247,000. Cash and accrued revenue increased from 2018 to 2019 due to slightly higher generation rates. Accounts receivable increased due to the continued accumulation of uncollected revenues.

### Capital assets

Capital assets are presented net of depreciation. Capital assets held by RCEA in 2018 include leasehold improvements, office furniture and equipment, and electric vehicle charging equipment. In 2019 capital assets also included construction in progress of a solar power generation plant and battery storage system.

### Current and noncurrent liabilities

The largest component of current liabilities is the accrued cost of electricity which increased from 2018 to 2019 due to an increase of power procurement costs. Current and noncurrent portions of notes payable decreased from 2018 to 2019 due to principal payments made during the year.

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

	<b>2019</b>	<b>2018</b>	<b>Restated 2017</b>
Operating Revenues	\$47,278,809	\$45,161,224	12,699,346
Operating Expenses	45,904,882	39,501,243	12,760,703
Operating Income (Loss)	<u>1,373,927</u>	<u>5,659,981</u>	<u>(61,357)</u>
Nonoperating Revenues (Expenses)	(14,010)	(43,099)	(4,975)
Capital Contributions	860,350	-	-
Change in net position	<u><u>\$2,220,267</u></u>	<u><u>\$5,616,882</u></u>	<u><u>\$(66,332)</u></u>

2017 has been restated to correct errors recorded related to accounts receivable and electric sales revenue. See Note 8 for more details.

## **Operating revenues**

Operating revenues increased from 2018 to 2019 primarily from small rate increases and territory expansion to include the City of Ferndale mid-way through the 2018 fiscal year. RCEA also receives revenues from sources other than retail electricity sales. These sources include State grants and contracts to provide energy efficiency services and other customer programs.

## **Operating expenses**

Operating expenses increased from 2018 to 2019 due to the rising cost of energy and energy products in the market. RCEA procures energy from a variety of sources and uses long-term contracts as well as short-term hedging to minimize this risk and maintain a balanced power portfolio.

## **PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK**

RCEA enters into various purchase agreements to meet regulatory and voluntary renewable portfolio standard (RPS) and greenhouse gas (GHG) free targets, as well as to meet its goals of providing local renewable energy at a competitive retail rate while managing exposure to changing market prices. The purchase commitments are aligned with expected demand for electricity and by procuring power from diverse technologies and geographic locations. Expected obligations under power purchase agreements totaled \$46,020,248 as of June 30, 2019.

For the year ended June 30, 2020, the following factors affect RCEA's finances:

- The continued operation of RCEA's Community Choice Aggregation program,
- The continued implementation of the grant and contract-funded energy efficiency and other customer programs,
- Continuing activities related to promoting electric vehicles including planning for and construction of charging infrastructure funded partially by State incentives and grants,
- The continued construction of a solar powered generating and storage microgrid facility funded partially by grant funds from the California Energy Commission.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide RCEA's board members, stakeholders, customers, and creditors with a general overview of the RCEA's finances and to demonstrate RCEA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to the Redwood Coast Energy Authority, Attn: Director of Business Planning and Finance, 633 3<sup>rd</sup> Street, Eureka, CA 95501.

# Redwood Coast Energy Authority

Statements of Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,017,737	\$ 2,867,462
Accounts receivable, net of allowance	4,719,212	3,914,425
Unbilled revenue	2,247,311	1,864,085
Other receivable	294,037	699,203
Prepaid expenses	1,712	-
Inventory	35,452	26,666
Deposits	104,100	104,100
	<u>11,419,561</u>	<u>9,475,941</u>
<b>Noncurrent Assets</b>		
Plant in service	299,318	291,177
Accumulated depreciation	(177,628)	(133,544)
Construction work in progress	860,350	-
	<u>982,040</u>	<u>157,633</u>
Total assets	<u>\$ 12,401,601</u>	<u>\$ 9,633,574</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 345,229	\$ 321,422
Accrued cost of electricity	3,017,854	2,149,404
Accrued wages	142,351	148,927
Accrued compensation	76,798	70,690
Security deposits	150,000	-
Retentions payable	-	3,994
Current portion of notes payable	52,226	490,035
	<u>3,784,458</u>	<u>3,184,472</u>
<b>Noncurrent Liabilities</b>		
Note payable	40,293	92,519
	<u>40,293</u>	<u>92,519</u>
Total liabilities	<u>3,824,751</u>	<u>3,276,991</u>
<b>Net Position</b>		
Net investment in capital assets	981,245	154,930
Unrestricted	7,595,605	6,201,653
	<u>8,576,850</u>	<u>6,356,583</u>
Total liabilities and net position	<u>\$ 12,401,601</u>	<u>\$ 9,633,574</u>

See notes to financial statements



## Redwood Coast Energy Authority

Statements of Revenues, Expenses and Change in Net Position  
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Charges for service	\$ 45,919,955	\$ 43,234,841
Grant revenue	1,357,477	1,926,383
Other revenue	1,377	-
	<u>47,278,809</u>	<u>45,161,224</u>
<b>Operating Expenses</b>		
Purchased power	39,517,984	32,750,101
Operation and maintenance	6,342,814	6,702,563
Depreciation	44,084	48,579
	<u>45,904,882</u>	<u>39,501,243</u>
	<u>1,373,927</u>	<u>5,659,981</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	275	5,527
Interest expense	(14,285)	(48,626)
	<u>(14,010)</u>	<u>(43,099)</u>
	1,359,917	5,616,882
<b>Capital Contributions</b>	<u>860,350</u>	<u>-</u>
	2,220,267	5,616,882
<b>Net Position, Beginning (as restated)</b>	<u>6,356,583</u>	<u>739,701</u>
<b>Net Position, Ending</b>	<u><u>\$ 8,576,850</u></u>	<u><u>\$ 6,356,583</u></u>

See notes to financial statements

## Redwood Coast Energy Authority

### Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Received from customers	\$ 45,284,491	\$ 41,837,516
Received from grants	1,357,477	1,926,383
Paid to suppliers for goods and services	(42,730,572)	(41,028,116)
Paid to employees for operating payroll	(2,248,935)	(2,209,539)
	<u>1,662,461</u>	<u>526,244</u>
Net cash flows from operating activities	1,662,461	526,244
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(868,491)	(54,487)
Capital contributions received	860,350	-
Debt retired	(1,908)	(1,908)
	<u>(10,049)</u>	<u>(56,395)</u>
Net cash flows from capital and related financing activities	(10,049)	(56,395)
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Interest paid	(14,285)	(48,626)
Debt retired	(488,127)	(596,583)
	<u>(502,412)</u>	<u>(645,209)</u>
Net cash flows from non-capital and related financing activities	(502,412)	(645,209)
<b>Cash Flows From Investing Activities</b>		
Interest income	275	5,527
	<u>275</u>	<u>5,527</u>
Net cash flows from investing activities	275	5,527
Net change in cash and cash equivalents	1,150,275	(169,833)
<b>Cash and Cash Equivalents, Beginning</b>	<u>2,867,462</u>	<u>3,037,295</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 4,017,737</u>	<u>\$ 2,867,462</u>
<b>Reconciliation of Operating Income to Net Cash Flows From Operating Activities</b>		
Operating income	\$ 1,373,927	\$ 5,659,981
Nonoperating revenue (expense)		
Noncash items in operating income:		
Depreciation	44,084	48,579
Changes in assets and liabilities:		
Accounts receivable	(804,787)	(963,545)
Unbilled revenue	(383,226)	(177,717)
Other receivables	405,166	(258,921)
Inventory	(8,786)	(4,951)
Deposits	-	(100,000)
Prepaid expenses	(1,712)	-
Accounts payable	23,807	(284,622)
Accrued cost of electricity	857,880	(3,404,172)
Accrued compensation	6,108	11,612
Security deposits	150,000	-
	<u>150,000</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ 1,662,461</u>	<u>\$ 526,244</u>

See notes to financial statements

# Redwood Coast Energy Authority

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Notes to Financial Statements

June 30, 2019 and 2018

## 1. Summary of Significant Accounting Policies

### Reporting Entity

The Redwood Coast Energy Authority (RCEA) is a joint powers authority formed in 2003 under California Government Code Section 6500 to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency and advance the use of clean, efficient and renewable resources available in the Humboldt County region of California. The member agencies of RCEA are the County of Humboldt, the Humboldt Bay Municipal Water District, the cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell and Trinidad. RCEA is governed by a Board of Directors comprised of representatives of the member agencies.

RCEA began the delivery of electricity in May 2017. RCEA provides electric service to retail customers as a Community Choice Aggregation Program (CCA) under the California Public Utilities Code Section 366.2. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the California Independent System Operator and PG&E.

### Basis of Accounting

RCEA'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.

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

In March 2018, the GASB issued Statement No. 88 - *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. RCEA adopted this statement effective July 1, 2018.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, RCEA has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with an original maturity of three months or less.

# Redwood Coast Energy Authority

Notes to Financial Statements

June 30, 2019 and 2018

## Accounts Receivable

Accounts receivable represent program revenues which have been earned for which the related cash has not been received. Accounts receivable were as follows:

	<u>2019</u>	<u>2018</u>
Accounts receivable from customers	\$ 6,099,772	\$ 5,251,021
Allowance for uncollectible accounts	<u>(1,380,560)</u>	<u>(1,336,596)</u>
Total	<u>\$ 4,719,212</u>	<u>\$ 3,914,425</u>

The majority of account collections occur within the first few months following customer invoicing. RCEA estimates that a portion of the billed amounts will not be collected. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years.

## Inventory

Inventory is generally used for construction, operation and maintenance work, not for resale. Inventory is valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

## Deposits

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

## Capital Assets and Depreciation

Capital assets are generally defined by RCEA as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

Capital assets of RCEA are recorded at cost or the estimated acquisition value at the time of contribution to RCEA. Major outlays for capital assets are capitalized as projects are constructed. Depreciation is computed according to the straight-line method over estimated useful lives of five to ten years for equipment. Leasehold improvements are depreciated over the shorter of 1) the useful life of the leasehold improvement or 2) the remaining years of the lease.

## Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position. The balance at year end for the loss on refunding is shown as a deferred outflow in the statement of net position.

## Accrued Compensation

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

# Redwood Coast Energy Authority

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Notes to Financial Statements  
June 30, 2019 and 2018

## Security Deposits

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

## Net Position

Net position is presented in the following components:

**Investment in Capital Assets** - This component of net position consists of capital assets, net of accumulated depreciation and is reduced by outstanding borrowings that are attributable to the acquisition, construction or improvement of those assets.

**Restricted** - This component of net position consists of net assets subject to external constraints on their use 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".

## Revenue and Expenses

RCEA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with RCEA's principal ongoing operations. The principal operating revenues of RCEA include revenues derived from the provision of electricity to retail customers. Electricity sales are reported net of changes to the allowance for uncollectable accounts. Operating expenses for RCEA include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## Revenue Recognition

RCEA recognizes revenue on an accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded. RCEA's methodology used to calculate the allowance for doubtful accounts considers the impacts of the recession and the suspension of customer electricity disconnections.

## Grant Revenue

The California Public Utilities Commission (CPUC) and the Local Government Commission (LGC), a California not-for-profit membership organization, have undertaken a pilot project to encourage the formation of regional organizations such as RCEA to promote energy efficiency, conservation and increased local self-reliance. The CPUC has made funds available to the LGC to help local governments establish and operate agencies such as RCEA. Funds are collected from rate payers by Pacific Gas and Electric (PG&E) and distributed to RCEA in accordance with the objectives of this project.

# Redwood Coast Energy Authority

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Notes to Financial Statements  
June 30, 2019 and 2018

## Capital Contributions

Cash and capital assets are contributed to the RCEA from customers or external parties. The value of property contributed to the RCEA are reported as revenue on the statements of revenues, expenses and changes in net position.

## Electrical Power Purchased

During the normal course of business, RCEA 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 wholesale sales and generation credits, and load and other charges arising from RCEA's participation in the CAISO's centralized market. The cost of electricity and capacity is recognized as "Purchased Power" in the Statements of Revenues, Expenses and Changes in Net Position.

## Income Taxes

RCEA is a joint powers authority under the provisions of the California Government Code and is not subject to federal or state income or franchise taxes.

## Effect of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved the following:

GASB has approved GASB Statement No. 87, *Leases*, GASB Statement No. 91, *Conduit Debt Obligations*, GASB Statement No. 92, *Omnibus 2020*, GASB Statement No. 93, *Replacement of Interbank Offered Rates*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, GASB Statement No. 99, *Omnibus 2022*, GASB Statement No 100, *Accounting Changes and Error corrections - An Amendment of GASB Statement No. 62* and GASB Statement No. 101, *Compensated Absences When they become effective*, the application of these standards may result in restating of these financial statements. Management is evaluating the effects of these new pronouncements.

## 2. Cash and Cash Equivalents

As of June 30, 2019 and 2018, RCEA maintains its cash in both interest-earning and noninterest-earning bank accounts with Umpqua Bank.

California Government Code Section 16521 requires banks to collateralize amounts of public funds in excess of the FDIC limit of \$250,000 in an amount equal to 110% of deposit balances.

As of June 30, 2019 and 2018, RCEA maintains \$20,955 and \$20,681 of its cash in the Humboldt County Treasury, respectively. The County pools these funds with those of other governmental entities in the County and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Humboldt County Treasury had no investments in derivatives. RCEA does not have a specific policy which relates to interest rate risk.

# Redwood Coast Energy Authority

Notes to Financial Statements  
June 30, 2019 and 2018

## Custodial Credit Risk

### Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, RCEA deposits may not be returned to RCEA. RCEA's policy for deposits is that they be insured by the FDIC. RCEA maintains cash in bank accounts, which at times may exceed federally insured limits. RCEA is not exposed to custodial credit risk.

### Investment Policy

No formal investment policy has been adopted by RCEA.

## 3. Capital Assets

A summary of changes in capital assets for 2019 follows:

	<b>Balances 7/1/2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances 6/30/2019</b>
Construction work in progress	\$ -	\$ 860,350	\$ -	\$ 860,350
Capital assets being depreciated:				
Leasehold improvements	41,994	3,978	-	45,972
Equipment	249,183	4,163	-	253,346
 Total capital assets being depreciated	 291,177	 8,141	 -	 299,318
 Less accumulated depreciation:				
Leasehold improvements	(8,155)	(3,174)	-	(11,329)
Equipment	(125,389)	(40,910)	-	(166,299)
 Total accumulated depreciation	 (133,544)	 (44,084)	 -	 (177,628)
 Capital assets being depreciated, net	 \$ 157,633	 \$ 35,943	 \$ -	 \$ 121,690

## Redwood Coast Energy Authority

Notes to Financial Statements  
June 30, 2019 and 2018

A summary of changes in capital assets for 2018 follows:

	<u>Balances 7/1/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances 6/30/2018</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 41,994	\$ -	\$ -	\$ 41,994
Equipment	194,696	54,487	-	249,183
Total capital assets being depreciated	<u>236,690</u>	<u>54,487</u>	<u>-</u>	<u>291,177</u>
Less accumulated depreciation:				
Leasehold improvements	(6,055)	(2,100)	-	(8,155)
Equipment	(78,910)	(46,479)	-	(125,389)
Total accumulated depreciation	<u>(84,965)</u>	<u>(48,579)</u>	<u>-</u>	<u>(133,544)</u>
Capital assets being depreciated, net	<u>\$ 151,725</u>	<u>\$ 5,908</u>	<u>\$ -</u>	<u>\$ 157,633</u>

#### 4. Notes Payable

RCEA obtained a loan with PG&E in January 2014 for energy upgrades in the amount of \$10,974 at 0% interest for 69 months.

In January 2017, RCEA also obtained a nonrevolving line of credit from the County of Humboldt (County), Headwaters Fund and Redwood Region Economic Development Commission (RREDC) for working capital in the amount of \$700,000 at 5% interest for 72 months. RCEA will pay interest only payments for 12 months and following the first 12 months the draw period will close and the borrowed amount will become a fully paid loan with principal and interest payments after 60 months with a maturity date of January 31, 2023. However, RCEA paid off the remaining principal balance prior to maturity and the outstanding balance is \$0 as of June 30, 2019.

Beginning in July 2016, RCEA incurred startup costs associated with the CCA program with The Energy Authority, (TEA), for Phase I and Phase II of the project totaling \$187,197 prior to the launch of the program in May 2017. Payment for these costs was deferred until Phase III of the project and will be amortized over 48 months at 5%.

Beginning in October 2016, RCEA executed an agreement with Local Energy Aggregation Network (LEAN) associated with the CCA program totaling \$289,235. Payment for these costs were deferred until RCEA began generating revenue and payment began in August 2017. The payments will be paid over 12 months at 5%.

All of the aforementioned debt is directly placed with a third party.



## Redwood Coast Energy Authority

Notes to Financial Statements

June 30, 2019 and 2018

The outstanding balances as of June 30, 2019 and 2018 are as follows:

<u>Loan Description</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2019</u>	<u>2018</u>
PG&E	11/30/2019	0.00%	\$ 795	\$ 2,704
County of Humboldt	4/30/2019	5.00%	-	414,541
TEA Loan	3/31/2021	5.00%	91,724	140,651
LEAN Loan	7/1/2018	5.00%	-	24,658
Total			<u>\$ 92,519</u>	<u>\$ 582,554</u>

Future payments obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2020	\$ 52,226	\$ 3,418	\$ 55,644
2021	40,293	844	41,137
Total	<u>\$ 92,519</u>	<u>\$ 4,262</u>	<u>\$ 96,781</u>

In the event of a default by RCEA under the Loan Documents, RREDC shall initiate default collection procedures and all necessary recovery procedures as provided in the Loan Documents. These procedures include sending to RCEA 30, 60 and 90-day delinquency notices and the preparation of a Notice of Default to be executed by the RREDC. Upon notice of default and after the 90-day delinquency notice, all materials in RREDC's possession related to the Loan Documents and this agreement shall be made available by RREDC to the County. RREDC may upon the express written approval of County, initiate litigation to collect on the Loan. Under no circumstances shall RREDC initiate litigation to collect the loan without the express written approval of the County.

### Long-Term Obligation Summary

Long-term obligation activity for the year ended June 30, 2019 is as follows:

	<u>7/1/2018 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2019 Balance</u>	<u>Due Within One Year</u>
Notes Payable	582,554	-	490,035	92,519	52,226

Long-term obligation activity for the year ended June 30, 2018 is as follows:

	<u>7/1/2017 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2018 Balance</u>	<u>Due Within One Year</u>
Notes Payable	1,181,045	-	598,491	582,554	490,035

## Redwood Coast Energy Authority

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Notes to Financial Statements  
June 30, 2019 and 2018

### 5. Retirement Plan

RCEA has established a Savings Incentive Match Plan for employees (a Simple IRA) where RCEA and employees make contributions to individual retirement accounts (IRAs). Under the Simple IRA, RCEA must make contributions matching participating employee contributions, up to a maximum of 3% of an employee's gross salary per year. Employees may contribute up to the maximum federally allowed amount. All regular employees of RCEA are eligible to participate in the Simple IRA plan. Plan contributions by RCEA for the years ended June 30, 2019 and 2018 were \$42,289 and \$39,547, respectively.

### 6. Risk Management

RCEA is covered for general business, liability, automobile and errors and omissions through the Special Districts Risk Management Authority (SDRMA), a public entity risk pool. As a member of a public entity risk pool, RCEA is responsible for appointing an employee as a liaison between RCEA and SDRMA, implementing all policies of the SDRMA and promptly paying all contributions. SDRMA is responsible for providing insurance coverage as agreed upon, assisting RCEA with implementation, providing claims adjusting and defending any civil action brought against an officer of RCEA.

RCEA is exposed to various insurable risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions. During the year, RCEA purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions and property damage. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

On July 12, 2018, RCEA's Board adopted the Energy Risk Management Policy (ERMP). The ERMP establishes RCEA's Energy Risk Program and applies it to all power procurements and related business activities that may impact the risk profile of RCEA. The ERMP documents the framework by which RCEA staff and consultants will identify and quantify risk, develop and execute procurement strategies, develop controls and oversight and monitor and measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include market price risk, credit risk, volumetric risk, operational risk, opt-out risk, legislative and regulatory risk and other risks arising from operating as a Community Choice Aggregation and participating in California energy markets. The Board approved updates to the ERMP in July 2019, July 2020 and July 2021.

RCEA maintains other risk management policies, procedures and systems that help mitigate and manage credit, liquidity, financial, regulatory and other risks not covered by the ERMP.

Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, RCEA enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

# Redwood Coast Energy Authority

Notes to Financial Statements  
June 30, 2019 and 2018

## 7. Purchase Commitments

### Power and Electric Capacity

In the ordinary course of business, RCEA enters into various power purchase and energy storage 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 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.

RCEA enters into power purchase and energy storage agreements in order to comply with state law and elective targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customer.

The following table represents the expected, undiscounted, contractual commitments for energy storage, power and electric capacity outstanding as of June 30, 2019:

Years ending June 30:	
2020	\$ 14,553,460
2021	11,385,548
2022	7,482,715
2023	6,968,790
2024	5,226,593
2025 - 2026	<u>403,142</u>
Total	<u>\$ 46,020,248</u>

## 8. Restatement of Net Position

Net Position as of July 1, 2017 has been restated to correct errors recorded in fiscal year 2017 related to accounts receivable and electric sales revenue. In May and June of 2017 customer payments were mistakenly recorded as revenue rather than a reduction of accounts receivable. In addition, an error occurred in the calculation of the monthly unbilled revenue calculation.

Net position, July 1, 2017	\$ 1,128,352
Customer payments recorded as revenue	(854,293)
Error in unbilled revenue	<u>465,642</u>
Net position, restated	<u>\$ 739,701</u>

Net income of the year ended June 30, 2017 would have decreased by \$388,651 from the amount previously reported.

## **Redwood Coast Energy Authority**

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Notes to Financial Statements

June 30, 2019 and 2018

### **9. Subsequent Events**

RCEA evaluated subsequent events through the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

#### **USDA Loan**

On June 1, 2021, RCEA secured a guaranteed loan to finance construction of electric generation facilities through the U.S. Department of Agriculture (USDA) Rural Utilities Service program totaling \$6,600,000 with an effective interest rate of 1.79%. RCEA completed two loan draws totaling \$6,287,592 subsequent to June 30, 2019 as the project continues.

#### **Debt Issue**

On February 8, 2022, RCEA entered into a \$2,000,000 unsecured loan agreement with Blue Lake Rancheria. The obligation is payable over 7 months and bears an interest rate of 8.00%.