Redwood Coast Energy Authority

Financial Statements

June 30, 2026 and 2025

Redwood Coast Energy Authority

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Independent Auditors' Report

To the Board of Directors of
Redwood Coast Energy Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Redwood Coast Energy Authority (RCEA), as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise the RCEA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of RCEA as of June 30, 2026 and 2025, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards).* Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the RCEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 10, RCEA adopted the provisions of GASB Statement No. 103, effective July 1, 2025. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the RCEA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 RCEA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the RCEA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2026 on our consideration of RCEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RCEA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RCEA's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
September 25, 2026

Redwood Coast Energy Authority

Statements of Net Position
June 30, 2026 and 2025

	2026	2025
Assets and Deferred Outflow of Resources		
Current Assets		
Cash and cash equivalents	$ 40,433,388	$ 37,635,310
Restricted assets:		
Security reserve fund	262,917	-
Accounts receivable, net of allowance	4,742,424	6,132,604
Unbilled revenue	1,831,694	3,050,773
Other receivable	3,173,976	438,195
Prepaid expenses	24,698	24,840
Inventory	19,835	21,822
Deposits	795,553	682,699
Total current assets	51,284,485	47,986,243
Noncurrent Assets		
Restricted assets:		
Reserve fund	372,608	383,271
Decommissioning fund	196,000	-
Plant in service	14,240,110	812,562
Accumulated depreciation	(782,769)	(399,830)
Construction work in progress	337,651	9,399,476
Total noncurrent assets	14,363,600	10,195,479
Total assets	65,648,085	58,181,722
Deferred Outflows of Resources		
Asset retirement obligation	196,000	-
Total deferred outflow of resources	196,000	-
Total assets and deferred outflow of resources	$ 65,844,085	$ 58,181,722

See notes to basic financial statements

Redwood Coast Energy Authority

Statements of Net Position
June 30, 2026 and 2025

	2026	2025
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 3,742,295	$ 1,540,637
Accrued cost of electricity	3,042,876	5,394,365
Accrued wages	170,596	167,666
Accrued compensation	371,072	349,559
Security deposits	1,573,470	1,049,170
Current liabilities payable from restricted assets:		
Current portion of revenue bonds	276,378	276,378
Total current liabilities	9,176,687	8,777,775
Noncurrent Liabilities		
Revenue bonds	5,112,987	5,389,364
Asset retirement obligation	196,000	-
Advances from grantors	7,075,981	4,402,909
Total noncurrent liabilities	12,384,968	9,792,273
Total liabilities	21,561,655	18,570,048
Net Position		
Net investment in capital assets	8,778,235	4,529,737
Unrestricted	35,504,195	35,081,937
Total net position	44,282,430	39,611,674
Total liabilities and net position	$ 65,844,085	$ 58,181,722

See notes to basic financial statements

Redwood Coast Energy Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2026 and 2025

	2026	Restated 2025
Operating Revenues		
Charges for service	$ 55,660,828	$ 67,883,895
Other operating revenue	768,994	5,545,217
Total operating revenues	56,429,822	73,429,112
Operating Expenses		
Purchased power	47,734,259	63,809,443
Operation and maintenance	10,355,954	9,017,157
Depreciation	423,041	80,564
Total operating expenses	58,513,254	72,907,164
Operating income (loss)	(2,083,432)	521,948
Noncapital Subsidies		
Program revenue	11,362,145	3,595,529
Program expenses	(5,962,401)	(1,915,157)
Total noncapital subsidies	5,399,744	1,680,372
Total operating income (loss) and noncapital subsidies	3,316,312	2,202,320
Nonoperating Revenues (Expenses)		
Investment income	1,318,877	504,793
Interest expense	(106,951)	(111,797)
Capital contributions	142,518	-
Total nonoperating revenues	1,354,444	392,996
Change in net position	4,670,756	2,595,316
Net Position, Beginning	39,611,674	37,016,358
Net Position, Ending	$ 44,282,430	$ 39,611,674

See notes to basic financial statements

Redwood Coast Energy Authority

Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	Restated 2025
Cash Flows From Operating Activities		
Received from customers	$ 59,758,182	$ 75,548,637
Paid to suppliers for goods and services	(53,138,370)	(60,910,207)
Paid to employees for operating payroll	(5,187,955)	(5,004,699)
Net cash flows from operating activities	1,431,857	9,633,731
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,405,825)	(374,855)
Capital contributions received	142,518	-
Debt retired	(276,378)	(276,378)
Interest paid	(106,951)	(111,797)
Net cash flows from capital and related financing activities	(4,646,636)	(763,030)
Cash Flows From Noncapital and Related Financing Activities		
Received from programs	11,104,635	7,998,438
Paid to programs	(5,962,401)	(1,915,157)
Net cash flows from noncapital and related financing activities	5,142,234	6,083,281
Cash Flows From Investing Activities		
Interest income	1,318,877	504,793
Net cash flows from investing activities	1,318,877	504,793
Net change in cash and cash equivalents	3,246,332	15,458,775
Cash and Cash Equivalents, Beginning	38,018,581	22,559,806
Cash and Cash Equivalents, Ending	$ 41,264,913	$ 38,018,581
Noncash Capital and Financing Activities		
Noncapital subsidy revenue accrued	$ 2,930,582	$ -

See notes to basic financial statements

Redwood Coast Energy Authority

Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	Restated 2025
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income	$ (2,083,432)	$ 521,948
Noncash items in operating income:		
Depreciation	423,041	80,564
Changes in assets and liabilities:		
Accounts receivable	1,390,180	972,063
Unbilled revenue	1,219,079	683,020
Other receivables	194,801	361,817
Inventory	1,987	822
Deposits	(112,854)	3,518,705
Prepaid expenses	142	40,973
Accounts payable	2,201,659	650,819
Accrued cost of electricity	(2,351,489)	2,513,614
Accrued compensation and wages	24,443	186,761
Security deposits	524,300	102,625
Net cash flows from operating activities	$ 1,431,857	$ 9,633,731
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Cash and cash equivalents	$ 40,433,388	$ 37,635,310
Security reserve	262,917	-
Reserve fund	372,608	383,271
Decommissioning fund	196,000	-
Cash and cash equivalents	$ 41,264,913	$ 38,018,581

See notes to basic financial statements

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.

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.

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.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The restricted assets included relate to the debt service for the USDA loan, the decommissioning fund for the asset retirement obligation, and the security reserve fund required by Pacific Gas and Electric Company related to RCEA's Community Choice Aggregator financial security requirement.

Accounts Receivable

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

	2026	2025
Accounts receivable from customers	$ 11,679,372	$ 14,888,075
Allowance for uncollectible accounts	(6,936,948)	(8,755,471)
Total	$ 4,742,424	$ 6,132,604

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.

Unbilled Revenue

RCEA records an estimate for unbilled revenues earned from the dates its customers were last billed to the end of the fiscal year. On June 30, 2026 and 2025, unbilled revenues were $1,831,694 and $3,050,773, respectively.

Other Receivables

Other receivables consist of amounts due to RCEA that are not related to retail electricity sales, including grant and program receivables, retention amounts withheld by grantors, and tax credits. During 2026, other receivables also included an amount due under provisions of the Inflation Reduction Act. Grant and program receivables are recognized when applicable eligibility requirements are met, and tax credit receivables are recognized when the applicable requirements for the credit have been satisfied and the amount is measurable and expected to be realized.

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.

Advances From Grantors

RCEA received grant funding from various grantors. The amount in this category represents funds received by RCEA, but not yet expended to carry out specific goals as required by the terms and conditions of the grant agreement. Grant revenue will be recognized as the objectives of the grant agreement are carried out.

Asset Retirement Obligation

The Authority's asset retirement obligation relates to the decommissioning and restoration requirements associated with its microgrid facility located on property leased from the County of Humboldt. Under the terms of the agreement, the Authority is financially responsible for decommissioning the microgrid facility and restoring the leased premises at the end of the facility's 25-year operating life or upon earlier termination of the agreement. Upon commercial operation, the Authority is required to reserve $196,000 in a designated account and contribute 2.5% of the then-current reserve balance annually over the term of the agreement. The agreement estimates that the reserve will total approximately $363,000 at the end of the 25-year term, representing the estimated cost of decommissioning the facility. The Authority recognized the related asset retirement obligation upon the commencement of commercial operations.

The Authority recognizes liabilities for legal obligations associated with the retirement of tangible capital assets in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*. The asset retirement obligation is measured based on the best estimate of the current value of expected future retirement costs, with a corresponding deferred outflow of resources recognized upon initial measurement. The deferred outflow is amortized over the remaining useful life of the related asset, and the liability is adjusted annually for the effects of inflation or deflation.

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 and Accrued Wages

RCEA pays employees bi-weekly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. RCEA provides compensated time off, and the related liability is recorded in these financial statements. Under terms of employment, employees are granted sick leave and vacations in varying amounts. Vacation and sick leave pay is accrued when earned in the financial statements. RCEA is not obligated to provide postemployment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements.

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:

Net 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 classifies operating revenues and expenses, nonoperating revenues and expenses and noncapital subsidies in accordance with GASB Statement No. 103, *Financial Reporting Model Improvements*. 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 are revenues derived from the provision of electricity to retail customers. Operating expenses include purchased power, administrative and other operating expenses, and depreciation on capital assets.

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.

Noncapital Subsidies

The Authority receives and provides subsidies in connection with certain programs and activities that are not restricted for capital purposes. Noncapital subsidies received are recognized as program revenues when eligibility requirements are met and the amounts are earned. Amounts provided by the Authority under such programs are recognized as program expenses in the period in which the related obligations are incurred. Noncapital subsidies are reported separately from operating revenues and expenses in the statement of revenues, expenses and changes in net position.

Capital Contributions

Cash and capital assets are contributed to RCEA from customers or external parties. The value of property contributed to the RCEA is 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.

The Governmental Accounting Standards Board (GASB) Has Approved the Following

GASB has approved GASB Statement No. 105, *Subsequent Events*. When it becomes effective, application of this standard may result in restating of these financial statements. Management is evaluating the effects of this new pronouncement.

2. Cash and Cash Equivalents

As of June 30, 2026 and 2025, 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.

The California Cooperative Liquid Assets Securities System (California CLASS) is a joint powers authority established under California law to provide California public agencies with pooled investment programs. California CLASS is governed by a Board of Trustees, and Public Trust Advisors, LLC, an investment adviser registered with the U.S. Securities and Exchange Commission, provides investment advisory services to California CLASS. California CLASS investments are marked to market daily and are reported at fair value. The fair value of RCEA's position in California CLASS is the same as the value of its investment in the pool.

Investment Policy

RCEA has adopted an investment policy. That policy follows state statutes for allowable investments.

3. Capital Assets

A summary of changes in capital assets for 2026 follows:

	Balances July 1, 2025	Increases	Decreases	Balances June 30, 2026
Capital assets, not being depreciated:				
Land and land rights	$ 286,880	$ 582,953	$ -	$ 869,833
Total capital assets not being depreciated	286,880	582,953	-	869,833
Capital assets being depreciated:				
Leasehold improvements	45,972	-	-	45,972
Equipment	479,710	12,884,697	(40,102)	13,324,305
Total capital assets being depreciated	525,682	12,884,697	(40,102)	13,370,277
Total capital assets	812,562	13,467,650	(40,102)	14,240,110
Less accumulated depreciation:				
Leasehold improvements	(25,119)	(2,299)	-	(27,418)
Equipment	(374,711)	(420,742)	40,102	(755,351)
Total accumulated depreciation	(399,830)	(423,041)	40,102	(782,769)
Construction in progress	9,399,476	587,165	(9,648,990)	337,651
Capital assets, net	$ 9,812,208	$ 13,631,774	$ (9,648,990)	$ 13,794,992

A summary of changes in capital assets for 2025 follows:

	Balances July 1, 2024	Increases	Decreases	Balances June 30, 2025
Capital assets, not being depreciated:				
Land and land rights	$ 286,880	$ -	$ -	$ 286,880
Total capital assets not being depreciated	286,880	-	-	286,880
Capital assets being depreciated:				
Leasehold improvements	45,972	-	-	45,972
Equipment	414,440	65,270	-	479,710
Total capital assets being depreciated	460,412	65,270	-	525,682
Total capital assets	747,292	65,270	-	812,562
Less accumulated depreciation:				
Leasehold improvements	(22,821)	(2,298)	-	(25,119)
Equipment	(296,445)	(78,266)	-	(374,711)
Total accumulated depreciation	(319,266)	(80,564)	-	(399,830)
Construction in progress	9,089,891	309,585	-	9,399,476
Capital assets, net	$ 9,517,917	$ 294,291	$ -	$ 9,812,208

4. Long-Term Obligations

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 6/30/2026	Outstanding Amount 6/30/2025
6/1/2021	To finance the construction of electric distribution facilities, United States Department of Agriculture (USDA), Rural Utilities Service (RUS)	1/2/2046	1.79%	$ 6,287,592	$ 5,389,365	$ 5,665,742*

* The debt noted is directly placed with a third party.

Revenue bonds debt service requirements to maturity follow:

Years Ending June 30:	Principal	Interest	Total
2027	$ 276,378	$ 96,268	$ 372,646
2028	276,378	91,494	367,872
2029	276,378	86,629	363,007
2030	276,378	81,135	357,513
2031	276,378	76,184	352,562
2032-2036	1,381,890	307,605	1,689,495
2037-2041	1,381,890	183,249	1,565,139
2042-2046	1,243,695	58,066	1,301,761
Total	$ 5,389,365	$ 980,630	$ 6,369,995

All RCEA revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2026 and 2025 were $383,328 and $388,175, respectively. Total customer gross revenues as defined for the same periods were $56,429,822 and $73,429,112. Annual principal and interest payments are expected to require 0.7% and 0.5% of gross revenues on average, respectively.

Debt Coverage

Under the terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses must exceed 1.25 times the annual debt service of the bonds in 2026 and 2025. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2026 and 2025.

Long-Term Obligation Summary

Long-term obligation activity for the year ended June 30, 2026 is as follows:

	July 1, 2025	Additions	Reductions	June 30, 2026	Due Within One Year
Revenue bonds	$ 5,665,742	$ -	$ 276,377	$ 5,389,365	$ 276,378
Advances from grantors	4,402,909	9,930,671	7,257,599	7,075,981	-
Total	$ 10,068,651	$ 9,930,671	$ 7,533,978	$ 12,465,346	$ 276,378

Long-term obligation activity for the year ended June 30, 2025 is as follows:

	July 1, 2024	Additions	Reductions	June 30, 2025	Due Within One Year
Revenue bonds	$ 5,942,120	$ -	$ 276,378	$ 5,665,742	$ 276,378
Advances from grantors	-	4,402,909	-	4,402,909	-
Total	$ 5,942,120	$ 4,402,909	$ 276,378	$ 10,068,651	$ 276,378

5. Grants

RCEA administers various grants from the California Public Utilities Commission (CPUC), California Energy Commission and other sources. Grant revenues are recognized when applicable eligibility requirements are met, which generally occurs when the corresponding eligible expenditures are incurred. Grants that meet the definition of a subsidy under GASB Statement No. 103 are reported as noncapital subsidies or capital contributions, as applicable.

6. Defined Contribution Retirement Plan

The Redwood Coast Energy Authority Plan (Plan) is a defined contribution 401(a) retirement plan established by RCEA to provide benefits upon retirement to its employees. The Plan is administered by Ascensus, LLC. As of June 30, 2026, there were 37 plan members. RCEA is required to contribute a flat rate of $4,000 per year plus 4% of annual covered payroll to the Plan and up to an additional 3% of salary as match contribution. RCEA contributed $383,950 and $361,500 during the fiscal years ended June 30, 2026 and 2025, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

7. Deferred Compensation Plan

RCEA offers a deferred compensation plan to eligible employees under Internal Revenue Code (IRC) Section 457(b). This plan allows employees to voluntarily defer a portion of their compensation on a pre-tax basis, thereby reducing their current taxable income and allowing for tax-deferred growth of retirement savings. The plan is designed to supplement other retirement benefits and provide employees with additional financial security in retirement. Participation in the plan is optional and available to all full-time employees. In addition to employee contributions, the employer makes discretionary contributions to the plan. For the fiscal years ended June 30, 2026 and June 30, 2025, the employer contributions totaled $376,934 and $322,279, respectively.

8. 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, July 2021, June 2025, and January 2026.

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.

9. 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, 2026:

Years Ending June 30:	
2027	$ 21,557,851
2028	21,927,883
2029	22,360,559
2030	22,668,163
2031	22,012,015
2032-2036	57,010,032
2037-2041	31,381,855
2042-2046	3,810,150
Total	$ 202,728,508

10. Change in Accounting Principle

The Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements*, during the current fiscal year. As required by the standard, certain prior year amounts have been restated to conform to the current year presentation. The restatement had no effect on the Authority's net position as previously reported.

Statement of Revenues, Expenses and Changes in Net Position	Balance as Previously Reported at June 30, 2025	Implementation of GASB 103	Balance as Adjusted June 30, 2025
Operating Revenues			
Grant revenue	$ 9,090,996	$ (9,090,996)	$ -
Other operating revenue	554,543	4,990,674	5,545,217
Operating Expenses			
Operation and maintenance	(10,932,314)	1,915,157	(9,017,157)
Noncapital Subsidies			
Program revenue	-	3,595,529	3,595,529
Program expenses	-	(1,915,157)	(1,915,157)
Nonoperating Revenues (Expenses)			
Investment income	-	504,793	504,793
	$ (1,286,775)	$ -	$ (1,286,775)

Statement of Cash Flows	Balance as Previously Reported at June 30, 2025	Implementation of GASB 103	Balance as Adjusted June 30, 2025
Cash Flows From Operating Activities			
Received from customers	$ 70,557,963	$ 4,990,674	$ 75,548,637
Paid to suppliers for goods and services	(62,825,364)	1,915,157	(60,910,207)
Cash Flows From Noncapital Financing Activities			
Received from programs	-	7,998,438	7,998,438
Paid to program	-	(1,915,157)	(1,915,157)
Received from grants	13,493,905	(13,493,905)	-
Cash Flows From Investing Activities			
Interest Income	-	504,793	504,793
Total	$ 21,226,504	$ -	$ 21,226,504

11. Subsequent Events

In September 2026, RCEA and Desert Community Energy participated in an energy prepayment transaction through the California Community Choice Financing Authority (CCCFA). In connection with the transaction, CCCFA issued $659.2 million of Clean Energy Project Revenue Bonds, Series 2026H (Green Bonds), the proceeds of which were used to finance the prepayment of electricity to be delivered over approximately 30 years. RCEA entered into a Clean Energy Purchase Contract with CCCFA and related agreements under which certain rights and obligations associated with existing power purchase agreements were assigned to J. Aron & Company LLC. The transaction is structured to provide RCEA with electricity at a discount to the prices it would otherwise pay under the assigned power purchase agreements. Electricity deliveries under the transaction are scheduled to commence in February 2027. The bonds are special, limited obligations of CCCFA and do not constitute indebtedness of RCEA.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

To the Board of Directors of
Redwood Coast Energy Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Redwood Coast Energy Authority (the RCEA), which comprise RCEA's statement of net position as of June 30, 2026, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2026. Our report includes an emphasis of matter paragraph because of the adoption of the provisions of GASB Statement No. 103, *Financial Reporting Model Improvements*, effective July 1, 2025. Our report is not modified because of this matter.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RCEA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the RCEA's internal control. Accordingly, we do not express an opinion on the effectiveness of RCEA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2026-001, that we consider to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether RCEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

RCEA's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on RCEA's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. RCEA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Madison, Wisconsin
September 25, 2026

Independent Auditors' Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

To the Board of Directors of
Redwood Coast Energy Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Redwood Coast Energy Authority (RCEA), as of June 30, 2026 and the related notes to the basic financial statements, which collectively comprise RCEA's financial statements as listed in the table of contents and have issued our report thereon dated September 25, 2026. In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2026, on our consideration of RCEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, other than the item noted below, nothing came to our attention that caused us to believe that RCEA failed to comply with the terms, covenants, provisions or conditions of their loan, grant and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the RCEA's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, other than the finding 2026-001 noted below, we noted no matters regarding RCEA's accounting and records to indicate that RCEA did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material and overhead costs and the distribution of these costs to construction, retirement and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;
- Maintain adequate control over materials and supplies;

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- Prepare accurate and timely Financial and Operating Reports;
    - See finding 2026-001
- Obtain written RUS approval to enter into any contract for the management, operation or maintenance of the borrowers' system if the contract concerns all or substantially all of the electric system;
- Disclose material related-party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Directors, management and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Baker Tilly US, LLP

Madison, Wisconsin
September 25, 2026

Financial Statement Findings Required to Be Reported in Accordance With *Government Auditing Standards*

Finding 2026-001: Material Weakness - Internal Control Over Financial Reporting

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting, including controls over the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: RCEA does not currently have internal resources sufficient to prepare a complete set of annual financial statements, including the related note disclosures, in accordance with generally accepted accounting principles. Accordingly, we assisted with the preparation of RCEA's annual financial statements and related notes. In addition, material adjusting entries were identified and proposed during the audit.

Cause: RCEA's current staffing resources do not provide sufficient capacity and financial-reporting expertise to prepare a complete set of GAAP financial statements and related disclosures and to ensure that material year-end adjustments are identified prior to the audit.

Effect: The absence of effective controls over the year-end financial reporting process increases the risk that a material misstatement or required disclosure could be omitted from the financial statements and not be detected and corrected on a timely basis.

Recommendation: We recommend that RCEA evaluate its year-end financial reporting process and determine whether additional internal or external resources are appropriate to assist management in preparing and reviewing a complete set of GAAP financial statements and related disclosures. We also recommend that RCEA strengthen its review of year-end general ledger balances and significant financial statement adjustments to reduce the risk of material misstatements remaining unidentified prior to the audit.

Management's Response: RCEA's Finance Manager prepares monthly budget to actual reports for Department managers. The Director of Business Planning and Finance prepares monthly financial reports for the RCEA Board of Directors, including a year-to-date actual report compared to budget. The Director of Business Planning and Finance also prepares a quarterly Budget Update Report that includes a summary of revenues and expenditures and calls out any significant deviations. The Board takes action to approve the financial and budget reports at its monthly meeting. Due to staffing constraints, we anticipate continued assistance from RCEA's auditors to prepare the complete annual financial statements based on information provided by RCEA staff.