ABAG POWER
Publicly Owned Energy Resources

Financial Statements
For the Year Ended June 30, 2022

ABAG Publicly Owned Energy Resources
Table of Contents
For the Year Ended June 30, 2022

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Members of the Executive Committee of
ABAG Publicly Owned Energy Resources
San Francisco, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the ABAG Publicly Owned Energy Resources ("POWER") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the POWER 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 POWER, as of June 30, 2022 and the changes in financial position and its cash flows for the year 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of POWER, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 POWER'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.

Auditor's 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 auditor's 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 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, 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 POWER'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 POWER'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

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 is the responsibility of management and, 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.

Crowe LLP

Crowe LLP

San Francisco, California
October 24, 2022

Management's Discussion and Analysis

ABAG Publicly Owned Energy Resources (POWER) has prepared its financial report for the fiscal year ending June 30, 2022. This Management's Discussion and Analysis (MD&A) provides an overview of POWER's financial activities during the fiscal year and should be read in conjunction with the financial statements and the notes which follow.

A. Financial Highlights

1. Total gas usage during fiscal year 2022 was approximately 6.7 million therms.
2. POWER's general strategy for purchasing natural gas consists exclusively of short-term, index-based purchases at three market locations. However, in December 2021, the Executive Committee provided staff authority until June 30, 2022, to enter fixed-priced purchase contracts valued at less than $1 million and for a term not to exceed four months. In February 2022, staff entered into a four-month fixed-price contract.
3. POWER serves a total of 751 core accounts and three non-core accounts as of June 30, 2022.

B. Overview of the POWER Financial Statements

POWER's financial statements include *Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.* The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

The *Statement of Net Position* report assets, liabilities and the difference as net position. The *Statement of Revenues, Expenses, and Changes in Net Position* consists of operating revenues and expenses and non-operating revenues and expenses. The *Statement of Cash Flows* is presented using the direct method.

The *Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows* are presented on pages 8 – 10 of this report.

C. Financial Analysis

Statement of Net Position

The following table is a summary of POWER's statement of net position as of June 30 for the last two fiscal years:

	2022	2021
Assets		
Cash and cash equivalents	$ 1,383,704	$ 1,896,218
Receivables	1,063,636	667,622
Prepaid items	24,368	3,968
Natural gas inventory	137,603	66,823
Total assets	2,609,311	2,634,631
Liabilities		
Current liabilities	620,852	633,846
Noncurrent liabilities	1,988,459	2,000,785
Total liabilities	2,609,311	2,634,631
Net position	$ -	$ -

Total assets decreased by $25,320 during fiscal year 2022 mainly due to a decrease in cash. The decrease in cash was the result of significant increases in natural gas market prices.

Compared to fiscal year 2021, total liabilities decreased by $25,320 as a result of timely payments due to other governments and release of a member's working capital deposits that left the program.

POWER's financial reporting model reflects all surpluses and deficits as liabilities to or receivables from its members. Therefore, the net position remains zero at year end.

Statement of Revenues, Expenses, and Changes in Net Position

The following table is a summary of POWER's statement of revenues, expenses, and changes in net position for the last two fiscal years ended June 30:

	2022	2021
Operating revenue		
Sale of natural gas & other revenue	$ 10,493,118	$ 8,051,026
Total operating revenue	10,493,118	8,051,026
Operating expenses		
Cost of natural gas & PG&E passthrough	9,810,631	7,518,552
Contracted salaries and benefits	265,496	204,545
Professional fees	268,754	189,467
Other expenses	150,381	148,041
Total operating expenses	10,495,262	8,060,605
Operating income (loss)	(2,144)	(9,579)
Nonoperating revenue		
Interest income	2,144	9,579
Total nonoperating revenue	2,144	9,579
Change in net position	-	-
Net position - beginning	-	-
Net position - ending	$ -	$ -

Before the year-end adjustment, ABAG POWER showed a deficit of $441,024 at the end of fiscal year 2022. The year-end adjustment distributes the year-end deficits among gas program members, in accordance with the true-up process outlined in members' agreements, therefore, the net position has zero balance at fiscal year-end 2022.

Total operating revenues increased by $2,442,092 in fiscal year 2022 as a result of an increase from the sale of natural gas due to higher gas prices compared to fiscal year 2021.

Total operating expenses increased by $2,434,657 in fiscal year 2022 compared to fiscal year 2021. The primary contributors to the overall increase in operating expenses were comparatively high market prices for natural gas and substantial increases in Pacific Gas and Electric Company (PG&E) transmission and distribution rates, which are considered pass-through costs.

D. Notes to the Financial Statements

The notes to the financial statements, beginning on page 11, provide additional information essential to a full understanding of the data provided in this MD&A and the financial statements that follow.

E. Economic Factors and Program Outlook for Fiscal Year 2023

POWER generally expects gas prices for futures contracts to remain in the $4.00 - $8.00/Dth range for the next couple of years - a stark increase from the prior year's outlook. The expectations reflect a market environment where domestic gas supply exceeds demand, but production is relatively stagnant, and competing end-uses contribute to upward price pressure that lifts commodity prices higher than historical norms. A multitude of factors have exacerbated supply deficit, causing extreme volatility in the overall natural gas markets throughout fiscal year 2021- 2022. These factors are expected to continue during fiscal year 2022 -2023, specifically:

- During 2020, the Organization of Petroleum Exporting Countries (OPEC) imposed worldwide production limits in an attempt to balance chaotic supply and demand patterns caused by the global COVID-19 pandemic. Since then, rebounding demand has outstripped production levels, that are rising yet are not expected to return to pre-pandemic levels until late 2022.

- Record-level liquefied natural gas (LNG) exports, low national storage inventories, and strong weather-driven demand have all contributed to elevated domestic pricing.

- Geopolitical tensions caused by the war in Ukraine have intensified and resulted in subsequent commitments by the U.S. to increase exports of LNG to Europe to supplant Russian gas supply.

In addition, an increased focus on recent environmental issues has initiated regulatory actions that emphasize the use of renewable electricity over natural gas, potentially lowering the demand for gas appliances, and thus moderating gas costs. Conversely, regulatory actions also have the potential to increase costs for using petroleum products, including natural gas. These market forces and policy decisions have begun to chart the State on a long-term transition away from natural gas as electricity generation and space and water heating fuel, but there remain many complex challenges to implement the necessary utility infrastructure and customer rate changes.

The nature of POWER operations does not lend itself to economic swings. POWER is a self-funding enterprise where all participants pay for only what they use. Annual purchases are based on estimated use that is billed to participants on annualized monthly basis. Any residual over/under billing is reconciled and carried as a payable or receivable at year end. This structure insulates POWER's members from most short-term (intra-year) volatility.

Request for Information

This financial report is intended to provide citizens, taxpayers, and creditors with a general overview of POWER's finances. Questions about this report should be addressed to the Chief Financial Officer, ABAG Publicly Owned Energy Resources, 375 Beale Street, Suite 800, San Francisco, CA 94105.

ABAG Publicly Owned Energy Resources
Statement of Net Position
June 30, 2022

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,383,704
Accounts Receivable	1,063,610
Interest Receivable	26
Prepaid Items	24,368
Natural gas inventory	137,603
TOTAL ASSETS	2,609,311
LIABILITIES	
Current liabilities:	
Accounts Payable	585,794
Due to other government	35,058
Total current liabilities	620,852
Non-current liabilities:	
Deposits from members	1,988,459
Total non-current liabilities	1,988,459
TOTAL LIABILITIES	2,609,311
NET POSITION	$ -

See accompanying notes to financial statements

ABAG Publicly Owned Energy Resources
Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2022

OPERATING REVENUE	
Sale of natural gas	$ 10,484,025
Other operating revenues	9,093
TOTAL OPERATING REVENUE	10,493,118
OPERATING EXPENSES	
Cost of natural gas	4,193,255
PG&E passthrough	5,617,376
Contracted salaries and benefits	265,496
Professional fees	268,754
Overhead	126,642
Other	23,739
TOTAL OPERATING EXPENSES	10,495,262
OPERATING LOSS	(2,144)
NONOPERATING REVENUE	
Interest income	2,144
TOTAL NONOPERATING REVENUE	2,144
CHANGE IN NET POSITION	-
TOTAL NET POSITION - BEGINNING	-
TOTAL NET POSITION - ENDING	$ -

See accompanying notes to financial statements

ABAG Publicly Owned Energy Resources
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities	
Cash receipts from customers and others	$ 10,095,970
Cash payments to suppliers and contractors for goods and services	(10,599,436)
Other operating cash payments	(12,326)
Net cash used for operating activities	(515,792)
Cash flows from investing activities	
Interest received	3,278
Net cash provided by investing activities	3,278
Net decrease in cash	(512,514)
Balances- beginning of year	1,896,218
Balances - end of year	$ 1,383,704

Reconciliation of operating loss to net cash used for operating activities	
Operating loss	$ (2,144)
Adjustments to reconcile operating net cash provided by operating activities:	
Net effect of changes in:	
Accounts receivable	(397,148)
Natural gas inventory	(70,780)
Prepaid items	(20,400)
Accounts payable	60,881
Due to other government	(73,875)
Deposits from Members	(12,326)
Net cash used for operating activities	$ (515,792)

See accompanying notes to financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity and Operations

ABAG Publicly Owned Energy Resources (POWER) was created pursuant to Chapter 5, Division 7, and Title 1 of the Government Code section 6500 of the State of California in 1997, to acquire energy services for use by its Members.

POWER is a joint powers agency of ABAG and local government entities in Northern California. POWER is governed by a Board of Directors composed of representatives from member jurisdictions. The Board appoints an Executive Committee to carry out policy decisions.

POWER is an "Energy Service Provider (ESP)," aggregating the natural gas requirements of its members as allowed by the California Public Utilities Commission and purchasing gas directly from natural gas producers that offer competitive prices and reliable supply. POWER purchases natural gas on behalf of its members and arranges for delivery to the PG&E system for distribution. The goal of POWER's Natural Gas Program is to provide both cost savings and price stability.

Association of Bay Area Governments (ABAG) was created in 1961 and serves as the Council of Government for the 101 member cities/ towns and nine counties that make up the region with powers and responsibilities granted to it under the laws of the State of California.

The members of POWER must be voting members or cooperating members of ABAG at the time they join POWER. However, not all ABAG members are members of POWER and for that reason, POWER is not a component unit of ABAG. POWER is a public entity and is legally separate from ABAG. ABAG is not responsible for any liabilities or obligations of POWER.

POWER’s Operation

The area served by POWER is encompassed by Pacific Gas & Electric Company (PG&E) which delivers gas to POWER's members. POWER has contracted with a number of vendors for natural gas purchases. As required by the utility companies, the amount of gas POWER purchases each month must be nominated to PG&E's distribution system in advance, and POWER is obligated to purchase the amount nominated, regardless of actual usage. The difference between the amount of gas nominated and the amount actually used results in an "imbalance," which may be cured by making purchases or sales on the open market or allocation to a future month's use.

In July 2017 ABAG staff was consolidated into the Metropolitan Transportation Commission (MTC) and the POWER Board subsequently took action to appoint MTC staff to the relevant POWER officer positions in accordance with the Bylaws. MTC staff will continue to provide administrative support to POWER in accordance with the ABAG-MTC Contract for Services. POWER paid MTC $392,138 for these services in the fiscal year ended June 30, 2022. On the *Statement of Revenues, Expenses, and Changes in Net Position*, this amount is reflected as contracted salaries and benefits and overhead costs.

B. Basis of Presentation

POWER's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

POWER's financial statements are prepared using the *economic resources measurement* focus and *the accrual basis of accounting.* POWER accounts for all transactions in a single enterprise fund, which is a separate set of self-balancing accounts that is comprised of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

Revenues from sales of natural gas are recognized in the period in which the gas is billed to members. Members are billed monthly on a levelized basis based on anticipated average usage.

Any excess of actual cost over billings to members is reflected as receivables and will be included as true-up adjustments in billings in fiscal year 2022. As of June 30, 2022, there was a true-up adjustment of $441,024 that will be collected in the next fiscal year.

New Accounting Pronouncements

GASB Statement No. 87, *Leases*, has an objective to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. POWER adopted this statement for fiscal year ended June 30, 2022. The adoption of this standard has no impact on POWER's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. POWER adopted this statement for fiscal year ended June 30, 2022. The adoption of the standard has no impact on POWER’s financial statements.

GASB Statement No. 91, *Conduit Debt Obligations,* provides single method of reporting conduit debt obligations. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. Management is currently evaluating the effect of this statement on POWER's financial statements.

GASB Statement No. 92, *Omnibus 2020*, establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activities of public entity risk pools, fair value measurements, and derivative instruments. The initial requirements of this Statement are effective as follows: (a) The requirements in paragraphs 4, 5, 11, and 13 are effective upon issuance. (b) The requirements in paragraphs 6 and 7 are effective for fiscal years beginning after June 15, 2021. (c) The requirements in paragraphs 8, 9, and 12 are effective for reporting periods beginning after June 15, 2021. (d) The requirements in paragraph 10 are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. The adoption of the standard has no impact on POWER's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*, establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. POWER adopted this statement for fiscal year ended June 30, 2022. The adoption of the remaining paragraphs has no impact on POWER's financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs),* establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Management is currently evaluating the effect of this statement on POWER's financial statements.

GASB Statement No. 96, S*ubscription-Based Information Technology Arrangements (SBITAs),* establishes standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. Management is currently evaluating the effect of this statement on POWER's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* (a) clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and (b) modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans (for example, certain Section 457 plans). The requirements of this statement are effective as follows: (a) The requirement in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. (b) The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. (c) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. POWER adopted paragraphs 4 and 5 of this statement in fiscal year 2020 and the remaining paragraphs of this statement in fiscal year 2022. The adoption of the standard has no impact on POWER's financial statements.

GASB Statement No. 98, The Annual Comprehensive Financial Report, establishes the new term annual comprehensive financial report and its acronym ACFR and replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this statement are effective for reporting periods ending after December 15, 2021. POWER adopted this statement for fiscal year ended June 30, 2022. The adoption of the standard has no impact on POWER's financial statements.

GASB Statement No. 99, *Omnibus 2022*, enhances comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees. The requirements of this statement are effective as follows: (a) The requirements in paragraph 26-32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by the pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. (b) The requirements in paragraphs 11-25 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. (c) The requirements in paragraphs 4-10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. POWER adopted paragraphs 26-32 of this statement in fiscal year 2022. The adoption of paragraph 26-32 requirements has no impact on POWER's financial statements. Management is currently evaluating the effect of the remaining paragraphs of this statement on POWER’s financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62,* enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and errors corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is currently evaluating the effect of this statement on POWER’s financial statements.

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences and associated salary-related payments by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statements are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is currently evaluating the effect of this statement on POWER's financial statements.

D. Cash and cash equivalents

POWER has assigned its management of cash and investments to MTC under the contract for services and adopted MTC's investment policy. Accordingly MTC, on behalf of POWER invests its available cash under the prudent investor rule. The prudent investor rule states, in essence, that "in investing … property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstance then prevailing, which people of prudence, discretion, and intelligence exercise in the management of their own affairs." This policy affords POWER a broad spectrum of investment opportunities as long as the investment is deemed prudent and is authorized under the California Government Code Sections 53600, et seq.

Investments allowed under MTC's investment policy adopted by POWER include the following:

- Securities of the U.S. Government or its agencies
- Securities of the State of California or its agencies
- Certificates of deposit issued by a nationally or state chartered bank
- Authorized pooled investment programs
- Commercial paper – Rated "A1" or "P1"
- Corporate notes – Rated "A" or better
- Municipal bonds
- Mutual funds – Rated "AAA"
- Other investment types authorized by state law and not prohibited in MTC's investment policy.

POWER applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended (including by GASB Statement No. 72, *Fair Value Measurement and Application*), which generally requires investments to be recorded at fair value with the difference between cost and fair value recorded as an unrealized gain or loss. POWER reports its money market securities and short-term investments at cost. Net increases or decreases in the fair value of investments are shown in the Statement of Revenues, Expenses and Changes in Net Position as interest income.

POWER considers all balances in demand deposit accounts and the Local Agency Investment Fund (LAIF) to be cash, and classifies all other highly liquid short-term investments as cash equivalents. Highly liquid short-term investments are cash equivalents that meet the following definitions:

- Readily convertible to known amounts of cash.
- So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

E. Prepaid Items

Certain payments to vendors applicable to future accounting periods are recorded as prepaid items based on the consumptions method.

F. Natural Gas Inventory

Any excess of natural gas purchase is recorded as natural gas inventory and it is accounted at the Lower of Cost or Market Basis (LCM).

G. Due to Other Government

The due to other government consists of the amount due to MTC for services provided in fiscal year 2022.

H. Deposits from Members

The Core Natural Gas Sales and Aggregation Agreement (NGSAA) is an agreement between POWER and each participant in POWER's natural gas aggregation program. Upon execution of the agreement, the joining member is required to provide a working capital deposit to POWER prior to the transference of utility accounts to the POWER program. This deposit is refundable when the member leaves the program and all liabilities to POWER have been satisfied. The currently approved working capital deposit is calculated as follows:

Two times the average load (therms) times the current applicable rate ($/therm)

I. Operating and Nonoperating Revenues and Expense

Operating revenues are those necessary for principal operations of the entity. Operating expenses are those related to user service activities. Nonoperating revenues and expenses are all other revenues and expenses not related to user service activities.

J. Accounts Payable

Accounts payable consists of amounts due to vendors at the end of the fiscal year.

K. Use of Estimates

POWER's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure to prepare these financial statements in conformity with generally accepted accounting principles in the United States of America. Actual results could differ from those estimates.

2. NET POSITION

Net position represents residual interest in assets after liabilities are deducted. Net position consists of three sections: Net investment in capital assets, as well as restricted and unrestricted net position, if applicable. The net position remained at zero at June 30, 2022. POWER's financial reporting model reflects all surpluses and deficits as liabilities to or receivables from its members.

3. CASH AND CASH EQUIVALENTS

A. The composition of cash at June 30, 2022 is as follows:

Cash at banks	$ 1,369,518
Government Pools	
Local Agency Investment Fund	14,186
Total Cash and cash equivalents	$ 1,383,704

The California State Local Agency Investment Fund (LAIF) is a program created by state statute as an investment alternative for California's local governments and special districts. Deposits in LAIF are presented as cash as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is minimal risk of principal. LAIF is unrated.

B. Deposit Risk Factors

Custodial credit risk can affect the value of deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, POWER may not be able to recover its deposits that are in the possession of an outside party. All checking accounts are insured by the Federal Depository Insurance Corporation (FDIC) up to the limit of $250,000.

Under California Government Code Sections 53651 and 53652, depending on specific types of eligible securities, a bank must deposit eligible securities to be posted as collateral with its agent with the securities having a fair value of 110% to 150% of POWER's cash on deposit.

4. PURCHASE COMMITMENTS

During the fiscal year, POWER entered into two agreements with various energy suppliers to facilitate the sale and purchase of natural gas for a delivery period extending to October 31, 2022. The agreements constituted an estimated combined purchase commitment of $1,378,600.

5. RISK MANAGEMENT

POWER is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. POWER purchases commercial insurance through an insurance agent, who obtains the appropriate insurance coverage needed by POWER from insurance companies. Insurance coverages are subject to market volatility, and no settlement amount have exceeded commercial insurance coverage for the past three years.