

ABAG POWER
Publicly Owned Energy Resources

Financial Statements
For the Year Ended June 30, 2020

This page intentionally left blank

ABAG Publicly Owned Energy Resources
Table of Contents
For the Year Ended June 30, 2020

| | <i>Page</i> |
|--|-------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 6 |
| Basic Financial Statements | |
| Statement of Net Position | 7 |
| Statement of Revenue, Expenses and Changes in Net Position | 8 |
| Statement of Cash Flow | 9 |
| Notes to the Financial Statements | |
| Summary of Significant Accounting Policies | 10 - 16 |
| Net Position | 16 |
| Cash | 16 |
| Purchase Commitments | 16 |
| Risk Management | 17 |

This page intentionally left blank

INDEPENDENT AUDITOR'S REPORT

Members of the Executive Committee of
ABAG Publicly Owned Energy Resources

Report on the Financial Statements

We have audited the accompanying financial statements of the ABAG Publicly Owned Energy Resources (“POWER”) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the POWER basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ABAG Publicly Owned Energy Resources, as of June 30, 2020 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*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 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

San Francisco, California
October 29, 2020

ABAG Publicly Owned Energy Resources
Financial Statements as of June 30, 2020
Management's Discussion and Analysis (unaudited)

Management's Discussion and Analysis

ABAG Publicly Owned Energy Resources (POWER) has prepared its financial report for the fiscal year ending June 30, 2020. 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 2020 was approximately 6.45 million therms.
2. POWER's current strategy for purchasing natural gas consists exclusively of short-term, index-based purchases at three market locations.
3. POWER serves a total of 764 core accounts and three non-core accounts as of June 30, 2020.
4. In fiscal year 2020 there was an excess of revenues over expenses in the amount of \$943,494, which will be returned to the members as true-up adjustments in billings during the next fiscal year.

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 7 – 9 of this report.

ABAG Publicly Owned Energy Resources
Financial Statements as of June 30, 2020
Management's Discussion and Analysis (unaudited)

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:

| | 2020 | 2019 |
|------------------------|--------------|--------------|
| Assets | | |
| Cash and investment | \$ 2,883,332 | \$ 2,051,063 |
| Receivables | 451,291 | 395,569 |
| Prepaid items | 3,968 | 4,389 |
| Natural gas inventory | 55,034 | 37,344 |
| Total assets | 3,393,625 | 2,488,365 |
| Liabilities | | |
| Current liabilities | 1,392,840 | 487,580 |
| Noncurrent liabilities | 2,000,785 | 2,000,785 |
| Total liabilities | 3,393,625 | 2,488,365 |
| Net position | \$ - | \$ - |

Total assets increased by \$905,260 during fiscal year 2020 mainly due to an increase in cash. The increase in cash was due to the collections on the billings to members. Fiscal year 2020 billings to members were relatively higher than the actual energy costs throughout the year.

Compared to fiscal year 2019, total liabilities increased by \$905,260 mainly due to an increase in unearned revenue which resulted from a higher true-up payable to members.

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

ABAG Publicly Owned Energy Resources
Financial Statements as of June 30, 2020
Management's Discussion and Analysis (unaudited)

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:

| | 2020 | 2019 |
|--|--------------|--------------|
| Operating revenue | | |
| Sale of natural gas & other revenue | \$ 6,820,832 | \$ 7,538,287 |
| Total operating revenue | 6,820,832 | 7,538,287 |
| Operating expenses | | |
| Cost of natural gas & PG&E passthrough | 6,385,463 | 7,152,323 |
| Contracted salaries and benefits | 211,300 | 211,016 |
| Professional fees | 110,183 | 107,408 |
| Other expenses | 144,719 | 123,757 |
| Total operating expenses | 6,851,665 | 7,594,504 |
| Operating loss | (30,833) | (56,217) |
| Nonoperating revenue | | |
| Interest income | 30,833 | 56,217 |
| Total nonoperating revenue | \$ 30,833 | \$ 56,217 |
| Changes in net position | - | - |
| Net position - beginning | - | - |
| Net position - ending | \$ - | \$ - |

Before the year-end adjustment, ABAG POWER showed a surplus of \$943,494 at the end of fiscal year 2020. The year-end adjustment distributes the year-end surplus among JPA members.

Total operating revenues decreased by \$717,455 in fiscal year 2020 as a result of a decrease in revenue associated with the sale of natural gas. The decrease in sale of natural gas reflects a year-end adjustment to return excess revenue to members in next fiscal year.

Total operating expenses decreased by \$742,839 in fiscal year 2020 mainly due to lower market price of natural gas and decrease in usage. The decrease in usage can be attributed to warmer weather on average, and intermittent public facility closures due to the COVID-19 pandemic.

ABAG Publicly Owned Energy Resources
Financial Statements as of June 30, 2020
Management's Discussion and Analysis (unaudited)

D. Notes to the Financial Statements

The notes to the financial statements, beginning on page 10, provide additional information essential to a full understanding of the data provided in this MD&A and the financial statements that follow.

E. Economic Factor and Program Outlook for Fiscal Year 2021

POWER generally expects gas prices for futures contracts to remain in the \$3.00 - \$3.50/Dth range for the next couple of years. The expectations reflect a market environment where domestic gas supply exceeds demand, and where supply has continued to increase year to year.

However, there are many factors that can cause significant gas price volatility, including abnormal weather patterns, increased demand from industry and/or gas powered electric generators, restrictions in gas transportation capacity and/or imports, the price of oil, regulatory actions, political instability and the rise of gas exports. In addition, an increased focus on 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. In addition, the current economic recession included by the national health crisis will also impact cost and demand, although how much is uncertain at this time. The business objective of POWER is to offer a reliable energy source at stable prices, but not necessarily the lowest price.

The San Francisco Bay Area economy entered a recession starting April 2020. The April recession ended the longest running economic expansion since the post WWII era. Immediate impacts include:

- Sales tax revenue that had grown for nine straight years fell 5 percent for FY 2020.
- Unemployment which was close to 3.5 percent in January 2020 increased to about 10 percent by June 2020.
- The impact of shelter-in-place orders on commercial values is not known at this time.

There are some indications that the worst of the recession may be behind us. The growth in retail sales and housing construction continue to increase, and paid traffic toll revenue on the 7 Bay Area bridges is now 80 percent of the FY 2019 level.

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.

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, 2020

ASSETS

Current assets:

| | |
|---------------------------|-------------------------|
| Cash | \$ 2,883,332 |
| Due from other government | 27,564 |
| Accounts receivable | 417,356 |
| Interest receivable | 6,371 |
| Prepaid items | 3,968 |
| Natural gas inventory | <u>55,034</u> |
| TOTAL ASSETS | <u>3,393,625</u> |

LIABILITIES

Current liabilities:

| | |
|---------------------------|------------------|
| Accounts payable | 422,562 |
| Due to other government | 26,784 |
| Unearned revenue | <u>943,494</u> |
| Total current liabilities | <u>1,392,840</u> |

Non-current liabilities:

| | |
|-------------------------------|-------------------------|
| Deposits from members | <u>2,000,785</u> |
| Total non-current liabilities | <u>2,000,785</u> |
| TOTAL LIABILITIES | <u>3,393,625</u> |

| | |
|---------------------|---------------------------|
| NET POSITION | <u><u>\$ -</u></u> |
|---------------------|---------------------------|

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, 2020

OPERATING REVENUE

Sale of natural gas \$ 6,811,627

Other operating revenues 9,205

TOTAL OPERATING REVENUE 6,820,832

OPERATING EXPENSES

Cost of natural gas 1,981,610

PG&E Passthrough 4,403,853

Contracted salaries and benefits 211,300

Professional fees 110,183

Overhead 121,718

Other 23,001

TOTAL OPERATING EXPENSES 6,851,665

OPERATING LOSS (30,833)

NONOPERATING REVENUE

Interest income 30,833

TOTAL NONOPERATING REVENUE 30,833

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, 2020

Cash flows from operating activities

| | |
|---|--------------------|
| Cash receipts from customers and others | \$ 7,620,298 |
| Cash payments to suppliers and contractors for goods and services | <u>(6,823,665)</u> |
| Net cash provided by operating activities | <u>796,633</u> |

Cash flows from investing activities

| | |
|--|---------------|
| Interest received | <u>35,636</u> |
| Net cash provided by investing activities | <u>35,636</u> |

| | |
|------------------------------------|---------------------|
| Net increase in cash | 832,269 |
| Balances- beginning of year | <u>2,051,063</u> |
| Balances - end of year | <u>\$ 2,883,332</u> |

Reconciliation of operating loss to net cash provided by operating activities

| | |
|--|-------------------|
| Operating loss | \$ (30,833) |
| Adjustments to reconcile operating net cash provided by operating activities: | |
| Net effect of changes in: | |
| Accounts receivable | (32,961) |
| Due from other government | (27,564) |
| Natural gas inventory | (17,690) |
| Prepaid items | 421 |
| Accounts payable | 47,476 |
| Due to other government | (2,207) |
| Unearned revenue | <u>859,991</u> |
| Net cash provided by operating activities | <u>\$ 796,633</u> |

See accompanying notes to financial statements

ABAG Publicly Owned Energy Resources
Financial Statements for the year ended June 30, 2020
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 \$333,018 for these services in the fiscal year ended June 30, 2020. On the *Statement of Revenues, Expenses, and Changes in Net Position*, this amount is reflected as contracted salaries and benefits and overhead costs.

ABAG Publicly Owned Energy Resources

Financial Statements for the year ended June 30, 2020

Notes to Financial Statements

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 billings to members over total actual cost of a fiscal year is reflected as unearned revenue and will be reflected as true-up adjustments in billings in the fiscal year 2021.

New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. GASB Statement No. 95 postpones the effective date of this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by one year. Management is currently evaluating the effect of this statement on POWER's financial statements.

GASB Statement No. 87, *Leases*, is 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 December 15, 2019. GASB Statement No. 95 postpones the effective date of this statement by eighteen months. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by eighteen months. Management is currently evaluating the effect of this statement on POWER's financial statements.

ABAG Publicly Owned Energy Resources

Financial Statements for the year ended June 30, 2020

Notes to 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, 2019. GASB Statement No. 95 postpones the effective date of this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by one year. Management is currently evaluating the effect of this statement on POWER's financial statements.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance on how to improve reporting of Majority Equity Interests. This statement improve the consistency and comparability of reporting a government's majority equity interest in legally separate organizations and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. GASB Statement No. 95 postpones the effective date of this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by one year. Management is currently evaluating the effect of this statement 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 jperiods beginning after December 15, 2020. GASB Statement No. 95 postpones the effective date of this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by one year. 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, 2020. (c) The requirements in paragraphs 8, 9, and 12 are effective for reporting periods beginning after June 15, 2020. (d) The requirements in paragraph 10 are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. GASB Statement No. 95 postpones all the effective dates of this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of this statement by one year. Management is currently evaluating the effect of this statement 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 paragraph 11b, 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. GASB Statement No. 95 postpones the effective date of paragraphs 13 and 14 of

ABAG Publicly Owned Energy Resources

Financial Statements for the year ended June 30, 2020

Notes to Financial Statements

this statement by one year. POWER adopted GASB Statement No. 95 which postponed the implementation of paragraphs 13 and 14 of this statement by one year. Management is currently evaluating the effect of this statement 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. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. The requirements of this Statement are effective immediately. POWER adopted this standard for fiscal year ended June 30, 2020. The adoption of the standard has no impact on POWER's financial statements.

GASB Statement No. 96, *Subscription-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. The adoption of paragraphs 4 and 5 does not have any impact on POWER's financial statements. Management is currently evaluating the effect of the remainder paragraphs of this statement on POWER's financial statements.

D. Cash and Investments

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.

ABAG Publicly Owned Energy Resources

Financial Statements for the year ended June 30, 2020

Notes to Financial Statements

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 cash equivalents as short-term investments. Highly liquid cash equivalents are short-term investments 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. Natural Gas Inventory

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

F. Unearned Revenue

The unearned revenue in POWER consists of the excess of revenues over expenses. POWER will match billings to members with the cost of gas provided and in effect, return any unearned revenue to members as true-up adjustments in billings during the subsequent fiscal year.

ABAG Publicly Owned Energy Resources
Financial Statements for the year ended June 30, 2020
Notes to Financial Statements

G. Due to Other Government

The due to other government consists of the amount due to MTC for services provided in fiscal year 2020.

H. Due from Other Government

The due from other government consists of the amount due from MTC for billing adjustments.

I. Deposit from Members

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

J. 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.

K. Accounts Payable

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

L. 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.

M. Recent Event

During FY 2020, a novel strain of coronavirus spread around the world and was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In March 2020, the State of California declared a statewide shelter-in-place order. The statewide shelter-in-place order had no appreciable effect on the operations and business results of the POWER business operations. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly

ABAG Publicly Owned Energy Resources
Financial Statements for the year ended June 30, 2020
Notes to Financial Statements

uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. Management has not included any contingencies in the financial statements specific to this recent event.

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, 2020. POWER's financial reporting model reflects all surpluses and deficits as liabilities to or receivables from its members.

3. CASH

A. The composition of cash at June 30, 2020 is as follows:

| | |
|-------------------------------|---------------------|
| Cash at banks | \$ 1,137,214 |
| Government Pools | |
| Local Agency Investment Fund* | <u>1,746,118</u> |
| Total Cash | <u>\$ 2,883,332</u> |

*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 three agreements with various energy suppliers to facilitate the sale and purchase of natural gas for a delivery period extending to October 31, 2020. Two of the agreements constituted an estimated combined purchase commitment of \$361,930. The third agreement was a flexible contract whereas POWER has the daily option to purchase a quantity from zero to 1,000 MMBtu. Therefore, there is no financial commitment for this agreement.

ABAG Publicly Owned Energy Resources
Financial Statements for the year ended June 30, 2020
Notes to Financial Statements

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. To date, there have been no significant reductions in any of POWER's insurance coverage, and no settlement amount have exceeded commercial insurance coverage for the past three years.