

**ABAG
PUBLICLY OWNED ENERGY
RESOURCES**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Executive Committee
ABAG Publicly Owned Energy Resources
Oakland, California

Report on 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, 2013, and the related notes to the financial statements, which collectively comprise POWER's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 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 POWER'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 POWER'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of POWER as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2013 that resulted in certain changes in nomenclature on the financial statements:

Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

The emphasis of this matter does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mare & Associates

Pleasant Hill, California
January 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABAG Publicly Owned Energy Resources (POWER) has issued the financial reports for fiscal year ending June 30, 2013 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since POWER has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires POWER to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

- (1) Statement of Net Position—provides information about the financial position of POWER, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is shown as the difference between total assets and total liabilities.
- (2) Statement of Activities—presents revenues, expenses and changes in net position for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.
- (3) Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

The Basic Financial Statements above provide information about the financial activities of POWER's Natural Gas program.

FISCAL YEAR 2013 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- POWER's total assets were \$3.2 million at June 30, 2013. At June 30, 2012, total assets were \$4.1 million.
- POWER's total revenues, including program and general revenues, were \$6.4 million in FY 2013, while total expenses were \$6.4 million. At June 30, 2012, total revenues, including operating revenues, were \$6.9 million, while total expenses were \$6.9 million.

- POWER's total net position remained at zero at June 30, 2013. The accounting process for POWER is set up such that all surpluses and deficits are recorded as liabilities due to members.
- Revenues from sale of natural gas were \$6.4 million and cost of gas amounted to \$6.0 million in FY 2013.
- General and administrative expense, comprising professional fees and reimbursement of administrative expenses to ABAG, were \$384 thousand.
- Under nonoperating income (expense), the Natural Gas Pool had \$7 thousand in interest income.

MAJOR PROGRAM INITIATIVES IN FY 2013

Natural Gas Pool

Currently the natural gas aggregation program has 38 member cities, counties and special districts located in Northern California. As of June 30, 2013, the pool was serving a total of 793 core accounts and three non-core accounts. For FY 2013, levelized natural gas billings totaled \$7.2 million, while total expenses were \$6.4 million. The excess of revenues over expenses in the amount of roughly \$800,000 was recorded as unearned revenues and will be returned to members as true-up adjustments in billings during FY 2014. Total gas usage of the program was approximately 8.6 million therms during FY 2013.

Continuing with POWER's strategy in purchasing natural gas, about 43% of purchases during FY 2013 were with fixed-price contracts of greater than one month in length. The remainder of the program's gas requirements was filled with monthly and daily index-based purchases. This combination of purchases produced an end-of-year weighted average price that was approximately 1.4% lower than PG&E's similar rate schedule (GNR-1).

PROGRAM OUTLOOK FOR FY 2014

Natural gas prices began a modest climb during the past year which was a turnaround from the decline that the market has seen over the previous three years. Near-term, market-rate prices rose for most of the year – beginning at about \$3.00/dth and increasing to approximately \$4.20/Dth in April-May. Recently prices have come down to approximately \$4.00/Dth. While the direction of prices seems to have reversed, the overall the market volatility remains consistent with the recent past. There are many factors that can cause significant price volatility, including: abnormal weather patterns, increased demand from gas powered electric generators, restrictions in gas transportation capacity and/or imports, the price of oil, regulatory actions, and political instability. In addition, an increased focus on environmental issues may cause regulatory actions that produce increased costs for using petroleum products, including natural gas. The business objective of ABAG POWER is to offer a reliable energy source at stable prices. The program is deemed to be even more valued during periods of uncertainty.

Other ABAG Energy/Sustainability Initiatives

The following initiatives are under the ABAG programs in which contract work are held by ABAG, however these programs are in the interest of POWER and its members.

DOE Better Buildings Program. ABAG was a subcontractor to LA County as part of the state and national *Better Buildings Program* coordinated by the Department of Energy (DOE). Four Bay Area agencies (Alameda County, San Francisco, San Jose, Sonoma County) are implementing variety energy efficiency retrofit projects under this program. This program was completed in May 2013, although some of the individual projects will be continued in modified formats as part of the BayREN program.

BayREN. In November 2012 the California Public Utilities Commission (CPUC) approved \$26.5 million for implementation of the BayREN program during calendar years 2013-2014. The purpose of this program is to implement energy savings programs throughout the region in collaboration with the local government agencies in the nine-county area. The BayREN program consists of four primary energy efficiency subprograms that are designed to address key cost, process, work force and other market barriers to energy efficiency upgrades:

- Single-family energy efficiency retrofit program
- Multi-family energy efficiency retrofit program
- Codes and standards compliance and enforcement
- Financing for energy efficiency projects

Electric Vehicles (EV). During the past year ABAG was the lead agency for the EV Corridor grant from the California Energy Commission. This program provided \$1.5 million for the installation of EV charging infrastructure in the San Francisco and Monterey Bay Areas.

In addition, ABAG is a principal sponsor of the Bay Area EV Strategic Council which provides coordination with other Bay Area Regional Agencies, as well as regulatory bodies and private industry.

CONTACTING POWER'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of POWER's finances. Questions about this Report should be directed to the Finance Department, at 101 Eighth Street, Oakland, California 94607.

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Natural Gas Pool</u>
ASSETS	
Cash and Cash Equivalents (Note 2)	\$2,786,288
Receivable from Members and Others	214,363
Interest Receivable	1,431
Natural Gas Inventory (Note 1E)	<u>180,608</u>
Total Assets	<u>3,182,690</u>
LIABILITIES	
Accounts Payable	386,197
Payable to Members	2,000,785
Unearned Revenue	<u>795,708</u>
Total Liabilities	<u>3,182,690</u>
NET POSITION	<u><u> </u></u>

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Natural Gas Pool</u>
OPERATING REVENUES	
Sale of natural gas	<u>\$6,424,872</u>
OPERATING EXPENSES	
Cost of natural gas sold	<u>6,048,098</u>
Gross margin	<u>376,774</u>
GENERAL AND ADMINISTRATIVE EXPENSES	
Metering and billing agent fees	37,442
Management and administration (Note 1)	<u>346,442</u>
Total general and administrative expenses	<u>383,884</u>
OPERATING LOSS	(7,110)
NONOPERATING INCOME	
Interest income	<u>7,110</u>
CHANGE IN NET POSITION	
BEGINNING NET POSITION	<u> </u>
ENDING NET POSITION	<u><u> </u></u>

See accompanying notes to basic financial statements

ABAG
 PUBLICLY OWNED ENERGY RESOURCES
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Natural Gas Pool</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from members	\$5,512,627
Payments to suppliers	(5,951,359)
Payments for management and administration	(346,442)
Payments for agent and legal fees	<u>(37,442)</u>
Cash Flows from Operating Activities	<u>(822,616)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest collections	<u>7,837</u>
Cash Flows from Investing Activities	<u>7,837</u>
Net increase (decrease) in cash and cash equivalents	(814,779)
Cash and cash equivalents at beginning of period	<u>3,601,067</u>
Cash and cash equivalents at end of period	<u><u>\$2,786,288</u></u>
Reconciliation of Operating Income (Loss) to Cash Flows	
from Operating Activities:	(\$7,110)
Change in assets and liabilities:	
Receivables	74,153
Natural gas inventory	(1,567)
Accounts payable	98,306
Payable to members	(19,652)
Unearned revenue	<u>(966,746)</u>
Cash Flows from Operating Activities	<u><u>(\$822,616)</u></u>

See accompanying notes to basic financial statements

ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description

ABAG Publicly Owned Energy Resources (POWER) is a joint powers agency of 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 arranges for the transportation and delivery of natural gas to its members by pipelines from its source. POWER pays these vendors and bills its members for their usage, transportation and administration costs on a monthly basis.

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.

POWER has contracted separately with the Association of Bay Area Governments (ABAG), to act as POWER’s trustee, providing promotional, administrative, accounting and clerical support. POWER paid ABAG \$327,838 for these services and \$11,160 for contract services in the fiscal year ended June 30, 2013.

The members of POWER must be voting members or cooperating members of ABAG at the time they join POWER, but not all ABAG members are members of POWER. For that reason, POWER is not a component unit of ABAG.

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 is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

**ABAG
PUBLICLY OWNED ENERGY RESOURCES
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

POWER accounts for all transactions in a single enterprise fund, which is a separate set of self-balancing accounts that comprise assets, liabilities, 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 delivered 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 following fiscal year.

D. Estimates

POWER's management has made a number of estimates and assumptions relating to the reporting of assets, deferred outflows/inflows of resources and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

E. Natural Gas Inventory

Temporary inventories of natural gas are stated at cost, and transfers to the cost of natural gas sold are accounted for on a weighted average cost basis.

NOTE 2 – CASH AND CASH EQUIVALENTS

A. Carrying Amount and Fair Value

Cash and investments comprised the following at June 30, 2013:

	Fair Value
Local Agency Investment Fund (LAIF)	\$2,087,753
Cash in Banks	698,535
Total Cash and Cash Equivalents	\$2,786,288

B. Interest Rate Risk

Interest rate risk is the potential adverse effect resulting from changes in market interest rates on the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 278 days.

**ABAG
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NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

C. Credit Risk

Credit risk is the risk of failure of an issuer of an investment in fulfilling its obligation to the holder of the investment. LAIF is not rated by a nationally recognized statistical rating organization.

D. Custodial Credit Risk

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. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 110% to 150% of a public agency's deposit. All of POWER's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in POWER's name.

E. Local Agency Investment Fund

POWER is a participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

F. Statement of Cash Flows

For purposes of the statement of cash flows, POWER considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 3 – PURCHASE COMMITMENTS

During the fiscal year, POWER entered into various agreements with energy companies to facilitate the sale and purchase of gas for a particular delivery period. These agreements constituted commitments of \$1,186,025 as of June 30, 2013.

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