



DESERT COMMUNITY ENERGY

FOR THE YEAR ENDED JUNE 30, 2020

FINANCIAL STATEMENTS

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TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows.....	13
Notes to Financial Statements	15



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Desert Community Energy
Palm Desert, California

Report on the Financial Statements

We have audited the accompanying financial statements of Desert Community Energy (DCE) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.



To the Board of Directors
Desert Community Energy
Palm Desert, California

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021 on our consideration of DCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DCE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DCE's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Brea, California
January 15, 2021

DESERT COMMUNITY ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

The following discussion and analysis of the financial performance of Desert Community Energy ("DCE") provides an overview of the DCE's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

TABLE OF CONTENTS

The annual report consists of the following parts:

- Management's discussion and analysis (this section)
- The basic financial statements:
 - The *Statements of Net Position* include all DCE's assets, liabilities, and net position and provide information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all DCE's revenue and expenses for the year shown.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as non-capital financing activities.
 - The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

Background

The formation of DCE was made possible by the passage, in 2002, of California Assembly Bill 117, enabling communities to establish Community Choice Aggregation programs, to purchase power on behalf of their residents and businesses, creating competition in power generation.

DCE was created as a California Joint Powers Authority in October 2017, for the purpose of implementing and administering a Community Choice Aggregation (CCA) program. DCE was formed by the cities of Palm Springs, Cathedral City and Palm Desert, located within the geographic boundaries of Riverside County, and is certified by the California Public Utilities Commission (CPUC). DCE is governed by an appointed board of directors (Board), comprised of one local elected representative from each of the participating member agencies. The DCE Board has the authority to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. DCE acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by Southern California Edison (SCE) and overseen by the California Independent System Operator (CAISO). DCE offers ratepayers a choice in electricity providers and in the type of electricity they use.

As a CCA, DCE buys and/or develops power resources on behalf of the electricity customers in its jurisdiction to offer cleaner, competitively priced electricity while retaining local control, reinvesting revenues, encouraging local job creation, offering more renewable energy options, and reducing greenhouse gas (GHG) emissions.

The parties to DCE's Joint Powers Agreement consist of local governments whose governing bodies elect to join DCE. Pursuant to the Public Utilities Code, residential, commercial, and municipal electricity customers will be automatically enrolled in DCE and become default customers of DCE for electric generation when the program launches in their city. Customers served under California's Direct Access Program are not included in the automatic enrollment. According to state law, DCE must give customers the option to "opt out" and remain with Southern California Edison.

In April 2020, DCE began serving approximately 5,317 municipal and commercial accounts and 30,074 residential customer accounts in Palm Springs. In May 2020, DCE enrolled approximately 3,778 additional residential customer accounts and 150 additional municipal and commercial customer accounts in Palm Springs. The City of Palm Desert has not yet determined its launch plans; based on requirements of the CPUC, the next opportunity for Palm Desert to begin serving customers is 2022.

On April 2020, the City Council of Cathedral City approved action to withdraw from DCE. DCE's joint powers agreement stipulates that member agencies which intend to withdraw must provide notice one year in advance of the withdrawal date. Cathedral City will remain part of DCE through the 2020-2021 fiscal year but will be officially withdrawn as of July 1, 2021.

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

DCE offers to its customers two electricity options to choose from: Carbon Free, which provides 100% carbon free and 50% renewable electricity and Desert Saver, a basic product with lower cost compared to SCE's basic product that will still help the customers to support local energy resources and reinvest in the community.

OVERVIEW OF THE FINANCIAL STATEMENTS

Financial Reporting

DCE presents its financial statements as a governmental enterprise fund under the economic resources measurement focus and accrual basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB)

FINANCIAL HIGHLIGHTS

The figures considered for the period from inception, Nov 1 2017 to June 30, 2019 are presented just for information purposes since that period presented a financial situation in which DCE was not providing services to its full customer base.

The following table is a summary of DCE's assets, liabilities, and net position and a discussion of significant changes for the years ending June 30.

Statements of Net Position

	Fiscal Year Jul 2019- Jun 2020	Fiscal Year Nov 2017- Jun 2019	Dollar Change
Current Assets	<u>\$9,032,347</u>	<u>\$5,048,821</u>	<u>\$3,983,526</u>
Total Assets	<u>9,032,347</u>	<u>5,048,821</u>	<u>3,983,526</u>
Current Liabilities	<u>1,947,231</u>	<u>89,824</u>	<u>1,857,407</u>
Total Liabilities	<u>1,947,231</u>	<u>89,824</u>	<u>1,857,407</u>
Net Position			
Unrestricted	<u>\$7,085,116</u>	<u>\$4,958,997</u>	<u>\$2,126,119</u>

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

Current Assets

Current Assets were \$9,032,347 at the end of June 30, 2020 and were mostly comprised of cash, accounts receivable, accrued revenue and a deposit for regulatory purposes. Accrued revenue differs from accounts receivable in that it is the result of electricity used by DCE customers before invoicing to those customers has occurred. The total of current assets increased in 2020 as a result of DCE operating with its entire customer base by the end of the last quarter of Fiscal Year 2019-2020. A deposit of \$100,000 posted with the California Public Utilities Commission (CPUC) is recognized as a part of the current assets balance; it is considered that this deposit will be replaced by a Financial Security Requirement by the end of December 2020 due to a change of regulation by the CPUC.

At the end of June 30, 2020 and June 30, 2019, DCE presented the following balances in its currents assets accounts:

	Fiscal Year Jul 2019- Jun 2020	Fiscal Year Nov 2017- Jun 2019	Dollar Change
Cash and Investments	\$4,400,378	\$4,448,821	\$ (48,443)
Accounts receivables	2,981,195	-	2,981,195
Accrued Revenue	1,550,774	-	1,550,774
Deposits	<u>100,000</u>	<u>600,000</u>	<u>(500,000)</u>
Total Currents Assets	<u>\$9,032,347</u>	<u>\$5,048,821</u>	<u>\$3,983,526</u>

Deposits decreased by \$500,000 from 2019 to 2020 due to the return of the deposit posted with the California Independent System Operator (CAISO) in May 2018. This deposit was returned given that the conditions established by the CAISO were met once DCE started operations in April 2020. The funds were returned by CAISO on June 30, 2020.

Current Liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by DCE to its suppliers. Other components include trade accounts payable, taxes and surcharges due to governments, as well as the payable due to the Coachella Valley Association of Governments (CVAG).

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

At the end of June 30, 2020 and June 30, 2019, DCE presented the following balances in its current liabilities accounts:

	Fiscal Year Jul 2019- Jun 2020	Fiscal Year Nov 2017- Jun 2019	Dollar Change
Accounts Payable	\$ 187,388	\$ 10,145	\$ 177,243
Accrued Electricity Cost	1,228,659	-	1,228,659
Utility User Taxes and	-	-	-
Electric Energy Surcharges	-	-	-
due to other governments	268,361	-	268,361
Related party-due to other	-	-	-
governments	<u>262,823</u>	<u>79,679</u>	<u>183,144</u>
Total Currents Liabilities	<u>\$1,947,231</u>	<u>\$ 89,824</u>	<u>\$1,857,047</u>

Current liabilities increased year-over-year due to increased energy costs related to the enrollment of new customers and the start of operations during the last quarter of the Fiscal Year 2019-2020.

Revenues, Expenses and Changes in Net Position

Statements of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Jul 2019- Jun 2020	Fiscal Year Nov 2017- Jun 2019	Dollar Change
Operating Revenues	\$7,191,700	\$29,868,422	\$(22,676,722)
Non-Operating Revenues	<u>95,687</u>	<u>59,253</u>	<u>36,434</u>
Total Revenues	<u>7,287,387</u>	<u>29,927,675</u>	<u>(22,640,288)</u>
Operating Expenses	5,161,268	23,959,976	(18,798,708)
Non-Operating Expenses	<u>-</u>	<u>8,702</u>	<u>(8,702)</u>
Total Expenses	<u>5,161,268</u>	<u>23,968,678</u>	<u>(18,807,410)</u>
Changes in Net Position	<u>\$2,126,119</u>	<u>\$ 5,958,997</u>	<u>\$(3,832,878)</u>

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

Operating Revenues

Operating revenues amounted to approximately \$29,868,422 in FY Nov 2017-Jun 2019, as a result of the liquidation of the power procured by The Energy Authority (TEA) on behalf of DCE at the end of September 2018. This power liquidation was due to the decision to delay the launch of DCE at the special meeting of the DCE Board that took place on July 25, 2018. It is important to note that DCE had planned to launch operations and serve its entire customer base in Palm Springs, Cathedral City and Palm Desert in August 1, 2018.

Operating revenues amounted to approximately \$7,191,700 in FY 2019-2020, mostly comprised of electricity sold by DCE in the city of Palm Springs during the period April 1 to June 30, 2020, to its entire customer base of approximately 40,000 customer accounts (municipal, residential and commercial). Other Revenues, the result of transactions performed in the CAISO market by DCE's Scheduling Coordinator, are also included.

Operating Expenses

Operating Expenses amounted to approximately \$23,959,976 in FY Nov 2017-Jun 2019 as result of the liquidation of procurement costs mentioned in the previous section.

Operating Expenses amounted to approximately \$5,161,268 in FY 2019-2020 and include the cost of energy and electric capacity used to serve DCE's customers and meet its regulatory obligations, contracts with service providers and consultants and general administrative expenses.

ECONOMIC OUTLOOK

DCE launched operation in the City of Palm Springs in April 2020 enrolling approximately 30,074 residential customer accounts and 5,317 municipal and commercial accounts. Approximately 3,778 residential and 150 municipal and commercial customer accounts with rooftop solar included in DCE's Net Energy Metering program were enrolled in May 2020.

At the end of June 30, 2020 DCE had a participation of 91%, which goes in line with the initial estimations assumed when DCE launched, sourcing 100% Carbon Free electricity to approximately 96% of its entire customer base.

DCE, along with other California load-serving entities including CCAs and Investor-Owned Utilities, is required by SB 350 (de Leon, 2015, the "Clean Energy and Pollution Reduction Act") to procure at least 65% of its required Renewable Portfolio Standard (RPS) energy under long-term contracts starting with California's fourth RPS compliance period (2021-2024). At their May 2020 meeting, DCE's Board approved the launch of a Request for Offers in order to meet compliance objectives and secure renewable energy supply for DCE's customers.

See independent auditors' report.

DESERT COMMUNITY ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2020

By the end of June 30, 2020, DCE received proposals from 10 different responders and 96 different project variations. The selection of projects and negotiations are scheduled to be concluded by the second quarter of FY 2020-2021. As a result of these negotiations, DCE will be buying electricity from renewable sources, if possible, geographically located in its services area and bringing some benefits to its customers.

While DCE is still in the works of becoming financially stable and building strong reserves, it is important to note that, in the meantime, DCE's staff is looking for different energy programs to launch in the short-term to benefit customers and give back to the community, while maintaining its rates at competitive prices and meeting its environmental goals.

CONTACTING DCE's FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and resource providers with a general overview of DCE's finances and to show DCE's accountability for the money it receives. If you have questions about this report or need additional financial information, contact DCE's Office, attention Director of Administrative Services Department, at 73710 Fred Waring Drive, Suite 200, Palm Desert, California 92260.

See independent auditors' report.

BASIC FINANCIAL STATEMENTS

DESERT COMMUNITY ENERGY

STATEMENT OF NET POSITION
JUNE 30, 2020

Assets:

Current Assets:

Cash and investments	\$ 4,400,378
Accounts receivable, net	4,531,969
Deposits	<u>100,000</u>
Total Current Assets	<u>9,032,347</u>
Total Assets	<u>9,032,347</u>

Liabilities:

Current Liabilities:

Accounts payable	1,416,047
Due to other governments	<u>531,184</u>
Total Current Liabilities	<u>1,947,231</u>
Total Liabilities	<u>1,947,231</u>

Net Position:

Unrestricted	<u>7,085,116</u>
Total Net Position	<u>\$ 7,085,116</u>

See Accompanying Notes to Financial Statements

DESERT COMMUNITY ENERGY**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

Operating Revenues:

Electricity Sales	\$ 6,961,369
Miscellaneous	230,331
Total Operating Revenues	7,191,700

Operating Expenses:

Electricity Cost	3,810,662
Consultants Charges	877,953
Administration and General	293,405
Professional Services	179,248
Total Operating Expenses	5,161,268
Operating Income	2,030,432

Nonoperating Revenues (Expenses):

Interest revenue	95,687
Total Nonoperating Revenues (Expenses)	95,687
Changes in Net Position	2,126,119

Net Position - Beginning	4,958,997
Net Position - Ending	\$ 7,085,116

See Accompanying Notes to Financial Statements

DESERT COMMUNITY ENERGY**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows from Operating Activities:

Cash received from customers and users	\$ 3,159,731
Cash paid to suppliers for goods and services	<u>(3,303,861)</u>
Net Cash (Used for) Operating Activities	<u>(144,130)</u>

Cash Flows from Investing Activities:

Investment Income	<u>95,687</u>
Net Cash Provided by Investing Activities	<u>95,687</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(48,443)</u>

Cash and Cash Equivalents, July 1	<u>4,448,821</u>
Cash and Cash Equivalents, June 30	<u>\$ 4,400,378</u>

**Reconciliation of Operating Income to Net Cash
(Used for) Operating Activities:**

Operating income	<u>\$ 2,030,432</u>
Adjustments to reconcile operating income to net cash (used for) operating activities:	
(Increase) in accounts receivable	(4,531,969)
Decrease in deposits	500,000
Increase in accounts payable	1,405,902
Increase in due to other governments	<u>451,505</u>
Total Adjustments	<u>(2,174,562)</u>
Net Cash (Used for) Operating Activities	<u>\$ (144,130)</u>

See Accompanying Notes to Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

DESERT COMMUNITY ENERGY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies

a. Description of Reporting Entity

Desert Community Energy (DCE) is a public joint powers agency located within the geographic boundaries of Riverside County, formed in October 2017 for the purpose of implementing and administering a community choice aggregation (CCA) program. DCE was formed by the cities of Palm Springs, Palm Desert and Cathedral City and is certified by the California Public Utilities Commission. Community Choice Aggregation is a local energy program established by state law that allows cities and counties to pool (or aggregate) the electricity demand of participating communities. DCE buys and/or develops power resources on behalf of the electricity customers in its jurisdiction to offer cleaner, competitively priced electricity while retaining local control, reinvesting revenues, encouraging local job creation, offering more renewable energy options, and reducing greenhouse gas (GHG) emissions. DCE offers ratepayers a choice in electricity providers and in the type of electricity they use. DCE began serving customers in Palm Springs in April 2020; other member agencies have not yet determined their launch plans. DCE is governed by a Board of Directors comprised of one local elected representative from each of the participating city councils. The Board schedules regular meetings that are open to the public, ensuring transparency and encouraging community involvement. Formation of a CCA through a JPA does not require contributions from participating member agencies. The assets and liabilities of the CCA program remain separate from those of the participating agencies' general fund.

b. Basic Financial Statements

The basic financial statements (i.e. Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows) report information on all the enterprise activities of the entity.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the full accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services. The principal operating revenues of the entity are sales of electricity. Operating expenses include the cost of electricity purchases, consultants' costs and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of the DCE's basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures of contingent amounts at the date of the basic financial statements, and revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. The entity maintains a checking account and money market account which is considered a cash equivalent.

Net Position

Net position is an indicator of the entity's financial position. For the fiscal year ended June 30, 2020, net position of the entity was \$7,085,116. For the year ended June 30, 2020, DCE reported net position classifications are defined as follows:

- *Investment in capital assets* – This component of net position consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. DCE did not have any related debt outstanding at June 30, 2020.
- *Restricted* – This component of net position consists of resources with external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. DCE did not have any restricted net position at June 30, 2020.
- *Unrestricted net position* – This component of net position consists of net position that do not meet the definition of "restricted" or "investment in capital assets." When both restricted and unrestricted resources are available for use, it is DCE's policy to use restricted resources first.

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

f. Revenue Recognition

DCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

DESERT COMMUNITY ENERGY**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020**

Note 1: Summary of Significant Accounting Policies (Continued)**g. Income Taxes**

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

h. Utility Users Taxes and Electric Energy Surcharges Due to Other Governments

DCE is required by governmental authorities (state and local) to collect and remit user taxes on certain customer sales. These taxes do not represent revenues or expenses to DCE.

Note 2: Cash and Cash Equivalents

Cash and cash equivalents of the entity consisted of demand deposits with financial institutions. At June 30, 2020, the carrying amount of the entity's cash accounts was \$4,400,378 with no outstanding checks, deposits in transit and other reconciling items.

Note 3: Accounts Receivables

At June 30, 2020, DCE reported \$4,531,969 in accounts receivables, net of the allowance for uncollectible accounts. The details of this balance are as follows:

Accrued revenue receivable	<u>\$ 1,550,774</u>
Accounts receivable	2,997,711
Less: allowance for uncollectible accounts	<u>(16,516)</u>
Accounts receivable, net	<u>2,981,195</u>
Total Receivables	<u><u>\$ 4,531,969</u></u>

Note 4: Accounts Payable

At June 30, 2020, DCE reported \$1,416,047 in accounts payable. The details of this balance are as follows:

Accounts payable	\$ 187,388
Accrued electricity cost	<u>1,228,659</u>
Total Payables	<u><u>\$ 1,416,047</u></u>

DESERT COMMUNITY ENERGY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2020

Note 5: Due to Other Governments

At June 30, 2020, DCE reported \$531,184 in Due to Other Governments. The details of this balance are as follows:

Utility Users Taxes & Electric Energy Surcharges	\$	268,361
Related Party Payables (see Note 6)		<u>262,823</u>
Total Due to Other Governments	\$	<u><u>531,184</u></u>

Note 6: Related Party Transactions

DCE entered into a contract with Coachella Valley Association of Governments (CVAG), whereby CVAG, under the direction of the DCE, will coordinate and implement the CCA activities. The contract calls for DCE to pay CVAG based upon actual staff time spent at rates not to exceed the rates paid by CVAG. During the period from July 1, 2019 to June 30, 2020, CVAG incurred and charged DCE \$420,598 of staff time and allocated administrative expenses, all of which are accounted for in this period.

Note 7: Risk Management

In May 2018, DCE's Board adopted the Energy Risk Management Policy (ERMP). The ERMP establishes DCE's Energy Risk Program and applies to all power procurement and related business activities that may impact the risk profile of DCE. The ERMP documents the framework by which DCE staff and consultants will identify and quantify risk, develop and execute procurement strategies, develop controls and oversight and monitor, measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include customer opt-out risk, market risk, regulatory risk, volumetric risk, model risk, operational risk, counterparty credit risk, reputation risk, and other risks arising operating as a Community Choice Aggregation and participating in California energy markets.

Note 8: Joint Powers Agency Organizational Changes

On April 20, 2020, the City Council of the City of Cathedral City approved action to withdraw from DCE. DCE's joint powers agreement stipulates that member agencies which intend to withdraw must provide notice one year in advance of the withdrawal date. Cathedral City will remain part of DCE through the 2020-2021 fiscal year but will be officially withdrawn as of July 1, 2021. The remaining member agencies, Palm Springs and Palm Desert, have not provided any indication of intent to withdraw from the joint powers agreement.

Note 9: Subsequent Events

In July 2020, DCE's Board approved the start of negotiations with three energy providers carefully selected through a Request for Offers process, in order to close long term contracts in the form of Purchase Power Agreements. In December 2020, DCE's Board approved the signature of three 15-year long-term contracts in the form of Purchase Power Agreements with Terra-Gen, LLC (East Wind, AltWind and Coachella Hills Wind II). DCE is expecting to sign another long-term contract in the form of a Purchase Power Agreement (Solar plus Storage) in late January 2021.