DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2021

(With Independent Auditor's Report Thereon)

DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2021

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Davis Farr LLP
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Independent Auditor's 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, 2021, and the related notes to the financial statements, which collectively comprise DCE'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Desert Community Energy as of June 30, 2021, and the respective 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 March 28, 2022 on our consideration of the 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 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 DCE's internal control over financial reporting and compliance.

DavisFarr LLP

Irvine, California
March 28, 2022

June 30, 2021

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, 2021. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

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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.

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. In June 2021, DCE served approximately 4,506 non-residential accounts and 29,133 residential customer accounts, for a total of 33,639 accounts. 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 2024.

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 remained part of DCE through the 2020-2021 fiscal year but was officially withdrawn as of July 1, 2021.

DCE offers to its customers two electricity options to choose from: Carbon Free, which provides100% carbon free and approximately 56% renewable electricity and Desert Saver, a basic product that complies with the state Renewable Portfolio Standard, 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 fiscal year ended June 30, 2020 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

	June 30, 2021	June 30, 2020	Dollar Change
Current Assets	$12,879,345	$9,032,347	$3,846,998
Total Assets	12,879,345	9,032,347	3,846,998
Current Liabilities	5,924,485	1,947,231	5,924,485
Non-Current Liabilities	1,680,000	-	5,657,254
Total Liabilities	7,604,485	1,947,231	5,657,254
Restricted Net Position	347,000	-	347,000
Unrestricted Net Position	4,927,860	7,085,116	(2,157,256)
Total Net Position	$5,274,860	$7,085,116	$(1,810,256)

Current Assets

Current Assets were $12,879,345 at the end of June 30, 2021 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 2021 as a result of DCE operating with its entire customer base by the end of the last quarter of Fiscal Year 2020-2021. A deposit of $100,000 posted with the California Public Utilities Commission (CPUC) was recognized as a part of the current assets balance; in FY 2020 this deposit was 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, 2021 and June 30, 2020, DCE presented the following balances in its currents assets accounts:

	June 30, 2021	June 30, 2020	Dollar Change
Cash and Investments	$3,184,898	$4,400,378	$ 811,520
Restricted Cash	2,027,000	-	2,027,000
Accounts Receivables	7,667,447	2,981,195	4,686,252
Accrued Revenue	-	1,550,774	(1,550,774)
Deposits	-	100,000	(100,000)
Total Currents Assets	$12,879,345	$9,032,347	$3,846,998

Deposits decreased by $100,000 from 2020 to 2021 due to the return of the deposit posted with the California Public Utilities Commission (CPUC) in March 26, 2018. The funds were returned by CPUC on June 1, 2021.

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).

At the end of June 30, 2021 and June 30, 2020, DCE presented the following balances in its current liabilities accounts:

	June 30, 2021	June 30, 2020	Dollar Change
Accounts Payable	$ 118,248	$ 187,388	$ (69,140)
Accrued Electricity Cost	3,255,095	1,228,659	2,026,436
Deposit Payable	165,000	-	165,000
Utility User Taxes and Electric Energy Surcharges due to other governments	322,221	268,361	53,860
Related party-due to other governments	563,921	262,823	301,098
Loan Payable	1,500,000	-	1,500,000
Total Currents Liabilities	$7,604,485	$ 1,947,231	$5,657,254

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 2020-2021.

Non-Current Liabilities

Non-current liabilities consist of development security deposits for two wind energy projects targeted for January 1, 2023 expected operation date.

	June 30, 2021	June 30, 2020	Dollar Change
Development security deposit	$1,680,000	$ -	$1,680,000
Total non-current liabilities	$1,680,000	$ -	$1,680,000

Revenues, Expenses and Changes in Net Position

Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2021	June 30, 2020	Dollar Change
Operating Revenues	$36,087,172	$ 7,191,700	$28,895,472
Non-Operating Revenues	14,004	95,687	(81,683)
Total Revenues	36,101,176	7,287,387	28,813,789
Operating Expenses	38,029,885	5,161,268	32,868,617
Non-Operating Expenses	17,499	-	17,499
Total Expenses	38,047,384	5,161,268	32,886,116
Changes in Net Position	$(1,946,208)	$ 2,126,119	$(4,072,327)

Operating Revenues

Operating revenues amounted to approximately $36,087,172 in FY 2020-2021, mostly comprised of electricity sold by DCE in the City of Palm Springs during the period July 1, 2020 to June 30, 2021, to its entire customer base of approximately 34,000 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 $5,161,268 in FY 2019-2020 as result of the liquidation of procurement costs mentioned in the previous section.

Operating Expenses amounted to approximately $38,029,885 in FY 2020-2021 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, 2021 DCE had a participation of 88%, which is in line with the initial estimations assumed when DCE launched; DCE provides 100% Carbon Free electricity to approximately 80% 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). In May 2020, DCE launched its first Request for Offers in order to meet compliance objectives and secure renewable energy supply for DCE's customers.

Following a competitive bid process, in December 2020, the DCE Board approved power purchase agreements (PPA) for three wind energy projects located in DCE's services area in Palm Springs. As a result, DCE is providing carbon free electricity from local renewable sources, providing local jobs, and community investment. These fixed price long-term contracts for DCE's renewable portfolio represent an expected reduction in overall program costs. This cost reduction is over both the short-term and long-term due to the relatively low cost of the expected PPAs for the proposed projects compared to purchasing the same energy, capacity, and renewable energy credits on the open market.

A contract for a fourth project, a solar plus battery storage project in Tulare County, was approved in February 2021 and is scheduled to come online for DCE customers in early 2024. The cost savings over the lifetime of these four power purchase agreements is estimated at between $60 million and $80 million compared to the expected cost of the same quantity of short-term market purchases. These projects will lock in the costs for a significant portion of DCE's portfolio, allowing for increased rate certainty for DCE customers.

In April 2021, DCE entered into a revolving line of credit agreement with River City Bank for $2,000,000 to address short-term working capital requirements. This line of credit was not intended to provide long-term financing and has a term date of December 31, 2021. DCE anticipates entering into negotiations for additional working capital to manage fluctuations in cash flow requirements until such time as it can accumulate sufficient reserves. DCE is still a relatively new CCA and is in the process of building these reserves to improve its financial stability. Cash flow fluctuations are not uncommon for Community Choice Aggregation (CCA) agencies like DCE, which are largely as a result of timing differences between when a CCA collects revenue and must pay for energy, resource adequacy compliance, and other operating expenses. These fluctuations are typically managed through the establishment of operating reserves that accumulate over time. Because DCE launched service in April 2020, it has not had sufficient time to accumulate such reserves.

Consistent with DCE's goals to invest in the local community and promote local jobs, the DCE Board has directed staff to evaluate potential energy programs that would benefit customers and help them save energy. Programs to expand the use of distributed energy resources including rooftop solar and battery storage as well as promoting energy efficiency are being considered. Such programs would be designed to give back to the community, while maintaining competitive rates and meeting DCE's 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.

BASIC FINANCIAL STATEMENTS

Desert Community Energy
Statement of Net Position
June 30, 2021

Assets:	
Current Assets:	
Cash and investments (note 2)	$ 3,184,898
Restricted cash (note 2)	2,027,000
Accounts receivable, net (note 3)	7,667,447
Total Current Assets	12,879,345
Total Assets	$ 12,879,345
Liabilities:	
Current Liabilities:	
Accounts payable (note 4)	$ 3,373,343
Deposits payable	165,000
Due to other governments (note 5)	886,142
Loan payable (note 6)	1,500,000
Total Current Liabilities	5,924,485
Non-current Liabilities:	
Deposits payable	1,680,000
Total Non-current Liabilities	1,680,000
Total Liabilities	7,604,485
Net Position:	
Restricted	347,000
Unrestricted	4,927,860
Total Net Position	$ 5,274,860

See accompanying notes to financial statements.

Desert Community Energy
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2021

Operating Revenues:	
Electricity sales	$ 35,159,899
Miscellaneous	927,273
Total operating revenues	36,087,172
Operating Expenses:	
Electricity cost	35,528,297
Consultants charges	2,265,581
Administration and general	118,381
Professional services	117,626
Total operating expenses	38,029,885
Operating income (loss)	(1,942,713)
Nonoperating Revenues (Expenses):	
Interest revenue	14,004
Interest expense	(17,499)
Total nonoperating revenues (expenses)	(3,495)
Change in net position	(1,946,208)
Net Position - beginning, as restated (note 12)	7,221,068
Net Position - ending	$ 5,274,860

See accompanying notes to financial statements.

Desert Community Energy
Statement of Cash Flows
Year ended June 30, 2021

Cash Flows from Operating Activities:	
Cash received from customers and users	$ 33,187,646
Cash paid to suppliers for goods and services	(33,872,631)
Net cash (used for) operating Activities	(684,985)
Cash Flows from Noncapital Financing Activities:	
Loan proceeds	1,500,000
Interest expense	(17,499)
Net Cash Provided by noncapital financing activities	1,482,501
Cash Flows from Investing Activities:	
Investment income	14,004
Net cash provided by investing activities	14,004
Net increase in cash and cash equivalents	811,520
Cash and Cash Equivalents, beginning of year	4,400,378
Cash and Cash Equivalents, end of year	$ 5,211,898
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities:	
Operating income (loss)	$ (1,942,713)
Adjustments to reconcile operating income (loss) to net cash (used for operating activities)	
Decrease (increase) in accounts receivable	(2,999,526)
Decrease (increase) in deposits	100,000
Increase (decrease) in accounts payable	1,957,296
Increase (decrease) in deposits payable	1,845,000
Increase (decrease) in due to other governments	354,958
Total adjustments	1,257,728
Net cash (used for) operating activities	$ (684,985)

There were no significant noncash financing, capital, or investing activities.

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

(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 while Palm Desert plans to launch no sooner than 2024. Per Resolution number 2020-09, Cathedral City has withdrawn from DCE effective July 1, 2021. 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.

(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, 2021, net position of the entity was $5,274,860. For the year ended June 30, 2021, 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 capital assets at June 30, 2021.
- *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 had a restricted net position of $347,000 at June 30, 2021.
- *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.

(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.

(2) Cash and Cash Equivalents

Cash and cash equivalents of the entity consisted of demand deposits with financial institutions. At June 30, 2021, the carrying amount of DCE's cash accounts was $5,211,898.

Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(3) Accounts Receivable

At June 30, 2021, DCE reported $7,667,447 in accounts receivables, net of the allowance for uncollectible accounts. The details of this balance are as follows:

Accounts receivable	$ 8,752,754
Less: allowance for uncollectible accounts	(1,085,307)
Total Accounts Receivable	$ 7,667,447

(4) Accounts Payable

At June 30, 2021, DCE reported $3,373,343 in accounts payable. The details of this balance are as follows:

Accounts payable	$	118,248
Accrued electricity cost		3,255,095
Total Payables	$	3,373,343

(5) Due to Other Governments

At June 30, 2021, DCE reported $898,613 in Due to Other Governments. The details of this balance are as follows:

Utility Users Taxes & Electric Energy Surcharges	$	322,221
Related Party Payables (Note 7)		563,921
Total Due to Other Governments	$	886,142

(6) Loan Payable

On April 26, 2021, DCE entered into a revolving line of credit agreement for the amount of $2,000,000 with River City Bank. The line of credit accrues interest at a rate of three-month treasury constant maturity rate plus 1.75 percent and terminates December 31, 2021. On June 30, 2021, the outstanding balance on the line of credit was $1,500,000.

(7) 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 DCE 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, 2020 to June 30, 2021, CVAG incurred and charged DCE $563,921 of staff time and allocated administrative expenses, all of which are accounted for in this period.

(8) Risk Management

On May 21, 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, and measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include market price risk, credit risk, volumetric risk, operational risk, opt-out risk, legislative and regulatory risk, counterparty credit risk, and other risks arising from operating as a Community Choice Aggregation program and participating in California energy markets. DCE’s ERMP can be found on its website.

(8) Risk Management (Continued)

To ensure successful operation of the CCA program, DCE has partnered with experienced consultants to provide energy-related services. Specific to power procurement, DCE has partnered with The Energy Authority which executes the preponderance of front-(transacting), middle-(monitoring) and back-office (settlement) related activities on DCE's behalf as discussed in the ERMP. In providing these services for DCE, TEA will adhere to and be governed by the ERMP. In addition, TEA maintains its own risk management policies and procedures, following industry practices of segregation of duties, which also govern activities executed on DCE's behalf.

Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, DCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

(9) 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 remained part of DCE through the 2020-2021 fiscal year and officially withdrew as of July 1, 2021.

(10) Power Purchase Agreements

Terra-Gen, LLC

On December 21, 2020, the DCE Board approved three, 15-year power purchase agreements (PPA) with Terra-Gen, LLC. Terra-Gen, LLC is a leading developer, owner, and operator of renewable energy projects that has been operating since 2008. Terra-Gen specializes in development, construction and operation of utility-scale wind, solar, energy storage as well as geothermal generation facilities.

Under the pricing terms in the agreement, DCE will pay for the electricity generated by the projects at a fixed-price rate per MWh (megawatt hour), with no escalation for the full 15-year term of the contracts. All attributes from the facility, including energy, Renewable Energy Credits (RECs), and Resource Adequacy (RA) will be available to DCE. The contracts reflect pricing that is typical in the current market for new and existing wind resources. The completion of long-term contracts for DCE's renewable portfolio represents an expected reduction in overall program costs. This cost reduction is over both the short-term and long-term due to the relatively low cost of the expected PPAs for the proposed projects compared to purchasing the same energy, capacity, and renewable energy credits on the open market. The expected commercial operation date for completion is January 1, 2023 for the Altwind Project and East Wind Project.

(10) Power Purchase Agreements (Continued)

Vesper Energy

On February 25, 2021, the DCE Board approved a 20-year renewable power purchase agreement (PPA) with Deer Creek Solar I, LLC (Deer Creek) for the Deer Creek Solar + Storage Project in Tulare County, California. The Deer Creek project consists of a 50 MW solar component connected to a 50 MW/200 MWh battery storage component (i.e. a 50 MW battery that can discharge for four hours.) The solar component of the project will generate nearly 190,000 MWh annually in its first year or operation, which is equivalent to powering 15,500 homes with 100% carbon-free electricity. This is expected to give DCE customers a more cost-effective source of renewable power than buying on the short-term market.

Under the pricing terms in the agreement, DCE will pay for the electricity generated by the project at a fixed-price rate per MWh (megawatt hour) for the renewable portion of the project and a fixed-price rate per MW for the storage portion of the project, with no escalation for the full 20-year term of the contract. All attributes from the facility, including energy, Renewable Energy Credits (RECs), and Resource Adequacy (RA) will be available to DCE. The contract currently under consideration reflect pricing that is typical in the current market for new and existing solar + storage resources. The completion of long-term contract for DCE's renewable portfolio represents an expected reduction in overall program costs. This cost reduction is over both the short-term and long-term due to the relatively low cost of the expected PPA for the proposed project compared to purchasing the same energy, capacity, and renewable energy credits on the open market.

DCE estimates that the cost savings over the lifetime of the Terra-Gen, LLC and Vesper Energy power purchase agreements will be between $60 million and $80 million compared to the expected cost of the same quantity of short-term market purchases. These projects will lock in the costs for a significant portion of DCE's portfolio, allowing for increased rate certainty for DCE's customers.

(11) Contract Commitments

At June 30, 2021, DCE had contract commitments that totaled approximately $1,994,505.

(12) Prior Period Adjustment

During the year ended June 30, 2021, DCE made the following adjustment to beginning net position:

Net Position, July 1	$ 7,085,116
Adjustment to correct revenue recorded twice	135,953
Net Position, Restated	$ 7,221,068

(13) Subsequent Events

On February 11, 2022, DCE entered into a revolving line of credit agreement for the amount of $8,000,000 with River City Bank. The line of credit accrues interest at a rate of three-month treasury constant maturity rate plus 1.75 percent and terminates February 1, 2025. As of March 28, 2022 there is an outstanding balance of $3,367,848.

DCE is a participant in the California Arrearage Payment Program ("CAAP") as administered by the California Department of Community Services and Development. Under CAAP, DCE applied for and became eligible for an estimated $609,655 in arrearage payment. Subsequent to fiscal year ended June 30, 2021, DCE received its first payment from CAAP in February 2022 in the amount of $355,962.