DESERT COMMUNITY ENERGY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2022

(With Independent Auditor's Report Thereon)

DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Desert Community Energy ("DCE"), as of and for the year June 30, 2022, and the related notes to the financial statements, which collectively comprise DCE's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of DCE as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DCE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DCE's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DCE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Report on Summarized Comparative Information

We have previously audited DCE's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report date March 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022 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 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
October 21, 2022

DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2022

The following is a discussion and analysis of Desert Community Energy (DCE) financial performance and includes an overview of DCE′s financial activities for fiscal year ended June 30, 2022, with comparative information from the fiscal year ended June 30, 2021. Please read this discussion and analysis in conjunction with the financial statements, including the notes to the financial statements identified in the accompanying tables.

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The annual report consists of the following parts:

- Management’s discussion and analysis (this section)
- 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 and counties to establish Community Choice Aggregation programs, to purchase power on behalf of their local 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 membership currently includes the cities of Palm Springs 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 elected representative from each participating member agency. The DCE Board authority includes the ability to set rates for the services it furnishes, to incur indebtedness, and to issue bonds or other obligations. DCE acquires electricity from wholesale and commercial suppliers and delivers it by way of existing physical local distribution infrastructure and equipment owned and managed by Southern California Edison (SCE), and high voltage transmission system overseen by the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC). DCE offers ratepayers a choice in retail electricity providers and in the type of electricity they use.

As a CCA, DCE contracts for, buys and/or develops power resources on behalf of electricity customers in its jurisdiction to achieve its objective of offering 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 a CCA program launches in their city. Customers served under California's Direct Access Program are not included in automatic enrollment. According to state law, DCE must give customers the option to "opt out" and remain bundled customers of 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 2022, DCE served approximately 4,392 non-residential accounts and 28,618 residential customer accounts, for a total of 33,010 Palm Springs′ accounts. The City of Palm Desert has not yet determined its launch plans; based on current CPUC regulations, the next soonest opportunity for Palm Desert to begin serving CCA customers is 2024.

DCE offers its customers two electricity products to choose from: 1) Carbon Free, which provides100% carbon free and approximately 56% renewable electricity; and 2) Desert Saver, a basic product that fully complies with California's Renewable Portfolio Standard. DCE's premium Carbon Free product is priced at a premium above SCE's base bundled product and DCE's Desert Saver is priced at a discount to SCE's base bundled product. DCE's Desert Saver product is the least cost retail electricity option for Palm Springs' customers.

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 enterprise funds, as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

The figures considered for fiscal year ended June 30, 2021 are presented only for information purposes because during that period DCE had not yet completed enrollment and service provision to its full customer base. This period represents DCE′s first full year of CCA business operations.

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

Net Position

Statements of Net Position

	June 30, 2022	June 30, 2021	Dollar Change
Current Assets	$ 14,170,725	$ 12,879,345	$ 1,291,380
Total Assets	14,170,725	12,879,345	1,291,380
Current Liabilities	7,099,338	5,744,485	1,354,853
Non-Current Liabilities	2,200,000	1,680,000	520,000
Total Liabilities	9,299,338	7,424,485	1,874,853
Restricted Net Position	147,000	347,000	(200,000)
Unrestricted Net Position	4,724,387	4,927,860	(203,473)
Total Net Position	$ 4,871,387	$ 5,274,860	$ (403,473)

Current Assets

Current Assets were $14,170,725 at the end of June 30, 2022, and mostly comprised of accounts receivable (net), cash and cash equivalents, including restricted cash, accrued revenue, and prepaid expenses. Accrued revenue differs from accounts receivable in that it includes electricity used by DCE customers before invoicing to those customers occurs. The total of current assets increased in 2022 as a result of an increase in accounts receivable, net as DCE experienced revenue growth during its second full year of operations primarily associated with increased prices of its power products.

At the end of June 30, 2022, and June 30, 2021, DCE presented the following balances in its current asset accounts:

	June 30, 2022	June 30, 2021	Dollar Change
Cash and Investments	$ 1,970,935	$ 3,184,898	$ (1,213,963)
Restricted Cash	1,827,000	2,027,000	(200,000)
Accounts Receivables	10,240,775	7,667,447	2,573,328
Accrued Revenue	132,015	-	132,015
Total Current Assets	$ 14,170,725	$ 12,879,345	$ 1,291,380

Current Liabilities

Current liabilities primarily consist of the cost of wholesale electricity supply delivered to customers for which such supply charges are not yet due and payable per invoice terms. Other components include trade accounts payable, taxes, surcharges, and amounts due to other vendors, consultants, and business services providers. At the end of June 30, 2022, and June 30, 2021, DCE presented the following balances in its current liability accounts:

	June 30, 2022	June 30, 2021	Dollar Change
Accounts Payable	$ 384,035	$ 200,693	$ 183,342
Accrued Electricity Cost	4,278,231	3,172,650	1,105,581
Deposit Payable	1,680,000	165,000	1,515,000
Utility User Taxes and Electric Energy Surcharges due to other governments	433,054	322,221	110,833
Related party-due to other governments	324,018	563,921	(239,903)
Loan Payable	-	1,500,000	(1,500,000)
Total Current Liabilities	$ 7,099,338	$ 5,924,485	$ 1,174,853

Current liabilities increased year-over-year due to increased wholesale energy supply costs related to generally rising power market conditions. In addition, a contractual deposit being held as development security becomes payable within one year from the balance sheet date.

Non-Current Liabilities

Non-current liabilities consist of funds payable on a revolving line of credit payable in 2025.

	June 30, 2022	June 30, 2021	Dollar Change
Loans Payable - Long Term	$ 2,200,000	$ -	$ 2,200,000
Development Security Deposit	-	1,680,000	(1,680,000)
Total Non-Current Liabilities	$ 2,200,000	$ 1,680,000	$ 520,000

Non-Current Liabilities increased due to a new credit agreement with River City Bank and decreased due to development security deposits moving to Current-Liabilities.

Revenues, Expenses and Changes in Net Position

Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2022	June 30, 2021	Dollar Change
Operating Revenues	$ 44,831,088	$ 36,087,172	$ 8,743,916
Non-Operating Revenues	4,103	14,004	(9,901)
Total Revenues	44,835,191	36,101,176	8,734,015
Operating Expenses	45,114,848	38,029,885	7,084,963
Non-Operating Expenses	123,816	17,499	106,317
Total Expenses	45,238,664	38,047,384	7,191,280
Changes in Net Position	$ (403,473)	$ (1,946,208)	$ 1,542,735

Operating revenues amounted to approximately $44,831,088 in FY 2021-2022, mostly comprised of retail electricity sold by DCE to Palm Springs CCA customers during the period July 1, 2021, to June 30, 2022, to its customer base of approximately 33,143 accounts (municipal, residential and commercial) as well as revenues resulting from wholesale transactions in the CAISO markets and power sales to other power entities. Non-operating revenues include interest.

Operating Expenses

Operating Expenses amounted to approximately $45,114,848 in FY 2021-2022 and primarily includes the cost of wholesale energy supply utilized to serve DCE CCA customers. Power market price conditions to serve current load and to hedge for future out-year load continued their increase from the prior year. Operating expenses also include costs paid to consultants and other vendors as well as general and administrative expenses to maintain staffing and business operations. Non-operating expenses include debt service costs which increased from the prior year as DCE drew down on its newly established revolving line of credit for working capital needs.

ECONOMIC OUTLOOK

DCE launched operation in the City of Palm Springs in April 2020 and currently has enrolled approximately 28,800 residential customer accounts and 4,343 municipal and commercial accounts. Of these, approximately 4,757 residential and 114 municipal and commercial customer accounts have installed rooftop solar and are included in DCE’s Net Energy Metering program.

At the end of June 30, 2022, DCE had an eligible customer participation rate of 85%, which tracks DCE’s enrollment expectations when DCE was first launched. DCE’s 100% Carbon Free default electricity product serves approximately 72% of its 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 these compliance objectives and secure added firm 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 Palm Springs' service area. As a result, DCE is providing carbon free electricity from local renewable sources, expanding local jobs, and community investment. These fixed price long-term contracts for DCE's renewable portfolio are expected to help stabilize and reduce DCE's overall program costs. This easing of power market supply cost pressure over both the near-term and longer-term is due to the relatively favorable cost of these PPAs versus purchasing the same amounts of energy, capacity, and other renewable energy products on the open market.

A fourth contract, 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 net cost savings over the lifetime of these four PPAs is estimated at between \$60 and \$80 million when compared to the expected cost of the same quantity of short-term market purchases. These projects will lock in and stabilize costs for a significant portion of DCE's portfolio, providing increased rate certainty and predictability for DCE customers.

In April 2021, DCE entered into a \$2,000,000 credit agreement with River City Bank. This line of credit was not intended to provide long-term financing and had a term date of December 31, 2021. On February 11, 2022, DCE entered into a revolving line of credit agreement in 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. The credit agreement provides DCE with the liquidity necessary to maintain short-term working-capital needs. Subsequent to June 30, 2022, DCE amended its Credit Agreement so that the Revolving Credit Commitment was increased from \$8,000,000 to \$13,000,000. All working-capital advances are subject to a sublimit of \$8,000,000. DCE is a relatively new CCA and is in the process of building financial reserves to augment its financial stability. Cash flow fluctuations are not uncommon for retail electricity service providers like DCE and are largely a result of timing differences between when it receives its retail revenues and when it must pay for energy supply, resource adequacy compliance, and other operating expenses. In short, revenues typically lag expenses. These cash flow fluctuations are generally managed by utilizing operating reserves that accumulate over time. As DCE launched service in April 2020 during the Covid-19 pandemic, it has not had sufficient time to accumulate necessary reserve levels to temper cash flow variability. DCE is currently projecting accumulating its 180-day operating reserve objective on or around the end of Fiscal Year 2023/24.

The 2010 through 2019 period prior to DCE′s launch was characterized by both relatively low annual price escalation and equally low market volatility. Average year over year wholesale prices increased below 1% annually throughout this period. During DCE′s initial 2020 start-up period DCE relied fully on wholesale power purchases and CAISO markets to serve its retail loads and to attain its RPS and carbon free energy components. Since early 2020 through June 30, 2022, wholesale power prices have been increasing about 20% annually with periods of extreme price volatility, especially during summer heat-storm events and supply curtailments. DCE′s business strategies to help mitigate these pressures and uncertainties include contracting for longer-term renewable and carbon free supply at fixed prices, attaining a 180-day operating reserve, coordinating with other CCAs to address CPUC and SCE regulatory activities, and adjusting rate and revenue levels to timely and fully recover all operating costs.

DCE launched operations in April 2020 during the Covid-19 pandemic which impacted its operations in several ways. With more residential customers working from home, DCE experienced increased residential load. The Covid-19 pandemic also prompted the CPUC to enact a customer disconnect moratorium affecting DCE′s planned collections process on past-due accounts. In late 2021, DCE applied for the California Arrearage Payment Program (CAPP) funding which is a statewide program to reduce or eliminate past due energy bills for qualified energy utility customers economically impacted by the COVID-19 pandemic. For the year-ended June 30, 2022, DCE customers received CAPP Benefits in the amount of $609,655 applied to eligible accounts as bill credits. After June 30, 2022, DCE applied for the 2022 California Arrearage Payment Program (2022 CAPP) funding, and an estimated $466,681 issued to customers as bill credits is expected on or around March 2023. DCE′s launch during the Covid-19 pandemic has presented obstacles in collecting on accounts receivable given the disconnect moratorium. However, DCE is currently exploring collection options for accounts ineligible for 2022 CAPP. Once the 2022 CAPP disbursement is made to accounts, DCE will then be able to more fully analyze its accounts receivable and resume its collection process as intended.

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 lower energy consumption. 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 support and benefit the community, while maintaining competitive rates and meeting DCE's environmental goals.

CONTACTING DCE'S FINANCIAL MANAGEMENT

This financial report is designed to provide customers, business counterparties, resource providers and other interested entities with a general overview of DCE's business finances and accountability. If you have questions about this report or need additional financial information, contact DCE's office administered by the Coachella Valley Association of Governments, attention Director of Finance/Administration, at 73-710 Fred Waring Drive, Suite 200, Palm Desert, CA 92260.

BASIC FINANCIAL STATEMENTS

Desert Community Energy
Statement of Net Position
June 30, 2022
(With prior year comparative totals)

	2022	2021
Assets:		
Current Assets:		
Cash (note 2)	$ 1,970,935	$ 3,184,898
Restricted cash (note 2)	1,827,000	2,027,000
Accounts receivable, net (note 3)	10,240,775	7,667,447
Prepaids	132,015	-
Total Current Assets	14,170,725	12,879,345
Total Assets	$ 14,170,725	$ 12,879,345
Liabilities:		
Current Liabilities:		
Accounts payable (note 4)	$ 4,662,266	$ 3,373,343
Deposits payable	1,680,000	165,000
Due to other governments (note 5)	757,072	886,142
Nonrevolving line of credit (note 6)	-	1,500,000
Total Current Liabilities	7,099,338	5,924,485
Non-current Liabilities:		
Revolving line of credit (note 6)	2,200,000	-
Deposits payable	-	1,680,000
Total Non-current Liabilities	2,200,000	1,680,000
Total Liabilities	9,299,338	7,604,485
Net Position:		
Restricted	147,000	347,000
Unrestricted	4,724,387	4,927,860
Total Net Position	$ 4,871,387	$ 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, 2022
(With prior year comparative totals)

	2022	2021
Operating Revenues:		
Electricity sales	$ 42,866,582	$ 35,159,899
Miscellaneous	1,964,506	927,273
Total operating revenues	44,831,088	36,087,172
Operating Expenses:		
Electricity cost	42,404,994	35,528,297
Consultants charges	2,358,011	2,265,581
Administration and general	195,408	118,381
Professional services	156,435	117,626
Total operating expenses	45,114,848	38,029,885
Operating income (loss)	(283,760)	(1,942,713)
Nonoperating Revenues (Expenses):		
Interest revenue	4,103	14,004
Interest expense	(123,816)	(17,499)
Total nonoperating revenues (expenses)	(119,713)	(3,495)
Change in net position	(403,473)	(1,946,208)
Net Position - beginning	5,274,860	7,221,068
Net Position - ending	$ 4,871,387	$ 5,274,860

See accompanying notes to financial statements.

Desert Community Energy
Statement of Cash Flows
Year ended June 30, 2022
(With prior year comparative totals)

	2022	2021
Cash Flows from Operating Activities:		
Cash received from customers and users	$ 42,257,760	$ 33,187,646
Cash paid to suppliers for goods and services	(44,252,010)	(33,872,631)
Net cash (used for) operating Activities	(1,994,250)	(684,985)
Cash Flows from Noncapital Financing Activities:		
Loan proceeds	2,200,000	1,500,000
Loan payments	(1,500,000)	-
Interest expense	(123,816)	(17,499)
Net Cash Provided by noncapital financing activities	576,184	1,482,501
Cash Flows from Investing Activities:		
Investment income	4,103	14,004
Net cash provided by investing activities	4,103	14,004
Net increase in cash and cash equivalents	(1,413,963)	811,520
Cash and Cash Equivalents, beginning of year	5,211,898	4,400,378
Cash and Cash Equivalents, end of year	$ 3,797,935	$ 5,211,898
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities:		
Operating income (loss)	$ (283,760)	$ (1,942,713)
Adjustments to reconcile operating income (loss) to net cash (used for operating activities)		
Decrease (increase) in accounts receivable	(2,573,328)	(2,999,526)
Decrease (increase) in prepaids	(132,015)	100,000
Increase (decrease) in accounts payable	1,288,923	1,957,296
Increase (decrease) in deposits payable	(165,000)	1,845,000
Increase (decrease) in due to other governments	(129,070)	354,958
Total adjustments	(1,710,490)	1,257,728
Net cash (used for) operating activities	$ (1,994,250)	$ (684,985)

There were no significant noncash financing, capital, or investing activities. The Statement of Cash Flows is presented on a net basis.

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 DCE's financial position. For the fiscal year ended June 30, 2022, net position of the DCE was $4,871,387. For the year ended June 30, 2022, 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, 2022.
- *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 $147,000 at June 30, 2022.
- *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.

(i) Prior Year Comparative Information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with DCE's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

(2) Cash and Cash Equivalents

Cash and cash equivalents of the entity consisted of demand deposits with financial institutions. At June 30, 2022, the carrying amount of DCE's cash accounts was $3,797,935 of which $1,827,000 was restricted.

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, 2022, DCE reported $10,240,775 in accounts receivables, net of the allowance for uncollectible accounts. Due to pending arrearage payment to eligible DCE accounts under the 2022 California Arrearage Payment Program (2022 CAPP), the allowance for doubtful accounts was not reduced for write-off at June 30, 2022. See note 11 for additional information. The details of this balance are as follows:

Accounts receivable	$ 12,042,217
Less: allowance for uncollectible accounts	(1,801,442)
Total Accounts Receivable	$ 10,240,775

(4) Accounts Payable

At June 30, 2022, DCE reported $4,662,266 in accounts payable. The details of this balance are as follows:

Accounts payable	$ 384,035
Accrued electricity cost	4,278,231
Total Payables	$ 4,662,266

(5) Due to Other Governments

At June 30, 2022, DCE reported $757,072 in Due to Other Governments. The details of this balance are as follows:

Utility Users Taxes & Electric Energy Surcharges	$ 433,054
Related Party Payables (Note 7)	324,018
Total Due to Other Governments	$ 757,072

(6) Line of Credit

Nonrevolving Line of Credit

On April 26, 2021, DCE entered into a nonrevolving line of credit agreement for the amount of $2,000,000 with River City Bank. The outstanding balance on the line of credit was paid in full as of December 2021.

Revolving Line of Credit

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 revolving line of credit was amended in July 2022. See Note 11 for additional information. 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. Subject to satisfaction of the terms, DCE may exercise a one-time option to convert all outstanding Working Capital Advances to a Term Loan.

(6) Line of Credit (Continued)

If the Term Loan Conditions are satisfied, the Term Loan will be payable over a term of thirty-six(36) months, with equal fully amortizing monthly payments of principal and interest at the Applicable Rate as determined by Lender as of the date of conversion, and will be governed by the terms and conditions of this Agreement and evidenced by a separate promissory note.

Additionally, as security for the prompt payment and performances of all obligations, DCE has granted River City Bank with a continuing security interest as collateral per the terms on the agreement. On June 30, 2022, the outstanding balance on the line of credit was $2,200,000.

(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, 2021 to June 30, 2022, CVAG incurred and charged DCE $631,213 of staff time and allocated administrative expenses, all of which are accounted for in this period. As of June 30, 2022, $324,018 of the total was payable to CVAG.

(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.

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 (TEA) 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) 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.

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.

(10) Contract Commitments

At June 30, 2022, DCE had contract commitments that totaled approximately $762,194.

(11) Subsequent Events

On July 08, 2022, DCE amended its Credit Agreement dated February 11, 2022 with River City Bank and the related Revolving Credit Promissory Note. The Revolving Credit Commitment was increased from $8,000,000 to $13,000,000. All Working Capital Advances are subject to a sublimit of $8,000,000.

Subsequent to June 30, 2022, DCE applied for participation in the 2022 California Arrearage Payment Program ("2022 CAAP") as administered by the California Department of Community Services and Development. Under 2022 CAAP, active residential DCE customers with past due bills incurred during the COVID-19 pandemic bill relief period are considered eligible for 2022 CAPP assistance. The 2022 CAPP assistance amount to DCE customers is currently estimated at $466,681 and will be issued to customers as bill credits on or around March 2023.