

DESERT COMMUNITY ENERGY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2025



DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

DESERT COMMUNITY ENERGY
Financial Statements
Year ended June 30, 2025
(With Independent Auditor's Report Thereon)

DESERT COMMUNITY ENERGY

Financial Statements

Year ended June 30, 2025

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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

Opinion

We have audited the financial statements of Desert Community Energy ("DCE"), as of and for the year ended June 30, 2025, 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, 2025, 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 Opinion

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 opinion.

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 opinion. 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 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 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 31, 2025 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.

DavisFarrLLP

Irvine, California
October 31, 2025

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2025**

The following is a discussion and analysis of Desert Community Energy's (DCE's) financial performance and includes a summary of DCE's financial statements coupled with a detailed analysis of DCE's financial position and results of operations for the fiscal year ended June 30, 2025, with comparative information from the fiscal year ended June 30, 2024. The purpose of management's discussion and analysis (MD&A) is to help DCE customers and other stakeholders understand what the financial statements and notes in this financial report say about DCE's financial health and why it has changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by DCE staff's knowledge of DCE's finances. Please read this discussion and analysis in conjunction with the financial statements, including the notes to the financial statements identified in the accompanying tables.

If you have any questions about this report or require further information, contact DCE staff at 760.346.1127 and ask for the Director of Finance.

OVERVIEW OF THE FINANCIAL STATEMENTS

Following the MD&A (this section), DCE's financial report contains basic financial statements. Those financial statements represent DCE's work procuring 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 Statement of Net Position includes all of DCE's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time, the fiscal year-end date. The Statement of Revenues, Expenses, and Changes in Net Position reports all of DCE's revenue and expenses for the year shown. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other sources and uses, such as cash flow from investing activities.

The financial statements also include notes to the financial statements, which delve deeper into DCE's finances as reported in the basic financial statements. The information in the notes is as important to understanding DCE's finances as the information in the financial statements themselves. DCE uses notes to (1) present information in greater details than is possible within the financial statements, (2) explain the nature of amounts reported in the financial statements and how those amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contractual commitments).

All of DCE's financial activities are captured in an enterprise fund and use the *economic resources measurement focus* and *accrual basis of accounting* in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In other words, they comprehensively report all types of financial statement elements:

- *Assets* – resources that DCE controls, which are mostly in the form of short-term assets like cash and investments as well as accounts receivable and also includes long-term assets like collateral deposits for power purchase agreements with counterparties.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2025**

- *Liabilities* - amounts DCE owes to others, from short-term liabilities such as amounts due to bilateral counter parties under energy contracts and Utility User Taxes collected from customers and owed to other governments to long-term liabilities like performance security from developers held by DCE until the commercial operation date for power purchase agreements.
- *Revenues and Expenses* – inflows and outflows of resources, respectively, related to the current year.

More details about the measurement focus and basis of accounting can be found in Note 1 of the notes to the financial statements, the summary of significant accounting policies.

FINANCIAL SUMMARY AND ANALYSIS OF DCE’S FINANCES

The following tables provide condensed financial information (financial summary) derived from the basic financial statements, excluding the statement of cash flows, and compare current year balances to the prior year. Adding context to the financial summary information is a detailed analysis and discussion of DCE’s financial position and results of operations.

| Statement of Net Position (amounts expressed in thousands) | | | | |
|---|---------------|---------------|---------------|----------------------|
| | June 30, 2025 | June 30, 2024 | Dollar Change | Percentage Change |
| Current and Other Assets | \$ 50,771 | \$ 46,940 | \$ 3,831 | 8.2% |
| Total Assets | 50,771 | 46,940 | 3,831 | 8.2% |
| Current Liabilities | 10,324 | 11,349 | (1,025) | (9.0%) |
| Non-Current Liabilities | 405 | 405 | - | 0.0% |
| Total Liabilities | 10,729 | 11,754 | (1,025) | (8.7%) |
| Net Position: | | | | |
| Restricted Net Position | 147 | 147 | - | 0.0% |
| Unrestricted Net Position | 39,895 | 35,040 | 4,856 | 13.9% |
| Total Net Position | \$ 40,042 | \$ 35,187 | \$ 4,856 | 13.8% |

Note: Totals may not sum precisely due to rounding differences.

As of June 30, 2025, DCE’s net position (assets minus liabilities) was \$40.0 million, an increase of \$4.9 million compared with June 30, 2024. The increase is primarily due to the increase in unrestricted net position due to growth in cash on hand and accounts receivable; while prepaid energy costs decreased. Most of this increase in the unrestricted net position was the result of revenue growth which was offset by a notable increase in the cost of energy and capacity. The major contributing revenues and expenses that affected the change in net position for DCE are summarized and analyzed next.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2025**

Revenues, Expenses and Changes in Net Position

Statement of Revenues, Expenses, and Changes in Net Position
(amounts expressed in thousands)

| | <u>June 30, 2025</u> | <u>June 30, 2024</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|------------------------------------|----------------------|----------------------|----------------------|------------------------------|
| Operating Revenues: | | | | |
| Electricity Sales | \$ 70,782 | \$ 69,670 | \$ 1,112 | 1.6% |
| Miscellaneous | 17 | 31 | (14) | (45.8%) |
| Non-Operating Revenues: | | | | |
| Interest Revenue | <u>1,117</u> | <u>489</u> | <u>628</u> | <u>128.5%</u> |
| Total Revenues | <u>71,916</u> | <u>70,189</u> | <u>1,727</u> | <u>2.5%</u> |
| Operating Expenses: | | | | |
| Electricity | 64,153 | 51,451 | 12,702 | 24.7% |
| Other | 2,908 | 2,865 | 43 | 1.5% |
| Non-Operating Expenses: | | | | |
| Interest Expenses | <u>-</u> | <u>1</u> | <u>(1)</u> | <u>(100.0%)</u> |
| Total Expenses | <u>67,061</u> | <u>54,317</u> | <u>12,744</u> | <u>23.5%</u> |
| Changes in Net Position | 4,856 | 15,872 | (11,017) | (69.4%) |
| Net Position - Beginning of Period | <u>35,187</u> | <u>19,314</u> | <u>15,872</u> | <u>82.2%</u> |
| Net Position - End of Period | <u>\$ 40,042</u> | <u>\$ 35,187</u> | <u>\$ 4,856</u> | <u>13.8%</u> |

Note: Totals may not sum precisely due to rounding differences.

Growth in Revenues

Approximately 98% of DCE's revenue is derived from electricity sales which includes sales to customers and can also include the sale of energy and capacity portfolio resources via bilateral contracts as well as energy market settlements through DCE's participation in the California Independent System Operator's (CAISO's) centralized market and also includes other smaller revenues. In FY 2024-2025, total revenues amounted to approximately \$71.9 million, representing an increase of \$1.7 million (2.5%) compared to FY 2023-2024. This increase was principally attributable to elevated electricity usage among the customers served by DCE as load, leading to higher total energy sales alongside adjustments in applicable rates.

Investment earnings increased by \$0.6 million (129%) during the fiscal year, attributed to higher average cash balances and new investment opportunities with higher yields. This increase was part of total revenues and contributed to the overall net revenue growth for the fiscal year.

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YEAR ENDED JUNE 30, 2025**

Increase in Expenses

Approximately 96% of DCE’s expenses are the cost of electricity which include the cost of energy and capacity arising from contracts with bilateral energy/capacity suppliers as well as load and other charges for DCE’s participation in the CAISO in addition to block hedges and other settlement fees. For FY 2024-2025, total expenses were approximately \$67.0 million, representing an increase of \$12.7 million or 23.5% from the previous fiscal year. The substantial increase in expenses was largely attributed to elevated costs for capacity (Resource Adequacy (RA)) products and renewable energy, both of which were required to ensure compliance with CPUC regulations, uphold the reliability of DCE’s energy supply, and achieve board-approved carbon-free objectives.

Other expenses during FY 2024-2025 remained relatively stable from the prior year and included payments to consultants and various professional service vendors like the Coachella Valley Association of Governments who provides administrative staffing for DCE.

Significant Capital Asset and Long-Term Financing Activity

In FY 2024-2025, DCE had no significant capital asset or long-term financing activity.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

DCE is aware of several developments that will have a significant effect on its finances in the future and were either included into the FY 2025-2026 budget or will be incorporated through a future budget amendment at an upcoming DCE Board meeting:

- (1) Revised policies from the Board of Directors to improve rate-setting flexibility and meet revenue requirements
- (2) Changes in the Power Charge Indifference Adjustment (PCIA) calculation
- (3) Downward trends in energy and capacity markets
- (4) New requirements from the California Public Utilities Commission (CPUC) for Mid Term Reliability (MTR)

Board Policy Updates

In March 2025, the DCE Board of Directors (Board) revised DCE’s Rate Stabilization Schedule (RSS) and now treats DCE’s Carbon Free product rate and its revenue requirements separately from SCE's bundled base product. Under the revised approach, the rates for DCE’s Carbon Free product—including any RSS adjustments—will be determined by DCE’s total revenue needs. These revenue requirements are identified through the budgeting process and take into account the Board’s decisions on financial reserves, compliance with fixed charge ratios, and adjustments for power market and regulatory developments. The policy continues to offer Desert Saver rates at a lower cost compared to SCE’s bundled base average bill, giving budget-conscious customers a more affordable option.

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MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2025**

This updated policy will affect subsequent fiscal years by ensuring that DCE's Carbon Free rates are more closely aligned with its actual financial requirements and market realities. This alignment supports the accumulation of financial reserves and the maintenance of key financial ratios, enhancing DCE's ability to respond to market and regulatory changes. As a result, DCE will be better positioned to maintain financial stability, provide reliable service, and offer competitive pricing for both its Carbon Free and Desert Saver products in subsequent years. It also provides for better budgetary practices to align budgets and budget adjustments to ensure DCE meets its annual revenue requirements, which is measured in the form of DCE's Fixed Charge Coverage (FCC) ratio currently calculated as net revenue plus 50% of fixed power purchase agreement (PPA) expenses divided by 50% of PPA expenses. DCE aims to maintain an FCC as close as possible to 2.0x in the coming fiscal years while also remaining competitive.

Finally, the Board revised DCE's Financial Reserve Policy which will allow DCE to build new special reserve categories, including customer programs, procurement, market stabilization, and a fixed charge coverage special reserve.

PCIA Changes

In June 2025, the CPUC issued a decision (D.25-06-049) that revises the methodology for the Resource Adequacy Market Price Benchmark (RA MPB) that is used to calculate the Power Charge Indifference Adjustment. The PCIA is intended to ensure that there is not a cost increase for bundled utility customers (those that remain with Southern California Edison service) as a result of the implementation of DCE and other CCAs. The impact of this decision on DCE's future fiscal years is multifaceted, as the RA MPB not only impacts DCE's retail revenues via the PCIA but also DCE's costs via certain bi-lateral contracts. The RA MPB calculation revision resulted in an approximate 70% decrease in the RA MPB year-over-year, which produced an approximate 300% increase in DCE's vintage year PCIA for calendar year 2026 in comparison to DCE's vintage year PCIA for 2025 and an approximate 70% decrease in certain DCE's current and projected contract costs for RA.

Trends in Energy and Capacity Prices

The energy market for fiscal year 2025-2026 is on the decline with the calendar year 2026 price forecast also displaying an overall declining trend driving lower projected wholesale energy costs for DCE in relation to the fiscal year under audit and previous fiscal years.

The Resource Adequacy (RA or capacity) market has also displayed a declining trend throughout calendar year 2025 and into 2026, retreating from a high point in 2024, which was in part due to market uncertainty spurred by the transition to Slice of Day (SOD). In addition, the calculation methodology change to the RA MPB mentioned above significantly contributed to DCE's RA cost savings in calendar year 2025 and has contributed to a material decrease in capacity cost projections in subsequent fiscal years.

The renewable energy market has also experienced a price decline in part due to the beginning of a new compliance period in 2025. The lower market prices realized in calendar year 2025 contributed to the reduction in the Final calendar year 2025 Renewable Portfolio Standard Market Price Benchmark (RPS MPB) and the Forecast calendar year 2026 RPS MPB, which reduces DCE's current and projected contractual costs for renewable energy. Given current market conditions and trends, it is expected the Final '26 RPS MPB, to be released in October 2026, will be at a decrease to the Forecast '26 RPS MPB, further reducing these costs to DCE.

**DESERT COMMUNITY ENERGY
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED JUNE 30, 2025**

CPUC Mid Term Reliability Requirements

The CPUC ordered load serving entities to procure new, incremental clean energy resources beginning with decision D.21-06-035 (MTR decision), colloquially known as mid-term reliability (MTR). The CPUC describes MTR as “an unprecedented, but necessary, quantity of clean energy procure that will ensure reliability in the mid-decade, help California achieve its climate goals, spur the development of the clean firm resources needed for deep decarbonization, and create thousands of green energy jobs in California,” highlighting the broad nature of the MTR decision. The MTR decision assigned DCE procurement requirements that included target volumes and resources that meet a checklist of characteristics. As of October 23, 2025, DCE is under contract with several resources to meet its current MTR obligations. More specifically, DCE procured a 43 MW slice of a 4-hour battery energy storage system, a 21 MW slice of an 8-hour battery energy storage system, and a 3 MW piece of a geothermal project. While these projects do help DCE meet its CPUC compliance requirements, they also complement DCE’s resource portfolio. The battery energy storage projects will allow DCE to purchase energy from the wholesale market during low-priced periods to store in the batteries and discharge them during higher-priced periods. The projects will also provide DCE with critical long-term resource adequacy at a fixed price. The geothermal project will provide DCE with around-the-clock carbon-free energy in addition to generating RECs to help DCE meet its statutory renewable energy requirements and provide resource adequacy to DCE, also at a fixed cost.

While DCE expects to be in compliance with its current MTR obligations, the CPUC may order more procurement in the future, which may require DCE to acquire additional resources.

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 (CVAG), attention Director of Finance located at 74-199 El Paseo Suite 100, Palm Desert, CA 92260 and open 8AM until 5PM Monday through Friday, excluding CVAG holidays.

BASIC FINANCIAL STATEMENTS

Desert Community Energy
Statement of Net Position
June 30, 2025
(With prior year comparative totals)

| | 2025 | 2024 |
|--------------------------------------|----------------------|----------------------|
| Assets: | | |
| Current Assets: | | |
| Cash and investments (note 2) | \$ 31,068,167 | \$ 25,858,814 |
| Restricted cash (note 2) | 147,000 | 147,000 |
| Accounts receivable, net (note 3) | 17,294,391 | 16,074,558 |
| Interest receivable | 71,467 | 2,410 |
| Prepays | 1,179,264 | 4,146,988 |
| Total Current Assets | 49,760,289 | 46,229,770 |
| Non-current Assets: | | |
| Deposits | 1,010,584 | 710,584 |
| Total Non-current Assets | 1,010,584 | 710,584 |
| Total Assets | 50,770,873 | 46,940,354 |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts payable (note 4) | 9,538,414 | 10,379,697 |
| Due to other governments (note 5) | 785,146 | 968,878 |
| Total Current Liabilities | 10,323,560 | 11,348,575 |
| Non-current Liabilities: | | |
| Deposits payable | 405,000 | 405,000 |
| Total Non-current Liabilities | 405,000 | 405,000 |
| Total Liabilities | 10,728,560 | 11,753,575 |
| Net Position: | | |
| Restricted | 147,000 | 147,000 |
| Unrestricted | 39,895,313 | 35,039,779 |
| Total Net Position | \$ 40,042,313 | \$ 35,186,779 |

See accompanying notes to financial statements.

Desert Community Energy
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2025
(With prior year comparative totals)

| | <u>2025</u> | <u>2024</u> |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Electricity sales | \$ 70,781,913 | \$ 69,669,505 |
| Miscellaneous | <u>16,683</u> | <u>30,768</u> |
| Total operating revenues | <u>70,798,596</u> | <u>69,700,273</u> |
| Operating Expenses: | | |
| Electricity cost | 64,152,607 | 51,450,582 |
| Consultants charges | 2,457,846 | 2,266,240 |
| Administration and general | 181,282 | 243,013 |
| Professional services | <u>268,792</u> | <u>355,898</u> |
| Total operating expenses | <u>67,060,527</u> | <u>54,315,733</u> |
| Operating income (loss) | <u>3,738,069</u> | <u>15,384,540</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest revenue | 1,117,465 | 489,079 |
| Interest expense | <u>-</u> | <u>(1,214)</u> |
| Total nonoperating revenues (expenses) | <u>1,117,465</u> | <u>487,865</u> |
| Change in net position | 4,855,534 | 15,872,405 |
| Net Position - beginning | <u>35,186,779</u> | <u>19,314,374</u> |
| Net Position - ending | <u>\$ 40,042,313</u> | <u>\$ 35,186,779</u> |

See accompanying notes to financial statements.

Desert Community Energy
Statement of Cash Flows
Year ended June 30, 2025
(With prior year comparative totals)

| | 2025 | 2024 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from customers and others | \$ 69,578,763 | \$ 70,031,214 |
| Cash paid to suppliers for goods and services | <u>(65,417,818)</u> | <u>(53,463,710)</u> |
| Net cash provided by (used for) operating activities | <u>4,160,945</u> | <u>16,567,504</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Interest paid | <u>-</u> | <u>(1,214)</u> |
| Net cash provided by (used for) noncapital financing activities | <u>-</u> | <u>(1,214)</u> |
| Cash Flows from Investing Activities: | | |
| Investment income | <u>1,048,408</u> | <u>486,669</u> |
| Net cash provided by investing activities | <u>1,048,408</u> | <u>486,669</u> |
| Net increase in cash and cash equivalents | 5,209,353 | 17,052,959 |
| Cash and Cash Equivalents, beginning of year | <u>26,005,814</u> | <u>8,952,855</u> |
| Cash and Cash Equivalents, end of year | <u>\$ 31,215,167</u> | <u>\$ 26,005,814</u> |
| Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities: | | |
| Operating income (loss) | <u>\$ 3,738,069</u> | <u>\$ 15,384,540</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities | | |
| Decrease (increase) in accounts receivable | (1,219,833) | 330,941 |
| Decrease (increase) in deposits | (300,000) | (400,000) |
| Decrease (increase) in prepaids | 2,967,724 | (4,036,396) |
| Increase (decrease) in accounts payable | (841,283) | 4,932,967 |
| Increase (decrease) in due to other governments | <u>(183,732)</u> | <u>355,452</u> |
| Total adjustments | <u>422,876</u> | <u>1,182,964</u> |
| Net cash provided by (used for) operating activities | <u>\$ 4,160,945</u> | <u>\$ 16,567,504</u> |

There were no significant noncash financing, capital, or investing activities for the years ended June 30, 2025 and 2024.

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(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, California formed via a Joint Powers Agreement (JPA) in October 2017 for the purpose of implementing and administering a Community Choice Aggregation (CCA) program. DCE is comprised of the cities of Palm Springs and Palm Desert and is certified by the California Public Utilities Commission (CPUC). 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 the next possible launch date per Palm Desert is 2028. DCE is governed by a Board of Directors composed of one locally elected representative or senior staff 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 goods and 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. Operating revenues can also include the sale of energy and capacity portfolio resources via bilateral contracts as well as energy market settlements through DCE's participation in the California Independent System Operator's (CAISO's) centralized market and also includes other revenues such as sale of congestion revenue rights and import allocation rights. The revenue for these sources is recognized as "Electricity sales" in the Statement of Revenues, Expenses, and Changes in Net Position.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(1) Summary of Significant Accounting Policies (Continued)

Nonoperating revenues and expenses are defined as subsidies received and provided, contributions to permanent and term endowments, revenues and expenses related to financing, resources from the disposal of capital assets and inventory, and investment income and expenses.

Insert: "Electricity cost" includes the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as load and other charges arising from DCE's participation in the CAISO in addition to block financial hedges and other charges.

(d) Assets, Liabilities and Net Position

Cash and Investments

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.

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect DCE's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include DCE's own data.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(1) Summary of Significant Accounting Policies (Continued)

Prepaid Expenses

Payments made for services that will benefit periods beyond June 30, 2025, are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Net Position

For the year ended June 30, 2025, DCE reported net position as classified in the following categories:

- *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.
- *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.
- *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.

(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.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(1) Summary of Significant Accounting Policies (Continued)

(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 prior year data may have been made to enhance their comparability to the current year.

(2) Cash and Investments

Cash and investments of the entity consisted of demand deposits with financial institutions and investments with two investment pools. At June 30, 2025, the carrying amount of DCE's cash accounts was \$31,215,167 of which \$147,000 was restricted.

| | |
|--|----------------------|
| Cash and cash equivalents: | |
| Deposits with financial institutions | \$ 8,684,894 |
| Investments: | |
| California Asset Management Program | 15,999,412 |
| State of California Local Agency Investment Fund | <u>6,530,861</u> |
| Total investments | <u>22,530,273</u> |
| Total cash and investments | <u>\$ 31,215,167</u> |

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.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(2) Cash and Investments (Continued)

DCE maintains an investment policy that establishes thresholds for holdings of individual investments. DCE did not have any investments meeting or exceeding the allowable threshold levels as of June 30, 2025.

| <u>Authorized Investment Type</u> | <u>% of Portfolio Authorized</u> | <u>Maximum Maturity</u> |
|---|--|---|
| United States Treasury Federal Agency | 0-100% | Maximum maturity: 5 Years Maximum maturity: 5 years No more than 30% of the portfolio may be invested in any single issuer. |
| Local Government Investment Pools | 0-75% | N/A |
| State of California Local Agency Investment Fund | Up to LAIF Maximum (\$75,000,000 per account) | N/A |
| California State and Local Agency Bonds | 0-25% | Maximum maturity: 5 Years Rated "A" or higher by S&P <i>or</i> by Moody's. |
| Commercial Paper | 0-25% | Maximum maturity: 270 days Rated "A-1" by S&P or "P-1" by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of a single issuer. Asset-backed CP is ineligible for purchase. |
| Negotiable/Time Certificates of Deposit | 0-25% | Maximum maturity: 5 Years |
| Medium-Term Notes | 0-25% | Maximum maturity: 5 years Rated "A" or higher by S&P <i>or</i> by Moody's. No more than 10% of the portfolio may be invested in the CP and MTNs of any single issuer. |
| Money Market Mutual Funds ("MMF") | 0-20% | Either rated "AAA" by S&P, "Aaa" by Moody's, or "AAA-V-1+" by Fitch (2 of 3), or retains an investment advisor registered or exempt from registration with SEC, with at least 5 years of experience managing a MMF with \$500 million or more in assets. |
| Repurchase Agreement | 0-10% | Maximum maturity: 30 Days Collateral must be United States Treasury, Federal, Agency, or GSE obligations. Zero coupon and stripped coupon instruments are not acceptable as collateral. Collateral must be valued at 102% of cost and adjusted weekly. DCE must have first lien and security interest in all collateral. DCE's custodian must hold collateral. An authorized broker must file a Public Securities Association ("PSA") Master Repurchase Agreement with DCE, and DCE's attorney must review the agreement, prior to the transaction of RP business with that broker. Reverse Repurchase Agreements are specifically not authorized under this investment policy. |
| Structured Notes | 0-20% | Maximum maturity: 5 Years |

**Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025**

(2) Cash and Investments (Continued)

DCE is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of DCE's investment in this pool is reported in the accompanying financial statements at amounts based on DCE's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. The entire balance of DCE's share of the investment pool is available for withdrawal at any time. LAIF is not registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals in LAIF are made on the basis of \$1 and not fair value. Accordingly, DCE's investment in this pool is measured on uncategorized inputs not defined as Level 1, 2, or 3.

DCE is a voluntary participant in the CAMP, which is an investment pool offered by the California Asset Management Trust. The trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500, et seq.) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. In accordance with Section 53601(p) of the California Government Code, CAMP's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601. Deposits in the CAMP are presented as cash and cash equivalents as they are available for immediate withdrawal or deposit at any time without prior notice or penalty and there is no significant risk of principal loss. DCE reports its investments in CAMP at amortized cost provided by CAMP, which is the same as the value of the pool share. CAMP is rated AAA. Accordingly, DCE's investment in this pool is measured on uncategorized inputs not defined as Level 1, 2, or 3.

(3) Accounts Receivable, Net

At June 30, 2025, DCE reported \$17,294,391 in accounts receivable, net of the allowance for uncollectible accounts. The details of this balance are as follows:

| | | |
|--|---------------|--|
| Accounts receivable | \$ 18,789,679 | |
| Less: allowance for uncollectable accounts | (1,495,288) | |
| Total Accounts Receivable, Net | \$ 17,294,391 | |

(4) Accounts Payable

At June 30, 2025, DCE reported \$9,538,414 in accounts payable. The details of this balance are as follows:

| | | |
|-------------------------------------|--------------|--|
| Accounts payable - electricity cost | \$ 9,366,823 | |
| Accounts payable - other | 171,591 | |
| Total Payables | \$ 9,538,414 | |

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(5) Due to Other Governments

At June 30, 2025, DCE reported \$785,146 in Due to Other Governments. The details of this balance are as follows:

| | |
|--|--------------------------|
| Utility Users Taxes & Electric Energy Surcharges | \$ 497,865 |
| Related party payables (note 7) | <u>287,281</u> |
| Total Due to Other Governments | <u><u>\$ 785,146</u></u> |

(6) 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 to increase the amount to \$13,000,000. In June 2025, under the fourth amendment, the commitment was increased to \$20,000,000 with no cash sublimit and the termination date was extended to June 20, 2028.

Subject to satisfaction of the terms, DCE may exercise a one-time option to convert all outstanding Working Capital Advances to a Term Loan. 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 performance of all obligations, DCE has granted River City Bank a continuing security interest as collateral per the terms on the agreement. On June 30, 2025, there was no outstanding balance.

(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, 2024 through June 30, 2025, CVAG incurred on behalf of DCE \$600,995 of staff time and allocated administrative expenses that were billed. As DCE recognizes expenses on the accrual basis, an additional \$287,281 has been recorded as accrued costs. As of June 30, 2025, \$287,281 of the total amount billed was payable to CVAG.

(8) Risk Management

On June 17, 2024, DCE's Board adopted the Wholesale Energy Procurement Risk Management Policy (WEPRMP), updating and replacing the Energy Risk Management Policy adopted on May 21, 2018. The WEPRMP applies to all power procurement and related business activities that may impact the risk profile of DCE.

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(8) Risk Management (Continued)

The WEPRMP provides a structured, disciplined, and consistent approach to wholesale energy procurement risk management that facilitates risk-informed decision making in wholesale energy activities, which makes up 96% of DCE's annual budget. The WEPRMP supports DCE in aligning its strategy, processes, people, and technology for the purpose of evaluating and managing energy procurement uncertainties inherent to the energy industry and power procurement. By strategically managing risk associated with power procurement activities, DCE can proactively reduce the chance of loss, identify and take advantage of procurement opportunities, create greater financial stability, and protect its resources to support its mission and create value for its members.

The ultimate purpose of the WEPRMP is to support DCE's achievement of its goals by specifying management responsibilities, organizational structures, risk management standards, and the operating controls and limits necessary to appropriately identify, evaluate, and manage DCE's exposure to wholesale energy procurement risk. DCE's WEPRMP 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. In providing these services for DCE, TEA adheres to and is governed by the WEPRMP. In addition, TEA maintains its own risk management policies and procedures, following industry best 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) Long-Term Energy Agreements

During the normal course of business, DCE enters into various agreements, including renewable energy agreements, energy storage agreements (ESAs), and other power purchase agreements (PPAs) to purchase power and electric capacity. DCE's long-term energy agreements are described below.

Terra-Gen, LLC

On December 21, 2020, the DCE Board approved three, 15-year (PPAs) 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 pays 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 contract. All attributes from the facility, including energy, Renewable Energy Credits (RECs) and Resource Adequacy (RA) will be available to DCE. The contracts reflect

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(9) Long-Term Energy Agreements (Continued)

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 projects compared to purchasing the same energy, capacity, and RECs on the open market. The 10.8-megawatt (MW) Coachella Hills II project achieved its Commercial Operation Date (COD) and entered DCE's portfolio on May 4, 2021. The existing 9.8 MW Altwind and 12.6 MW East Wind projects entered DCE's portfolio on January 1, 2023. On December 9, 2024, DCE's board approved a new PPA for the 11.2 MW Phoenix wind project. The project began delivering renewable energy on February 1, 2025 with a term of 13 years.

OhmConnect

On June 29, 2022, the DCE Board approved a Western Systems Power Pool Resource Adequacy Confirmation with Resi Station LLC (Resi Station), a subsidiary of OhmConnect, for system RA benefits from an aggregated demand response project. DCE's pro rata share of the project is 4.5 MW of the 15 MW peak volume over a 10-year period that began January 1, 2023.

Southern California Edison (SCE) – Voluntary Allocation Agreement

In accordance with California Public Utilities Commission (CPUC) Decision 21-05-030, on June 29, 2022, the DCE Board approved staff's recommendation to request from SCE a 100 percent allocation of SCE's long-term renewable load share resources - 10 years or longer remaining on the contracts with allocations for the remainder of the term of the contract. DCE entered into a Voluntary Allocation Agreement with SCE as of July 26, 2022. Deliveries of this allocation began in January 2023 and will run through May 2040. DCE pays the annual Market Price Benchmark (MPB) for resources allocated through this process. The CPUC resets the MPB by October 1 each year.

SCE – RA Confirmation

On September 29, 2022, DCE executed a Master Agreement and RA Confirmation with SCE in accordance with CPUC Decision 22-05-015. This Decision allows DCE to purchase from SCE a share of the system or flexible RA capacity for loads that have migrated from SCE at the annual MPB. The RA delivery period began on January 1, 2023, and continues until September 30, 2041.

Fervo Energy

On September 28, 2022, DCE executed a contract with Cape Generating Station 1 LLC, a subsidiary of Fervo Energy (Fervo), for a geothermal project in Beaver County, Utah. Under the original agreement, DCE's contract capacity was 3 MW of the 20 MW average net capacity over a 15-year period, with an expected commercial operation date (COD) of June 1, 2026.

On October 21, 2024, the DCE Board approved Amendment No. 1 to the Renewable Power Purchase Agreement (PPA) with Cape Generating Station 1 LLC. The amendment updates pricing, increases DCE's contract capacity from 3 MW to 4 MW, and revises the COD to January 1, 2031, nearly five years later than the original COD. The amendment also adjusts the

Desert Community Energy
Notes to the Basic Financial Statements
Year ended June 30, 2025

(9) Long-Term Energy Agreements (Continued)

project's guaranteed capacity from 20 MW to 26 MW, representing the minimum capacity the project will deliver.

Fervo's geothermal systems make use of horizontal drilling techniques coupled with Organic Rankine Cycle (ORC) generator systems to deliver zero-carbon, zero-emission electricity. ORC power plants are zero-carbon, zero-emission generators. Thermal energy is supplied at high temperature to the ORC by a heat transfer fluid consisting of geothermal brine. The ORC turbo generator then converts thermal energy from geothermal fluid into electric energy using a turbine coupled with an electric generator. ORC plants are fully dispatchable and flexible, with extremely fast ramping rates of up to 30 percent of nominal capacity per minute. The project will be eligible for certification under the California Renewables Portfolio Standard and inclusion in DCE's Carbon Free product generation portfolio.

Under the pricing terms in the PPA, DCE will pay for the energy generated by the project at a fixed-price rate per MWh (megawatt hour), with a two percent annual escalator after the first contract year. All attributes from the project, including energy, RECs, and RA, will be available to DCE.

NextEra Energy Resources Power Purchase Agreement

On September 27, 2023, DCE executed an ESA with Desert Sands Energy Storage II, LLC, a subsidiary of NextEra Energy Resources. The project is a 25 MW/ 200 MWh lithium ion battery storage facility that is part of a larger 700 MW energy complex located largely within the Palm Springs City limits.

The project is located on a parcel zoned for energy-industrial uses with existing wind turbines and related energy infrastructure on it. The project is being developed in two phases: Desert Peak (Phase 1) and Desert Sands (Phase 2), which includes DCE's facility. The expected COD for DCE's portion of the project is April 1, 2027.

Under the pricing terms in the ESA, DCE will pay for the use of its portion of the Desert Sands project at a fixed-price rate per kW-month, with no escalation, for the full 15- year term of the ESA. DCE is entitled to all product attributes from the facility, including energy, ancillary services, and RA.

(10) Contract Commitments

At June 30, 2025, DCE had potential undiscounted, contractual commitments for energy storage and power purchases through 2041 totaling approximately \$94,020,095. In addition, DCE had expected contractual commitments to contract and professional service providers for services yet to be performed in the amount of \$2,867,655 through June 30, 2025. Many of the fees associated with these contracts are based on volumetric or other variable activity and actual results may differ.

(11) Subsequent Events

DCE evaluated subsequent events through October 31, 2025, the date the financial statements were available to be issued, and determined that there were no events requiring recognition or disclosure in the financial statements.