# CLEAN ENERGY ALLIANCE

## FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 & 2022

WITH REPORT OF

INDEPENDENT AUDITORS

TABLE OF CONTENTS

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**Independent Auditor's Report**

To the Board of Directors
Clean Energy Alliance
Carlsbad, California

**Report on the Audits of the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of Clean Energy Alliance (CEA), as of and for the year ended June 30, 2023 and the related notes to the financial statements, which comprise CEA'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 financial position of CEA as of June 30, 2023, and the results of its operations and cash flows 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). 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 CEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Other Matters**

The financial statements of CEA as of and for the year ended June 30, 2022, were audited by other auditors, whose report dated November 14, 2022 expressed an unmodified opinion on those statements.

**Responsibilities of Management for the Financial Statements**

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 CEA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



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**Independent Auditor's Report** (continued)

**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 CEA'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 CEA'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

**Independent Auditor's Report** (continued)

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information 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.

Pisenti & Brinker LLP

Santa Rosa, California
October 18, 2023

The Management's Discussion and Analysis provides an overview of Clean Energy Alliance's (CEA) financial activities as of and for the years ended June 30, 2023 and 2022. The information presented here should be considered in conjunction with the audited financial statements.

## BACKGROUND

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

CEA was created as a California Joint Powers Authority (JPA) on November 4, 2019. CEA was established to provide electric power at a competitive cost as well as to provide other benefits to its members, including reducing greenhouse gas emissions related to the use of power, procuring energy with a priority on the use and development of local renewable resources, stimulating local job creation through various programs and development, promote personal and community ownership of renewable resources, as well as promoting long-term electric rate stability and energy reliability for residents and businesses.

CEA is comprised of seven jurisdictions located in San Diego County. The jurisdictions include the Cities of Carlsbad, Del Mar, Escondido, Oceanside, San Marcos, Solana Beach, and Vista. CEA is governed by a board of directors (Board) consisting of elected representatives from each jurisdiction. CEA has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. CEA is responsible for the acquisition of electric power for its service area. CEA is currently providing electricity to the cities of Carlsbad, Del Mar, Escondido, San Marcos and Solana Beach, and will be providing electricity to the cities of Oceanside and Vista beginning in April 2024.

## Financial Reporting

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

## Contents of this report

This report is divided into the following sections:

- Management's discussion and analysis, which provides an overview of the financial operations.

- The Basic Financial Statements:

    - The *Statements of Net Position* include all of CEA'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 *Statements of Revenues, Expenses and Changes in Net Position* report all of CEA's revenues and expenses for the years shown.

    - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as debt financing.

    - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

## FINANCIAL HIGHLIGHTS

### Net position

The following table is a summary of CEA's assets, liabilities, and net position and a discussion of significant changes during the years ended June 30:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | $ 4,455,398 | $ 1,508,021 | $ 630,368 |
| Acccounts receivable & accrued revenue | 22,956,550 | 12,891,326 | 7,049,926 |
| Other current assets | 5,514,814 | 1,158,515 | 886,250 |
| Total current assets | 32,926,762 | 15,557,862 | 8,566,544 |
| Noncurrent assets | | | |
| Restricted cash | 207,000 | 227,000 | 227,000 |
| Deposits | 771,376 | 917,000 | 345,000 |
| Total noncurrent assets | 978,376 | 1,144,000 | 572,000 |
| Total assets | 33,905,138 | 16,701,862 | 9,138,544 |
| Current liabilities | | | |
| Accrued cost of electricity | 15,468,585 | 5,772,182 | 5,900,367 |
| Other current liabilities | 6,442,687 | 679,658 | 441,574 |
| Total current liabilities | 21,911,272 | 6,451,840 | 6,341,941 |
| Noncurrent liabilities | 18,446,150 | 14,024,017 | 5,504,017 |
| Total liabilities | 40,357,422 | 20,475,857 | 11,845,958 |
| Net position | | | |
| Unrestricted (deficit) | (6,452,284) | (3,773,995) | (2,707,414) |
| Total net position | $ (6,452,284) | $ (3,773,995) | $ (2,707,414) |

### Current assets

CEA began providing electricity to customers in May 2021. The increase in current assets from 2021 to 2022 is due to 2022 being the first full year of service, and the result of proceeds from debt of $8,520,000. The increase from 2022 to 2023 is partly due to a territory expansion during the spring of 2023 that resulted in more cash, accounts receivable and accrued revenue at year end. Also driving up current assets were additional loan proceeds of $9,430,000 drawn to provide for certain operating expenses.

Current assets were approximately $32,927,000 at the end of 2023 and were mostly comprised of the following major categories: cash of $4,455,000, accounts receivable from customers of $9,665,000, and accrued revenue of $13,292,000. Accrued revenue differs from accounts receivable in that it represents electricity provided to CEA customers that has not yet been invoiced as of the end of the fiscal year.

**Noncurrent assets**

Noncurrent assets are comprised of restricted cash as well as deposits in CEA's name held by other parties. As CEA began securing electricity to sell to customers, various energy contracts required deposits which accounts for the increase in noncurrent assets each year from 2021 to 2023.

**Current liabilities**

The largest component of current liabilities is the unpaid cost of electricity delivered to customers. These obligations did not increase significantly from 2021 to 2022 mostly due to CEA's customer load being similar at year end in each of those years. The increase from 2022 to 2023 is a result of the territory expansion in the spring of 2023 that required additional energy purchases. At the end of 2023, many of these additional purchases remained as current liabilities as payments were not required to be made until after year end.

Other current liabilities include amounts due to consultants, for other goods and services, and the portion of loans that are due within one year.

Also included in current liabilities are amounts due to member agencies of $504,000 that were advanced to CEA during 2020.

**Noncurrent liabilities**

During 2023, CEA borrowed an additional $9,430,000 from JPMorgan Chase Bank, bringing the total obligation to $22,950,000 as of June 30, 2023.

**Operations**

The following is a summary of CEA's results of operations and a discussion of significant changes for the years ended June 30:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Operating revenues | $ 86,873,952 | $ 61,068,464 | $ 7,309,663 |
| Nonoperating revenues | 323,223 | 15,040 | - |
| Total revenues | 87,197,175 | 61,083,504 | 7,309,663 |
| | | | |
| Operating expenses | 88,667,562 | 61,786,792 | 9,656,797 |
| Interest and finance costs | 1,207,902 | 363,293 | 81,596 |
| Total expenses | 89,875,464 | 62,150,085 | 9,738,393 |
| Change in net position | $ (2,678,289) | $ (1,066,581) | (2,428,730) |

**Operating revenues**

CEA's operating revenues are derived from the sale of electricity to commercial and residential customers throughout its territory. CEA began selling electricity to its customers in May 2021. Fiscal year 2022 was the first full year of operations accounting for the large change in revenues as compared to 2021. In the spring of 2023, CEA began providing service to the cities of Escondido and San Marcos, approximately doubling of customer accounts during the last few months of the year.

**Operating expenses**

CEA's largest expense was the purchase of electricity delivered to its customers. CEA procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs. Operating costs increased each year due to activities associated with enrollment of additional customer accounts including marketing, outreach, and data management services.

**Nonoperating expenses**

Interest expense is included in the nonoperating expenses category. Interest expense increased each year as a result of increased borrowings.

## ECONOMIC OUTLOOK

CEA serves approximately 92% of all eligible customers in the cities of Carlsbad, Del Mar, Escondido, San Marcos and Solana Beach, or approximately 155,000 customer accounts. The core mission is to provide electricity from a minimum 50% renewable sources, increasing to 100% renewable by 2035, at stable and competitive electric rates with a target 2% generation savings as compared to the local investor-owned utility, San Diego Gas & Electric (SDG&E). For the fiscal year ended June 30, 2023, CEA is reporting a net deficit due to costs related to expansion and the cost of electricity being higher than anticipated when customer rates were determined. It is expected in future fiscal years that this deficit will be eliminated as revenues increase and CEA's cost of electricity is reduced through energy hedge positions that limit the effects of market volatility.

The Board has approved an operating budget for fiscal year 2024 with revenues projected at $230,915,000 and expenses projected at $213,361,205, with a net result of operations projected at $17,553,795. The budget provides funding for expansion into the cities of Oceanside and Vista, includes expenses for power supply, on-going regulatory compliance requirements, and professional and legal services required to support the expanded operations. Assumptions used to develop the proposed budget were:

- Power supply costs based on actual executed contracts and April forward price curves
- Consulting services based on approved contracts
- Additions to reserves to achieve minimum 5% of FY 2024 revenues

## ECONOMIC OUTLOOK (continued)

Revenues are projected to cover costs based on the current assumptions. Energy forward price curves have been relatively flat compared to the same period last year, however the cost of Resource Adequacy and Long-Term Renewable Energy are significantly higher than in prior years. Staff continue to monitor the market and anticipates presenting a market update in early 2024, along with an update on SDG&E 2024 rates proceedings.

One of the goals of CEA is to expand and offer its community choice energy service to eligible communities within SDG&E territory. The cities of Oceanside and Vista are scheduled to begin receiving electric service from CEA in April 2024. No further expansions are planned for the near future.

CEA currently has approximately 155,000 customer accounts. The addition of Oceanside will add potentially another 76,000 customer accounts and the addition of Vista would add potentially another 40,000 accounts for a total of 116,000 additional accounts, or a combined 75% increase in accounts as compared to the number of CEA's existing accounts.

The additions of Oceanside and Vista will bring CEA's service accounts to over 250,000, serving 2,500 GWh load.

Accommodating this expansion will require careful consideration of resource availability, particularly for Resource Adequacy (RA) and long-term renewable energy products. SDG&E is expected to have surplus RA and long-term renewable energy supply. CEA intends to work closely with SDG&E to acquire the surplus supply of energy SDG&E holds to ensure CEA can meet its new obligations.

## REQUEST FOR INFORMATION

This financial report is designed to provide CEA's customers and creditors with an overview of the CEA's finances and to demonstrate CEA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to email ceo@thecleanenergyalliance.org or 5857 Owens Ave, Suite 2023, Carlsbad, CA 92008.

Respectfully submitted,

Barbara Boswell, CEO

# BASIC FINANCIAL STATEMENTS

# CLEAN ENERGY ALLIANCE
## STATEMENTS OF NET POSITION
## JUNE 30, 2023 AND 2022

| ASSETS | 2023 | 2022 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 4,455,398 | $ 1,508,021 |
| Accounts receivable, net of allowance | 9,664,989 | 9,084,903 |
| Accrued revenue | 13,291,561 | 3,806,423 |
| Other receivables | 979,621 | 185,358 |
| Prepaid expenses | 4,136,193 | 128,157 |
| Deposits | 399,000 | 845,000 |
| Total current assets | 32,926,762 | 15,557,862 |
| Noncurrent assets | | |
| Restricted cash | 207,000 | 227,000 |
| Deposits | 771,376 | 917,000 |
| Total noncurrent assets | 978,376 | 1,144,000 |
| Total assets | 33,905,138 | 16,701,862 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accrued cost of electricity | 15,468,585 | 5,772,182 |
| Accounts payable | 593,647 | 148,899 |
| Other accrued liabilities | 174,503 | 530,759 |
| Interest payable | 170,520 | - |
| Due to member agencies | 504,017 | - |
| Bank note payable | 5,000,000 | - |
| Total current liabilities | 21,911,272 | 6,451,840 |
| Noncurrent liabilities | | |
| Due to member agencies | - | 504,017 |
| Security deposits - energy suppliers | 496,150 | - |
| Bank note payable | 17,950,000 | 13,520,000 |
| Total noncurrent liabilities | 18,446,150 | 14,024,017 |
| Total liabilities | 40,357,422 | 20,475,857 |
| **NET POSITION** | | |
| Unrestricted (deficit) | (6,452,284) | (3,773,995) |
| Total net position | $ (6,452,284) | $ (3,773,995) |



The accompanying notes are an integral part of these financial statements.

**CLEAN ENERGY ALLIANCE**
**STATEMENTS OF REVENUES, EXPENSES**
**AND CHANGES IN NET POSITION**
**YEARS ENDED JUNE 30, 2023 AND 2022**

| | 2023 | 2022 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Electricity sales, net | $ 86,873,952 | $ 61,057,758 |
| Miscellaneous income | - | 10,706 |
| Total operating revenues | 86,873,952 | 61,068,464 |
| **OPERATING EXPENSES** | | |
| Cost of electricity | 85,629,935 | 59,435,574 |
| Contract services | 2,863,353 | 2,211,241 |
| Other operating expenses | 174,274 | 139,977 |
| Total operating expenses | 88,667,562 | 61,786,792 |
| Operating loss | (1,793,610) | (718,328) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Grant income | 279,489 | - |
| Interest income | 43,734 | 15,040 |
| Interest expense | (1,207,902) | (363,293) |
| Nonoperating revenues (expenses), net | (884,679) | (348,253) |
| **CHANGE IN NET POSITION** | (2,678,289) | (1,066,581) |
| Net position at beginning of period | (3,773,995) | (2,707,414) |
| Net position at end of period | $ (6,452,284) | $ (3,773,995) |



The accompanying notes are an integral part of these financial statements.

# CLEAN ENERGY ALLIANCE
# STATEMENTS OF CASH FLOWS
# YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 77,030,133 | $ 55,429,750 |
| Receipts of supplier security deposits | 1,133,150 | 240,000 |
| Payments to suppliers for electricity | (81,121,037) | (59,419,416) |
| Payments for goods and services | (2,577,168) | (2,435,529) |
| Payments for state surcharges | (198,166) | (171,538) |
| Payments for deposits and collateral | (55,376) | (917,000) |
| Net cash used by operating activities | (5,788,464) | (7,273,733) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Proceeds from grant revenue | 279,489 | - |
| Proceeds from bank note | 9,430,000 | 8,520,000 |
| Interest and related expense payments | (1,037,382) | (383,654) |
| Net cash provided by non-capital financing activities | 8,672,107 | 8,136,346 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest income received | 43,734 | 15,040 |
| Net change in cash and cash equivalents | 2,927,377 | 877,653 |
| Cash and cash equivalents at beginning of period | 1,735,021 | 857,368 |
| Cash and cash equivalents at end of period | $ 4,662,398 | $ 1,735,021 |
| **Reconciliation to the Statement of Net Position** | | |
| Cash and cash equivalents (unrestricted) | $ 4,455,398 | $ 1,508,021 |
| Restricted cash | 207,000 | 227,000 |
| Cash and cash equivalents | $ 4,662,398 | $ 1,735,021 |



The accompanying notes are an integral part of these financial statements.

# CLEAN ENERGY ALLIANCE
# STATEMENTS OF CASH FLOWS (CONTINUED)
# YEARS ENDED JUNE 30, 2023 AND 2022

## RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

| | 2023 | 2022 |
|---|---|---|
| Operating loss | $ (1,793,610) | $ (718,328) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| (Increase) decrease in: | | |
| Accounts receivable | (580,086) | (2,034,976) |
| Accrued revenue | (9,485,138) | (3,806,423) |
| Other receivables | (794,263) | (39,108) |
| Prepaid expenses | (4,008,036) | (128,157) |
| Deposits | 591,624 | (677,000) |
| Increase (decrease) in: | | |
| Accrued cost of electricity | 9,696,403 | (128,184) |
| Accounts payable | 444,748 | (184,339) |
| Other accrued liabilities | (346,256) | 517,782 |
| Supplier security deposits | 486,150 | (75,000) |
| Net cash used by operating activities | $ (5,788,464) | $ (7,273,733) |



The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

Clean Energy Alliance (CEA) is a California Joint Powers Authority created on November 4, 2019. As of June 30, 2023, parties to its Joint Powers Agreement consist of the following local governments:

| Cities and Towns | |
|---|---|
| Carlsbad | San Marcos |
| Del Mar | Solana Beach |
| Escondido | Vista |
| Oceanside | |

CEA is separate from and derives no financial support from its members. CEA is governed by a Board of Directors whose membership is composed of elected officials of the member governments.

A core function of CEA is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

CEA began its energy delivery operations in May 2021. Electricity is acquired from electricity suppliers and delivered through existing physical infrastructure and equipment managed by San Diego Gas and Electric.

### BASIS OF ACCOUNTING

CEA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

CEA's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories, if applicable – investment in capital assets, restricted and unrestricted.

When both restricted and unrestricted resources are available for use, it is CEA's policy to use restricted resources first, and then unrestricted resources as they are needed.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### CASH AND CASH EQUIVALENTS

For the purpose of the Statements of Cash Flows, CEA defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. For the purpose of the Statements of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements of Net Position includes collateral on a bank loan, as well as a required minimum balance to be maintained in one of its bank accounts.

### ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

CEA invoices customers for energy delivered each month on staggered billing cycles. At month end, management recorded revenue for energy delivered but not yet billed based on energy volume and applicable rate.

### PREPAID EXPENSES AND DEPOSITS

Contracts to purchase energy may require CEA to provide a supplier with advanced payments or security deposits. Security deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of the time the deposits are expected to be held. Also included are prepaid expenses and deposits for regulatory and other operating purposes.

### NET POSITION

Net position is presented in the following components:

*Investment in capital assets:* This component of net position consists of capital assets, net of accumulated depreciation. CEA did not have any such outstanding borrowings as of June 30, 2023 and 2022.

*Restricted:* This component of net position consists of constraints placed on the use of net assets through external constraints, such as those 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:* This component of net position consists of net position that does not meet the definition of “investment in capital assets” or “restricted.”

### OPERATING AND NONOPERATING REVENUES

Operating revenues include energy sales to customers.

Investment income is considered “nonoperating revenue.”

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### REVENUE RECOGNITION

CEA recognizes revenue according to 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 and electricity sales revenue is stated net of estimated uncollectible amounts.

### OPERATING AND NONOPERATING EXPENSES

Operating expenses include the cost of sales and services, and administrative expenses. Expenses not meeting this definition are reported as nonoperating expenses.

### ELECTRICAL POWER PURCHASED

During the normal course of business, CEA purchases electrical power from numerous suppliers. Cost of electricity includes the cost to purchase electricity and capacity arising from bilateral contracts with energy suppliers and the cost of generation credits, and load and other charges arising from CEA's participation in the California Independent System Operator's centralized market. The cost of electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, CEA acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System. CEA obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive.

CEA purchases capacity commitments from qualifying generators to comply with the California Public Utilities Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the construction of new resources needed for reliability in the future.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### INCOME TAXES

CEA 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.

### 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. CASH AND CASH EQUIVALENTS

CEA maintains its cash in accounts at River City Bank in Sacramento, California. CEA's deposits are subject to California Government Code Section 16521, which requires that banks provide collateral at 110% of the amount of public funds in excess of the Federal Deposit Insurance Corporation limit of $250,000. CEA does not have an investment policy that addresses a specific type of risk that would impose restrictions beyond this code. Accordingly, the amount of risk is not disclosed. CEA monitors its risk exposure on an ongoing basis. As of June 30, 2023, all of CEA's cash and cash equivalents were held in depository accounts.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

| | 2023 | 2022 |
|---|---|---|
| Accounts receivable from customers | $11,246,524 | $ 9,857,786 |
| Allowance for uncollectible accounts | (1,581,535) | (772,883) |
| Net accounts receivable | $ 9,664,989 | $ 9,084,903 |

The majority of account collections occur within the first few months following customer invoicing. CEA estimates that a portion of the billed accounts will not be collected. CEA continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. The allowance for uncollectible accounts at the end of a year includes amounts billed during the current and prior fiscal years.

## 4. DEBT

### BANK NOTE PAYABLE

In February 2021, CEA arranged to borrow up to $6,000,000 through a revolving credit agreement from JPMorgan Chase to provide cash for working capital until sufficient revenue was to be collected from customers. In January 2022, the agreement was amended and the amount available to CEA increased to $15,000,000. An amendment in March 2023 increased the available amount to $25,000,000. At June 30, 2023 and 2022, CEA borrowed a total of $22,950,000 and $13,520,000, respectively. As security, CEA assigned a security interest in all net revenues.

Principal may be drawn as needed and interest is accrued on the outstanding balance. The stated maturity date is February 2, 2026, with interest payable each month. CEA must repay $5,000,000 in aggregate principal on or before December 31, 2023. The interest rate at June 30, 2023, was computed at the Three-Month CME Term SOFR plus 2.25% per annum, subject to a floor of 2.25% per annum. The interest rate on June 30, 2023 was 8.69%. In September 2023, CEA repaid $15,000,000 of its outstanding balance earlier than required. This payment satisfied the $5,000,000 required payment mentioned previously and reduced outstanding debt by over 65%. CEA’s operating surpluses, driven by rate increases and customer expansion, are anticipated to provide sufficient funds for future required loan payments. At June 30, 2023 CEA had not satisfied certain liquidity requirements required by its credit agreement. Subsequent to the year end, the lender provided a waiver of these requirements and CEA remains in good standing with its lender.

## 4. DEBT (continued)

### DUE TO MEMBER AGENCIES

During its initial year ended June 30, 2020, CEA borrowed $504,017 from the cities of Carlsbad, Del Mar and Solana Beach to be used as working capital associated with CEA's launch. The non-interest-bearing loans requires repayment three years after operating revenues have commenced.

Note and due to member agencies principal activity and balances were as follows for the following debt:

| | Beginning | Additions | Payments | Ending |
|---|---|---|---|---|
| Year ended June 30, 2023 | | | | |
| Due to member agencies | $ 504,017 | $ - | $ - | $ 504,017 |
| Bank note payable | 13,520,000 | 9,430,000 | - | 22,950,000 |
| Total | $ 14,024,017 | $ 9,430,000 | $ - | 23,454,017 |
| Amounts due within one year | | | | 5,504,017 |
| Amounts due after one year | | | | $ 17,950,000 |

| | Beginning | Additions | Payments | Ending |
|---|---|---|---|---|
| Year ended June 30, 2022 | | | | |
| Due to member agencies | $ 504,017 | $ - | $ - | $ 504,017 |
| Bank note payable | 5,000,000 | 8,520,000 | - | 13,520,000 |
| Total | $ 5,504,017 | $ 8,520,000 | $ - | 14,024,017 |
| Amounts due within one year | | | | - |
| Amounts due after one year | | | | $ 14,024,017 |

## 5. RISK MANAGEMENT

CEA is exposed to various risks of loss related to torts and errors and omissions. During the year, CEA purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with general liability, and errors and omissions. There were no significant reductions in coverage compared to the prior year. There is no Self-Insured Retention amount in CEA's insurance policy.

CEA maintains risk management policies, procedures and systems that help mitigate credit, liquidity, market, operating, regulatory and other risks that arise from participation in the California energy market. 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, CEA enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

## 6. PURCHASE COMMITMENTS

In the ordinary course of business, CEA enters into various power purchase agreements to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydro-electric facilities.

The following table details the obligations to purchase existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2023:

| Year ending June 30, | |
|---|---|
| 2024 | $ 164,781,000 |
| 2025 | 126,902,000 |
| 2026 | 94,433,000 |
| 2027 | 64,336,000 |
| 2028 | 33,300,000 |
| 2029-2041 | 98,293,000 |
| Total | $ 582,045,000 |

## 7. FUTURE GASB PRONOUNCMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2023:

GASB has approved GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* GASB Statement No. 96*, Subscription-Based Information Technology Arrangements;* GASB Statement No. 99, *Omnibus 2022*; GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*; and GASB Statement No. 101, *Compensated Absences*. When they become effective, application of these standards may restate portions of these financial statements.