



**CLEAN POWER ALLIANCE OF SOUTHERN
CALIFORNIA**

**Basic Financial Statements with Independent
Auditor's Report**

For the Fiscal Years Ended June 30, 2019 and 2018

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clean Power Alliance of Southern California
Los Angeles, California

We have audited the accompanying financial statements of Clean Power Alliance of Southern California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Clean Power Alliance of Southern California's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Clean Power Alliance of Southern California's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clean Power Alliance of Southern California's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clean Power Alliance of Southern California as of June 30, 2019, 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.

Prior Period Financial Statements

The financial statements of Clean Power Alliance of Southern California, as of and for the year ended June 30, 2018, were audited by other auditors whose report dated December 20, 2018, expressed an unmodified opinion on those statements.

Other Matter

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
October 16, 2019

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

The Management's Discussion and Analysis provides an overview of Clean Power Alliance of Southern California's (CPA) financial activities as of and for the years ended June 30, 2019 and 2018. The information presented here should be considered in conjunction with the audited financial statements.

Contents of this Report

This report is divided into the following sections:

- Management's discussion and analysis.
- The Basic financial statements:
 - The *Statements of Net Position* includes all of CPA'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 CPA's revenue 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 non-capital financing activities.
 - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

BACKGROUND

CPA was formed pursuant to California Assembly Bill 117 which enables communities to purchase power on behalf of their residents and businesses and creates retail choice for electric generation services.

CPA, formerly Los Angeles Community Choice Energy (LACCE), was created as a California Joint Powers Authority on June 27, 2017. CPA was established to study, promote, develop, conduct, operate and manage energy programs in Southern California. Governed by an appointed board of directors (Board), CPA has the authority to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. CPA acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by the California Independent System Operator (CAISO) and Southern California Edison (SCE).

The parties to CPA's Joint Powers Agreement consist of local governments whose governing bodies elect to join CPA. Pursuant to the Public Utilities Code, when new parties join CPA, all electricity customers in its jurisdiction automatically become default customers of CPA for electric generation, provided that customers are given the option to "opt out".

CPA began operations by serving approximately 1,800 municipal accounts in February 2018. In June 2018 it enrolled approximately 28,000 municipal and commercial accounts. In February 2019, CPA enrolled approximately 900,000 residential customer accounts. In May 2019 CPA enrolled approximately 100,000 commercial accounts. In December 2018 the City of Westlake Village became a party to CPA's Joint Powers Agreement. CPA plans to enroll approximately 4,000 residential and commercial accounts from Westlake Village during June 2020.

CPA's goal is to provide customers with competitively priced and affordable electricity with high renewable energy content and low greenhouse gas emissions. CPA offers its customers three electricity services to choose from: Lean Power, Clean Power and 100% Green Power. Lean Power provides 36% renewable energy content, Clean Power provides 50% renewable energy content and 100% Green Power provides 100% renewable energy content.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Financial Reporting

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

FINANCIAL HIGHLIGHTS

The following table is a summary of CPA's assets, liabilities, and net position as of June 30:

	<u>2019</u>	<u>2018</u>
Current assets	\$ 142,619,616	\$ 9,521,793
Noncurrent assets		
Capital assets, net	35,948	-
Other noncurrent assets	128,000	107,250
Total assets	<u>142,783,564</u>	<u>9,629,043</u>
Current liabilities	97,158,978	2,470,275
Noncurrent liabilities	29,635,608	9,835,608
Total liabilities	<u>126,794,586</u>	<u>12,305,883</u>
Net position		
Investment in capital assets	35,948	-
Restricted for collateral	7,952,000	-
Unrestricted (deficit)	8,001,030	(2,676,840)
Total net position	<u>\$ 15,988,978</u>	<u>\$ (2,676,840)</u>

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Current Assets

Current assets totaled \$142,620,000 as of June 30, 2019. Current assets include the following: \$14,211,000 in cash and cash equivalents, \$56,605,000 in accounts receivable and other receivables, \$68,779,000 in accrued revenue, and \$2,025,000 of prepaid expenses.

Current assets totaled \$9,522,000 as of June 30, 2018. Current assets as of June 30, 2018 include the following: \$3,296,000 in cash and restricted cash, \$2,702,000 invested in the Los Angeles County Investment Pool, \$741,000 in accounts receivable and other receivables, \$908,000 in accrued revenue, and \$1,850,000 in deposits.

Cash and cash equivalents, prepaid expenses, accounts receivable and accrued revenue increased year over year due to operating activities associated with the enrollment of residential and commercial accounts during 2019. Restricted cash increased pursuant to credit and security agreements. Funds invested in the Los Angeles County Investment Pool decreased as a result of CPA's withdrawal from the Pool.

Current Liabilities

Current liabilities totaled \$97,159,000 as of June 30, 2019. Current liabilities include the following: \$5,137,000 of accounts payable and other accrued liabilities, and \$89,052,000 of accrued cost of electricity. CPA is required to collect and remit user taxes on certain customer sales and has a current liability of \$2,971,000 for these taxes as of June 30, 2019.

Current liabilities totaled \$2,470,000 as of June 30, 2018. Current liabilities include the following: \$1,513,000 of the cost in electricity delivered to customers that is not yet due to be paid by CPA. Also included is \$940,000 in accounts payable for service providers and other operating expenses. CPA has a current liability of \$17,000 for taxes as of June 30, 2018.

Current liabilities increased year over year due to operating activities associated with the enrollment of residential and commercial accounts during 2019.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Noncurrent Liabilities

As of June 30, 2019, noncurrent liabilities totaled \$29,636,000. Noncurrent liabilities include loans and notes payable to the County of Los Angeles and River City Bank respectively as described in the notes to the financial statements.

As of June 30, 2018, noncurrent liabilities consist entirely of \$9,836,000 loan payable to the County of Los Angeles.

Noncurrent liabilities increased as a result of borrowing under a credit agreement with River City Bank and a supplier security deposit.

The following table is a summary of CPA's results of operations:

	<u>2019</u>	<u>2018</u>	<u>Increase</u>
Operating revenues	\$ 253,919,018	\$ 3,382,705	\$ 250,536,313
Interest income	121,962	7,126	114,836
Total income	<u>254,040,980</u>	<u>3,389,831</u>	<u>250,651,149</u>
Operating expenses	235,128,858	6,066,671	229,062,187
Interest and related expenses	246,304	-	246,304
Total expenses	<u>235,375,162</u>	<u>6,066,671</u>	<u>229,308,491</u>
Change in net position	<u>\$ 18,665,818</u>	<u>\$ (2,676,840)</u>	<u>\$ 21,342,658</u>

Total Income

Operating revenues increased from \$3,383,000 in 2017-18 to \$253,919,000 in 2018-19. Operating revenues consist entirely of electricity sales to customers. Sales to customers began in February 2018 to certain municipal and commercial accounts in the unincorporated Los Angeles County, accounting for five months of service during the 2017-18 year.

Operating revenues increased year over year as a result of the enrollment of residential and commercial customers in February and May 2019 respectively. Year over year changes in interest income reflect higher average balances in interest earning accounts.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

Total Expenses

Operating expenses increased from \$6,067,000 in 2017-18 to \$235,375,000 in 2018-19. Operating expenses include the cost of energy and electric capacity used to serve CPA's customers and meet its regulatory obligations, contracts with service providers, staff compensation and general and administrative expenses. Operating costs increased year over year due to operating activities associated with the enrollment of residential and commercial accounts during 2019. Operating expenses in 2017-18 include the cost of serving customers for five months of operations as well as costs for the start-up and implementation of the agency. Interest and related expenses that occurred in 2018-19 reflect borrowing and interest costs arising primarily from the credit agreement with River City Bank.

Change in Net Position

The change in net position increased from negative \$2,677,000 in 2017-18 to \$18,666,000 in 2018-19. The change in net position in 2017-18 reflects the start-up nature of the agency. The contribution to the net position for 2018-19 reflects positive operating margins and are consistent with CPA's Reserve Policy adopted by CPA's Board of Directors in January 2019.

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK

During the normal course of business, CPA enters into various agreements, including renewable energy agreements and other power purchase agreements to purchase power and electric capacity. CPA enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products. California law established a Renewable Portfolio Standard (RPS) that requires load-serving entities, such as CPA, to gradually increase the amount of renewable energy they deliver to their customers. In October 2015, the California Governor signed SB 350, the Clean Energy and Pollution Reduction Act of 2015 into law. SB 350 became effective January 1, 2016, and increases the amount of renewable energy that must be delivered by most load-serving entities, including CPA, to their customers from 33% of their total annual retail sales by the end of the 2017-2020 compliance period, to 50% of their total annual retail sales by the end of the 2028-2030 compliance period, and in each three-year compliance period thereafter, unless changed by legislative action. In September 2018, the California Governor signed SB 100, The 100 Percent Clean Energy Act of 2018, into law. SB 100 increases the amount of renewable energy that must be delivered by most load-serving entities, including CPA, to their customers to 60% of their annual retail sales by the end of the 2028-2030 compliance period. SB 100 further establishes as state policy that eligible renewable energy resources and zero-carbon resources supply 100 percent of all retail sales of electricity to California end-use customers and 100 percent of electricity procured to serve all state agencies by December 31, 2045.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2019 AND 2018**

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK (Continued)

SB 100 provides compliance flexibility and waiver mechanisms, including increased flexibility to apply excess renewable energy procurement in one compliance period to future compliance periods. Beginning January 1, 2021, at least 65% of the procurement a retail seller, such as CPA, counts toward the renewable portfolio standard requirement of each compliance period shall be from its contracts of ten years or more in duration.

CPA enters into long term purchase agreements to bring new solar, winding and other renewable energy generating facilities on-line, to meet its regulatory RPS and GHG free targets, to accomplish its mission of providing renewable energy and reducing greenhouse gas emissions, serve its customers and manage energy market risks. CPA manages risks associated with these commitments by aligning purchase commitments with expected demand for electricity and assuring diversity of technologies, geographical locations, and suppliers.

Commitments under power purchase agreements totaled approximately \$228 million and \$1.422 billion as of June 30, 2018 and June 30, 2019 respectively.

CPA manages its energy market risks in accordance with its Energy Risk Management Policy adopted by the Board of Directors in July 2018. Management intends to continue its conservative use of financial resources and expects to generate ongoing operating surpluses in future years.

REQUEST FOR INFORMATION

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

Please address any questions about this report or requests for additional financial information to Chief Financial Officer, 555 W. 5th Street, 35th Floor, Los Angeles, CA 90013.

BASIC FINANCIAL STATEMENTS

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,258,580	\$ 2,546,067
Investment in Los Angeles County Investment Pool		2,701,780
Accounts receivable, net of allowance	50,674,048	660,508
Accrued revenue	68,779,327	907,546
Market settlements receivable	5,573,657	-
Other receivables	357,454	80,892
Prepaid expenses	2,024,550	25,000
Deposits	-	1,850,000
Restricted cash	7,952,000	750,000
Total current assets	<u>142,619,616</u>	<u>9,521,793</u>
Noncurrent assets		
Capital assets, net of depreciation	35,948	-
Deposits	128,000	107,250
Total noncurrent assets	<u>163,948</u>	<u>107,250</u>
Total assets	<u>142,783,564</u>	<u>9,629,043</u>
LIABILITIES		
Current liabilities		
Accounts payable	2,641,021	940,351
Accrued cost of electricity	89,051,637	1,512,698
Other accrued liabilities	2,495,683	-
User taxes and energy surcharges due to other governments	2,970,637	17,226
Total current liabilities	<u>97,158,978</u>	<u>2,470,275</u>
Noncurrent liabilities		
Loans payable to County of Los Angeles	9,835,608	9,835,608
Note payable to bank	19,050,000	-
Supplier security deposits	750,000	-
Total noncurrent liabilities	<u>29,635,608</u>	<u>9,835,608</u>
Total liabilities	<u>126,794,586</u>	<u>12,305,883</u>
NET POSITION		
Investment in capital assets	35,948	-
Restricted for collateral	7,952,000	-
Unrestricted (deficit)	8,001,030	(2,676,840)
Total net position	<u>\$ 15,988,978</u>	<u>\$ (2,676,840)</u>

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

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Electricity sales, net	\$ 253,913,018	\$ 3,343,365
Other revenue	6,000	39,340
Total operating revenues	<u>253,919,018</u>	<u>3,382,705</u>
OPERATING EXPENSES		
Cost of electricity	223,125,906	3,298,724
Contract services	9,123,988	2,418,688
Staff compensation	2,133,751	222,051
General and administration	745,213	127,208
Total operating expenses	<u>235,128,858</u>	<u>6,066,671</u>
Operating income (loss)	18,790,160	(2,683,966)
NONOPERATING REVENUES (EXPENSES)		
Interest income	121,962	7,126
Interest and related expenses	<u>(246,304)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(124,342)</u>	<u>7,126</u>
CHANGE IN NET POSITION	18,665,818	(2,676,840)
Net position at beginning of year	<u>(2,676,840)</u>	<u>-</u>
Net position at end of year	<u>\$ 15,988,978</u>	<u>\$ (2,676,840)</u>

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

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 143,329,272	\$ 2,155,770
Receipts from market settlements	13,166,766	
Other operating receipts	3,267,750	
Payments to suppliers for electricity	(155,978,140)	(3,309,957)
Payments to suppliers for other goods and services	(6,379,399)	
Payments to employees for services	(2,108,648)	
Other operating payments	<u>(5,049,249)</u>	<u>(1,950,000)</u>
Net cash provided (used) by operating activities	<u>(9,751,648)</u>	<u>(3,104,187)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds	28,100,000	9,100,000
Principal payments on loan	(9,050,000)	-
Interest and related expense payments	<u>(175,132)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>18,874,868</u>	<u>9,100,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(37,541)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>127,054</u>	<u>2,034</u>
Net change in cash and cash equivalents	9,212,733	5,997,847
Cash and cash equivalents at beginning of year	<u>5,997,847</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 15,210,580</u>	<u>\$ 5,997,847</u>
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 7,258,580	\$ 2,546,067
Investment in Los Angeles County Investment Pool		\$ 2,701,780
Restricted cash	<u>7,952,000</u>	<u>750,000</u>
Cash and cash equivalents	<u>\$ 15,210,580</u>	<u>\$ 5,997,847</u>

Noncash Non-Capital Financing Activities during the year ended June 30, 2018

Expenses of \$735,608 were financed directly from loan proceeds.

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

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

**STATEMENTS OF CASH FLOWS
(CONTINUED)**

YEARS ENDED JUNE 30, 2019 AND 2018

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>2019</u>	<u>2018</u>
Operating income (loss)	\$ 18,790,160	\$ (2,683,966)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	7,522	-
Revenue adjusted for allowance for uncollectible accounts	1,275,944	-
(Increase) decrease in:		
Accounts receivable	(51,306,203)	(660,508)
Energy market settlements receivable	(5,537,198)	-
Other receivables	(304,693)	(75,800)
Accrued revenue	(67,871,779)	(907,546)
Prepaid expenses	(1,997,093)	(25,000)
Deposits	1,829,250	(1,957,250)
Increase (decrease) in:		
Accounts payable	1,819,934	940,351
Energy market settlements payable	(109,534)	-
Accrued cost of electricity	87,538,939	1,512,698
Other accrued liabilities	2,411,559	-
User taxes due to other governments	2,951,544	17,226
Loans payable	-	735,608
Supplier security deposits	750,000	-
Net cash provided (used) by operating activities	<u>\$ (9,751,648)</u>	<u>\$ (3,104,187)</u>

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

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

1. REPORTING ENTITY

Clean Power Alliance of Southern California (CPA) is a joint powers authority created on June 27, 2017. As of June 30, 2019, parties to its Joint Powers Agreement consist of the following local governments:

Counties		Cities	
Los Angeles	Agoura Hills		Ojai
Ventura	Alhambra		Oxnard
	Arcadia		Paramont
	Beverly Hills		Redondo Beach
	Calabasas		Rolling Hills Estates
	Carson		Santa Monica
	Camarillo		Sierra Madre
	Claremont		Simi Valley
	Culver City		South Pasadena
	Downey		Temple City
	Hawaiian Gardens		Thousand Oaks
	Hawthorne		Ventura
	Malibu		West Hollywood
	Manhattan Beach		Westlake Village
	Moorpark		Whittier

CPA is separate from and derives no financial support from its members. CPA is governed by a Board of Directors whose membership is composed of elected officials representing one or more of the parties.

CPA's mission is to provide cost competitive electric services, reduce electric sector greenhouse gas emissions, stimulate renewable energy development, implement distributed energy resources, promote energy efficiency and demand reduction programs, and sustain long-term rate stability for residents and businesses through local control. CPA provides electric service to retail customers as a Community Choice Aggregation Program under the California Public Utilities Code Section (CPUC) 366.2.

Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by SCE.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

CPA'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.

CPA'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 – investment in capital assets, restricted, and unrestricted.

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

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, CPA defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. As of June 30, 2019, cash and cash equivalents were held in various interest and non-interest earnings accounts at River City Bank.

Prior to November 2018 CPA held investments in the Los Angeles County Investment Pool.

Investments held in the Los Angeles County Investment Pool are available on demand and are considered highly liquid. Amounts restricted pursuant to security and lending agreements is included as cash and cash equivalents on the Statement of Cash Flows.

CAPITAL ASSETS AND DEPRECIATION

CPA's policy is to capitalize furniture and equipment valued over \$1,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture. Leasehold improvements are depreciated over 10 years.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS

Certain energy contracts entered into by CPA require CPA to provide the supplier with a security deposit. The deposits are generally held for the term of the contract. Deposits with energy suppliers are classified as current or noncurrent assets depending on the length of the time the deposits will be held. While these energy contract related deposits make up the majority of this item, other components of deposits include those 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 and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. CPA did not have any outstanding borrowings as of June 30, 2019 and 2018 attributable to those assets.

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

OPERATING AND NON-OPERATING REVENUE

Operating revenues include revenue derived from the provision of energy to retail customers.

Interest income is considered “non-operating revenue”.

REVENUE RECOGNITION

CPA 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.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NON-OPERATING EXPENSES

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

ELECTRICAL POWER PURCHASED

During the normal course of business CPA purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as wholesale sales and generation credits, load and other charges arising from CPA's participation in the CAISO'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 elective targets, CPA acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). CPA obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. An expense is recognized at the point that the cost of the Certificate is due and payable to the supplier. CPA purchases capacity commitments from qualifying generators to comply with the California Energy 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 siting and construction of new resources needed for reliability in the future. CPA is in compliance with external mandates and self-imposed benchmarks.

STAFFING COSTS

CPA pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. CPA is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. CPA provides compensated time off, and the related liability is recorded in these financial statements.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAXES

CPA 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.

USER TAXES AND ENERGY SURCHARGES DUE TO OTHER GOVERNMENTS

CPA is required by governmental authorities to collect and remit user taxes on certain customer sales. These taxes do not represent revenues or expenses to CPA.

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.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

3. CASH AND CASH EQUIVALENTS

As of June 30, 2019 CPA, maintains its cash in both interest-bearing and non-interest-bearing bank accounts with River City Bank. California Government Code Section 16521 requires banks to collateralize amounts of public funds in excess of FDIC limit of \$250,000 in an amount equal to 110% of deposit balances. CPA has no deposit or investment policy that addresses a specific type of risk that would impose additional restrictions beyond this code. Accordingly, the amount of risk is not disclosed. Risk is monitored on an ongoing basis.

As of June 30, 2018 CPA, held investments in the Los Angeles County Investment Pool (the County Pool). During 2018-19 CPA elected to no longer participate in the County Pool and withdrew its funds. The County Pool includes both voluntary and involuntary participation from external entities. CPA was a voluntary participant. CPA has approved by resolution, the investment policy of the County of Los Angeles which complies with the California Government Code.

The County Pool is not registered with the Securities and Exchange Commission as an investment company. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

FAIR VALUE MEASUREMENT

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2019, CPA held no individual investments. As of June 30, 2018, all investments were in the Los Angeles County Investment Pool.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

3. CASH AND CASH EQUIVALENTS (continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. CPA's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made on the basis of \$1 which is substantially equal to fair value. CPA's proportionate share of investments in the County Pool at June 30, 2018 of \$2,701,780 is not required to be categorized under the fair value hierarchy.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. CPA has not adopted a policy to manage interest rate risk.

The County Pool manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2018, approximately 36% of the investments in the County Pool had maturities of 60 days or less, with an average of 609 days to maturity for the entire portfolio. As of June 30, 2019 CPA's cash was held in entirely in interest bearing and noninterest bearing demand deposits at River City Bank.

CREDIT RISK

The investment policy of the County Pool contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2017-18 Los Angeles County Comprehensive Annual Financial Report.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	<u>2019</u>	<u>2018</u>
Accounts receivable from customers	\$ 51,966,709	\$ 677,225
Allowance for uncollectible accounts	<u>(1,292,661)</u>	<u>(16,717)</u>
Net accounts receivable	<u>\$ 50,674,048</u>	<u>\$ 660,508</u>

The majority of account collections occur within the first few months following customer invoicing. CPA estimates that a portion of the billed accounts will not be collected. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years.

5. MARKET SETTLEMENTS RECEIVABLE

During the normal course of business, CPA receives generation scheduling and other services from a registered, California Independent System Operator (CAISO) scheduling coordinator. Market settlements due from the scheduling coordinator were \$5,574,000 and \$0 as of June 30, 2019 and 2018, respectively.

6. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2019 and 2018 was as follows:

	<u>Furniture & Equipment</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at June 30, 2018	\$ -	\$ -	\$ -
Additions	<u>44,080</u>	<u>(8,132)</u>	<u>35,948</u>
Balances at June 30, 2019	<u>\$ 44,080</u>	<u>\$ (8,132)</u>	<u>\$ 35,948</u>

Depreciation expense is included with general and administration on the Statements of Revenues, Expenses and Changes in Net Position.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

7. DEBT

In August 2017, CPA and the County of Los Angeles executed a memorandum of understanding (MOU) to provide a non-interest bearing loan to CPA in an amount not to exceed \$10 million to be repaid June 30, 2018. In April 2018, the County's Board of Supervisors approved an extension of the repayment term of the loan to June 30, 2019. In August 2018, County's Board of Supervisors approved a further extension of repayment of the loan to September 30, 2020. The purpose of the loan was to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. During 2017-18 CPA received \$9,100,000 cash loan proceeds and \$735,608 noncash loan proceeds from the County of Los Angeles.

In August 2018 CPA entered into a \$20 million Credit Agreement with River City Bank. The Credit Agreement is a revolving credit facility that CPA uses to provide letters of credit and to borrow funds to provide working capital. The Credit Agreement expires in August 2019.

In April 2019 CPA entered into the First Amendment to the Credit Agreement with River City Bank (First Amendment). The First Amendment increases available credit facility amount from \$20 million to \$37 million, extends the term of the agreement through March 31, 2021, reduces the interest rate on borrowing from 2% over the one-month London Interbank Borrowing Rate (Libor) to 1.75% over one-month Libor, adjusts the amount required to be held as cash collateral from 10% of the credit facility amount to 10% of the outstanding balance and updates the credit covenants. The First Amendment is intended to provide CPA with greater working capital and financial flexibility and contribute to the financial strength of the agency. The interest rate at June 30, 2019 was 4.18%.

The credit covenants were updated in September 2019 as described in subsequent events.

As of June 30, 2019, CPA had a \$19,050,000 note outstanding under the credit facility repayable on March 31, 2021.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

7. DEBT (continued)

Loan principal activity and balances were as follows for the following direct borrowings:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2018				
County of Los Angeles	\$ -	\$ 9,835,608	\$ -	\$ 9,835,608
Total	<u>\$ -</u>	<u>\$ 9,835,608</u>	<u>\$ -</u>	<u>\$ 9,835,608</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 9,835,608</u>
Year ended June 30, 2019				
County of Los Angeles	\$ 9,835,608	\$ -		\$ 9,835,608
River City Bank	-	28,100,000	(9,050,000)	19,050,000
Total	<u>\$ 9,835,608</u>	<u>\$ 28,100,000</u>	<u>\$ (9,050,000)</u>	<u>\$ 28,885,608</u>
Amounts due within one year				
Amounts due after one year				<u>\$ 28,885,608</u>

8. DEFINED CONTRIBUTION RETIREMENT PLAN

The Clean Power Alliance of Southern California Plan (Plan) is a defined contribution retirement plan established by CPA to provide benefits at retirement to its employees. The Plan is administered by Nationwide Retirement Solutions. As of June 30, 2019, there were 17 plan members. CPA is required to contribute up to 3.5% of annual covered payroll to the Plan and contributed \$152,000 and \$0 during the years ended June 30, 2019 and 2018, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

9. RISK MANAGEMENT

CPA is exposed to various insurable risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, CPA purchased insurance policies from investment grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage.

On July 12, 2018 CPA's Board adopted the Energy Risk Management Policy (ERMP). The ERMP establishes CPA's Energy Risk Program and applies to all power procurement and related business activities that may impact the risk profile of CPA. The ERMP documents the framework by which CPA staff and consultants will identify and quantify risk, develop and execute procurement strategies, develop controls and oversight and monitor, measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include market price risk, credit risk, volumetric risk, operational risk, opt-out risk, legislative and regulatory risk and other risks arising operating as a Community Choice Aggregation and participating in California energy markets.

CPA maintains other risk management policies, procedures and systems that help mitigate and manage credit, liquidity, financial, regulatory and other risks not covered by the ERMP.

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, CPA enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counter parties.

10. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, CPA enters into various power purchase agreements in order 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.

CPA enters into power purchase agreements in order to comply with state law and elective targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

10. PURCHASE COMMITMENTS (continued)

The following table represents the expected, undiscounted, contractual obligations outstanding as of June 30, 2019:

Year ended June 30,	
2020	\$ 666,000,000
2021	332,000,000
2022	137,000,000
2023	32,000,000
2024	21,000,000
2025-35	234,000,000
	<u>\$ 1,422,000,000</u>

As of June 30, 2019, CPA had noncancelable contractual commitments to professional service providers through July 31, 2022 for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be approximately \$34,000,000.

11. OPERATING LEASE

Rental expense for CPA's office space was \$134,000 and \$26,000 for the years ended June 30, 2019 and 2018, respectively. CPA leases office space under various agreements with WeWork which expire in September 2019 and renew on a month to month basis.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

12. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after June 30, 2019:

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities.

13. SUBSEQUENT EVENTS

In September 2018 new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. In September 2019 CPA was advised by Southern California Edison that customer load equal to less than 1% of CPA's total load would depart under the new direct access legislation beginning in January 2021.

In September 2019 CPA and River City Bank entered into a letter agreement updating CPA's loan covenants under the Credit Agreement.

On October 10, 2019 the CPUC issued a decision in Rulemaking 17-09-020 relating to imports of resource adequacy into California under its Resource Adequacy Program. CPA is working to clarify how the decision will be implemented and what impacts, if any, the decision will have on CPA.