CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Basic Financial Statements with Independent Auditor's Report

For the Fiscal Years Ended June 30, 2020 and 2019

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA
YEARS ENDED JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Clean Power Alliance of Southern California, as of and for the years ended June 30, 2020 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Madison, Wisconsin
October 23, 2020

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, 2020, and 2019. 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* include all of CPA's assets, liabilities, and net position and provide information about the nature and amount of resources and obligations at a specific point in time.
    - The *Statements of Revenues, Expenses, and Changes in Net Position* report all 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.

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, with the exception of customers served under California's Direct Access Program, 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 and commercial 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. CPA enrolled 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.

Financial Reporting

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

FINANCIAL HIGHLIGHTS

The following table is a summary of CPA's assets, liabilities, deferred inflows of resources and net position, and a discussion of significant changes for the fiscal years (FY) ending June 30:

	2020	2019	2018
Current assets	$ 185,855,666	$ 142,619,616	$ 9,521,793
Noncurrent assets			
Capital assets, net	97,388	35,948	-
Other noncurrent assets	188,710	128,000	107,250
Total assets	186,141,764	142,783,564	9,629,043
Current liabilities	109,893,729	97,158,978	2,470,275
Noncurrent liabilities	2,662,400	29,635,608	9,835,608
Total liabilities	112,556,129	126,794,586	12,305,883
Deferred inflows of resources	27,000,000	-	-
Net position			
Investment in capital assets	97,388	35,948	-
Restricted for collateral	4,897,000	7,952,000	-
Unrestricted (deficit)	41,591,247	8,001,030	(2,676,840)
Total net position	$ 46,585,635	$ 15,988,978	$ (2,676,840)

Current Assets

Current assets were approximately $185,856,000 at the end of FY 2019-20 and are mostly comprised of $56,159,000 of cash and cash equivalents, $65,532,000 of accounts receivable, $49,193,000 of accrued revenue, $6,346,000 of prepaid expenses and $4,897,000 in restricted cash.

Current assets were approximately $142,620,000 at the end of FY 2018-19 and are mostly comprised of $7,259,000 of cash and cash equivalents, $50,674,000 of accounts receivable, $68,779,000 of accrued revenue, $2,025,000 of prepaid expenses and $7,952,000 in restricted cash.

Total current assets increased year-over-year, particularly cash and cash equivalents, prepaid expenses, and deposits. The combined total of accounts receivable and accrued revenue held fairly flat year over year. Restricted cash decreased pursuant to credit and security agreements. In FY 2019-20, CPA deposited funds in the California Local Agency Investment Fund (LAIF) in order to diversify where its funds are held and to earn interest on its unused funds pursuant to its Board approved Investment Policy.

Current Liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by CPA to its suppliers. Other components include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities. A loan with the County of Los Angeles was previously classified as noncurrent and became current during FY 2019-20.

Current liabilities increased each year mostly due to increased energy costs related to new customer enrollments.

Noncurrent Liabilities

Noncurrent liabilities decreased significantly from FY2018-19 to FY 2019-20. As of June 30, 2019, noncurrent liabilities totaled $29,636,000 compared to $2,662,000 at June 30, 2020. In FY 2018-19 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.

Noncurrent liabilities decreased as of June 30, 2020 as a result of the repayment of loans from River City Bank in September 2019 and the reclassification of the loan from the County of Los Angeles as a current liability.

Deferred Inflows of Resources

In 2020 CPA deferred revenue of $27,000,000 to the Fiscal Stabilization Fund pursuant to CPA's Board approved Fiscal Stabilization Fund Policy. The funds may be used in later years when financial results are negatively impacted by uncontrollable events as described in the Policy. Deferring revenue for use in future years reduces the likelihood of unplanned rate changes that would be necessary to meet CPA's financial objectives.

Revenues and Expenses

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

	2020	2019	2018
Operating revenues	$ 752,070,114	$ 253,919,018	$ 3,382,705
Interest income	361,022	121,962	7,126
Total income	752,431,136	254,040,980	3,389,831
Operating expenses	721,593,329	235,128,858	6,066,671
Nonoperating expenses	241,150	246,304	-
Total expenses	721,834,479	235,375,162	6,066,671
Change in net position	$ 30,596,657	$ 18,665,818	$ (2,676,840)

Total Income

Operating revenues increased from approximately $253,913,000 in FY 2018-19 to $752,070,000 in FY 2019-20. Revenue increased as a result of new customer enrollments as described in the background section of this report. Operating revenues arise from electricity sales to customers reduced by a deferral of revenue to CPA's Fiscal Stabilization Fund. CPA reports electricity revenues net of an allowance for uncollectable accounts as described in the Notes to the Financial Statements. Revenues were reduced in FY 2019-20 by approximately $580,000 of bill credits provided to customers under CPA's Covid-19 Bill Assistance Program.

Year over year changes in interest income reflect higher average balances in interest-earning accounts.

Total Expenses

Operating expenses increased from approximately $235,129,000 in FY 2018-19 to $721,593,000 in FY2019-20. 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. Non-operating expenses consist primarily of interest and other expenses associated with CPA's credit agreement with River City Bank. Electricity and service provider costs increased in FY 2019-20 as a result of the enrollment of new customers as described in the background section of this report. Operating expenses such as staffing and general and administrative costs increased year over year as CPA hired staff and built out its operating capabilities to serve a larger customer base.

Change in Net Position

The change in net position increased from approximately $18,666,000 in FY 2018-19 to $30,597,000 in FY 2019-20. The increase in the net position in FY 2019-20 arises from increased revenue, and positive operating margins and is consistent with CPA's Board approved Reserve Policy and Fiscal Stabilization Fund Policy. The change in net position in FY 2017-18 reflects the start-up nature of the agency at that time.

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

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK (continued)

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 also 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.

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. SB 350 requires that for the 2021-24 compliance period, at least 65% of the procurement a retail seller, such as CPA, counts toward the renewables 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, wind 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, reducing greenhouse gas emissions, serving its customers and managing 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 increased from $1.42 billion as of June 30, 2019 to $2.68 billion as of June 30, 2020 consistent with CPA's Board approved Energy Risk Management Policy.

State and local governments in California have taken actions to address the Covid-19 pandemic that are impacting Clean Power Alliance, most notably Governor Newsome's Safer at Home order requiring all individuals living in the State of California to stay home, with certain exceptions.

CPA is conducting its work from home consistent with its business contingency protocol. Apart from staff working remotely, CPA's internal operations have not been affected by the pandemic. CPA has not received any notifications from its bank or suppliers that would impact operations, its ability to serve customers, or meet its compliance and other obligations as agreed.

CPA is actively monitoring the impacts of COVID-19 and related events on its customers. Management believes the impacts of changing customer usage are manageable.

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK (continued)

In March 2020, SCE, CPA's billing and collections agent, SCE, temporarily suspended customer disconnections due to non-payment. CPA is working closely with SCE's collections team and is closely monitoring customer payment performance. Customer payments that are more than 90 days past due have increased and it is unknown how much of past due payments will ultimately be recovered. Management believes that the allowance for uncollectable accounts reflects a conservative estimate of customer non-payment and that CPA's cash flow and gross margins are sufficient to manage slowing customer payments.

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, creditors and other stakeholders 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, 801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017.

BASIC FINANCIAL STATEMENTS

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 56,158,767	$ 7,258,580
Accounts receivable, net of allowance	65,532,476	50,674,048
Accrued revenue	49,192,550	68,779,327
Market settlements receivable	147,873	5,573,657
Other receivables	348,545	357,454
Prepaid expenses	6,345,580	2,024,550
Deposits	3,232,875	-
Restricted cash	4,897,000	7,952,000
Total current assets	185,855,666	142,619,616
Noncurrent assets		
Capital assets, net of depreciation	97,388	35,948
Deposits	188,710	128,000
Total noncurrent assets	286,098	163,948
Total assets	186,141,764	142,783,564
LIABILITIES		
Current liabilities		
Accounts payable	2,303,802	2,641,021
Accrued cost of electricity	86,772,867	89,051,637
Other accrued liabilities	3,144,362	2,495,683
User taxes and energy surcharges due to other governments	4,959,748	2,970,637
Loans payable to County of Los Angeles	9,945,750	-
Security deposits from energy suppliers	2,767,200	-
Total current liabilities	109,893,729	97,158,978
Noncurrent liabilities		
Loans payable to County of Los Angeles	-	9,835,608
Note payable to bank	-	19,050,000
Security deposits from energy suppliers	2,662,400	750,000
Total noncurrent liabilities	2,662,400	29,635,608
Total liabilities	112,556,129	126,794,586
DEFERRED INFLOWS OF RESOURCES		
Fiscal Stabilization Fund	27,000,000	-
NET POSITION		
Investment in capital assets	97,388	35,948
Restricted for collateral	4,897,000	7,952,000
Unrestricted	41,591,247	8,001,030
Total net position	$ 46,585,635	$ 15,988,978

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Electricity sales, net	$ 774,817,064	$ 253,913,018
Revenue transferred to Fiscal Stabilization Fund	(27,000,000)	-
Other revenue	4,253,050	6,000
Total operating revenues	752,070,114	253,919,018
OPERATING EXPENSES		
Cost of electricity	699,782,409	223,125,906
Contract services	16,680,152	9,123,988
Staff compensation	4,147,412	2,133,751
General and administration	983,356	745,213
Total operating expenses	721,593,329	235,128,858
Operating income	30,476,785	18,790,160
NONOPERATING REVENUES (EXPENSES)		
Interest income	361,022	121,962
Interest and related expenses	(241,150)	(246,304)
Total nonoperating revenues (expenses)	119,872	(124,342)
CHANGE IN NET POSITION	30,596,657	18,665,818
Net position at beginning of year	15,988,978	(2,676,840)
Net position at end of year	$ 46,585,635	$ 15,988,978

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 809,341,073	$ 143,329,272
Receipts from market settlements	32,509,649	13,166,766
Other operating receipts	9,316,250	3,267,750
Payments to suppliers for electricity	(737,502,580)	(155,978,140)
Payments for other goods and services	(16,945,753)	(6,379,399)
Payments for staff compensation	(4,023,375)	(2,108,648)
Tax and surcharge payments to other governments	(27,806,549)	(5,049,249)
Net cash provided (used) by operating activities	64,888,715	(9,751,648)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds	29,775,000	28,100,000
Principal payments on loan	(48,825,000)	(9,050,000)
Interest and related expense payments	(298,848)	(175,132)
Net cash provided (used) by non-capital financing activities	(19,348,848)	18,874,868
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(53,495)	(37,541)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	358,815	127,054
Net change in cash and cash equivalents	45,845,187	9,212,733
Cash and cash equivalents at beginning of year	15,210,580	5,997,847
Cash and cash equivalents at end of year	$ 61,055,767	$ 15,210,580
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	$ 56,158,767	$ 7,258,580
Restricted cash	4,897,000	7,952,000
Cash and cash equivalents	$ 61,055,767	$ 15,210,580

Noncash Non-Capital Financing Activities during the year ended June 30, 2020

Expenses arising from services performed by the County of Los Angeles in the amount of $110,142 were financed directly from loan proceeds.

CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 30,476,785	$ 18,790,160
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	22,249	7,522
Revenue adjusted for allowance for uncollectible accounts	8,285,071	1,275,944
(Increase) decrease in:		
Accounts receivable	(23,143,499)	(51,306,203)
Market settlements receivable	5,425,784	(5,537,198)
Other receivables	11,116	(304,693)
Accrued revenue	19,586,776	(67,871,779)
Prepaid expenses	(4,321,030)	(1,997,093)
Deposits	(3,293,585)	1,829,250
Increase (decrease) in:		
Accounts payable	(367,412)	1,819,934
Market settlements payable	-	(109,534)
Accrued cost of electricity	(2,278,770)	87,538,939
Other accrued liabilities	816,519	2,411,559
User taxes due to other governments	1,989,111	2,951,544
Fiscal Stabilization Fund	27,000,000	-
Security deposits from energy suppliers	4,679,600	750,000
Net cash provided (used) by operating activities	$ 64,888,715	(9,751,648)

1. REPORTING ENTITY

Clean Power Alliance of Southern California (CPA) is a joint powers authority created on June 27, 2017. As of June 30, 2020, 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 on-going financial support from its members. CPA is governed by a Board of Directors whose membership is composed of elected officials representing 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 Southern California Edison (SCE).

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 Statements of Cash Flows, CPA defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. As of June 30, 2020, cash and cash equivalents were held in various interest and non-interest earnings accounts at River City Bank and in the California Local Agency Investment Fund (LAIF).

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 the shorter of 1) the useful life of the leasehold improvement, or 2) the remaining years of the lease.

DEPOSITS

Deposits consist primarily of security deposits held by suppliers as required under certain energy contracts entered into by CPA. Deposits are generally held by the energy supplier for the term of the contract. Deposits held by 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FISCAL STABILIZATION FUND

In September 2020, CPA created a Fiscal Stabilization Fund to allow CPA to defer revenue in years when financial results are strong to be used in future years when financial results are negatively impacted by uncontrollable events. In accordance with GASB 62, the amount recognized as an addition to the fund is shown as a reduction of operating revenues and reported on the statements of net position as a deferred inflow of resources.

CPA transferred $27,000,000 to the Fiscal Stabilization Fund for the year ended June 30, 2020. The Fiscal Stabilization Fund is fully funded with cash.

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, 2020 and 2019 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. Electricity sales are reported net of changes to the allowance for uncollectable accounts. Other revenue consists of revenue that is not related to sales of electricity to CPA customers. Operating revenues are decreased (increased) by contributions to (distributions from) the Fiscal Stabilization Fund.

Interest income is considered "non-operating revenue".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. During FY 2019-20 CPA changed the methodology used to calculate the allowance for doubtful accounts and increased the allowance for doubtful accounts to account for the impact of the recession and the suspension of customer electricity disconnections and the levy of late payment charges by SCE.

OPERATING AND NONOPERATING 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 non-operating 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.

ELECTRICAL POWER PURCHASED (CONTINUED)

To comply with the State of California's Renewable Portfolio Standards (RPS) and other product content 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. 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 CAISO 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

SECURITY DEPOSITS FROM ENERGY SUPPLIERS

Various energy contracts entered into by CPA require the supplier to provide CPA with a security deposit. These deposits are generally held for the term of the contract or until the completion of certain benchmarks. Deposits are classified as current or noncurrent depending on the length of the time the deposits will be held.

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.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2020 CPA, maintains its cash in both interest-bearing and non-interest-bearing bank accounts with River City Bank and in the California Local Agency Investment Fund (LAIF).

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's Board approved Investment Policy requires that when managing Funds, CPA's primary objectives, in the following order of importance, shall be to (1) safeguard the principal of the

Funds, (2) meet the liquidity needs of CPA, and (3) achieve a return on investment on Funds in CPA's control. Risk is monitored on an ongoing basis.

CPA maintains cash with LAIF, managed by the State Treasurer, for the purpose of increasing interest earnings through pooled investment activities. These funds are not registered with the Securities and Exchange Commission as an investment company but are required to be invested according to the California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (LIAB) has oversight responsibility for LAIF. LIAB consists of four members as designated by State Statute.

On June 30, 2020, CPA's pooled investment position in LAIF was $2,500,000, which approximates fair value and is the same value of pooled shares. Fair value is based on information provided by the State for LAIF. The balances are available for withdrawal on demand and are based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. Liquidity fees are not charged.

The LAIF pooled investments are not subject to reporting within the hierarchy as described in GASB Statement No. 72, *Fair Value Measurement and Application*.

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; and Level 3 inputs are significant unobservable inputs.

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

3. CASH AND CASH EQUIVALENTS (continued)

asset or liability. Deposits and withdrawals from LAIF are made on the basis of $1 which is substantially equal to fair value.

As of June 30, 2020, CPA held no individual investments subject to classification 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. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. CPA's Investment Policy governs the management of interest rate risk. The Investment Policy limits interest rate risk by prioritizing the investment objective of preserving principal, prescribing maximum terms to maturity of investments that give rise to interest rate risk and by proscribing certain types of investments.

As of June 30, 2020, CPA did not hold cash or investments that give rise to material interest rate risk.

CREDIT RISK

State law limits investments in various securities to a certain level of risk ratings issued by nationally recognized statistical rating organizations. It is CPA's policy to comply with State law regarding security risk ratings. The State Investment Pool was unrated.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the concentration of CPA's investment in a single issuer.

CPA's Investment Policy governs the management of credit concentration risk. The Investment Policy limits credit concentration risk by prescribing the maximum percent of the portfolio that may be invested in securities that give rise to credit risk and by prescribing the maximum percent of the portfolio that can be invested in the securities of a single issuer that would give rise to interest rate risk.

As of June 30, 2020, CPA did not hold investments that give rise to credit concentration risk.

3. CASH AND CASH EQUIVALENTS (continued)

CUSTODIAL CREDIT RISK

For deposits, custodial risk is the risk that in the event of a bank failure, CPA's deposits may not be returned to it. CPA's policy for deposits is that they be insured by the FDIC. CPA maintains cash in bank accounts, which at times may exceed federally insured limits. Bank accounts are guaranteed by the FDIC up to $250,000. CPA has not experienced any losses in such accounts. CPA manages custodial credit risk for bank deposits during the normal course of business and consistent with its Investment Policy.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, CPA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in CPA's name, and held by the counterparty. CPA does not believe it is exposed to significant custodial credit risk for investments arising from its investments in LAIF.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	2020	2019
Accounts receivable from customers	$ 75,110,208	$ 51,966,709
Allowance for uncollectible accounts	(9,577,732)	(1,292,661)
Net accounts receivable	$ 65,532,476	$ 50,674,048

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

5. MARKET SETTLEMENTS RECEIVABLE

During the normal course of business, CPA receives generation scheduling and other services from a registered CAISO scheduling coordinator. Market settlements due from the scheduling coordinator were $148,000 and $5,574,000 as of June 30, 2020 and 2019, respectively.

6. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2020 and 2019, was as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Total
Balances at June 30, 2018	$ -	$ -	$ -	$ -
Additions	44,080	-	(8,132)	35,948
Balances at June 30, 2019	44,080	-	(8,132)	35,948
Additions	64,534	19,155	(22,249)	61,440
Balances at June 30, 2020	$ 108,614	$ 19,155	$ (30,381)	$ 97,388

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

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.

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, 2020 was 1.92%.

The credit covenants were amended in September 2019.

7. DEBT (continued)

As of June 30, 2020, CPA had no notes outstanding under the credit facility and is in compliance with credit covenants. As of June 30, 2019 CPA, had notes outstanding under the credit facility in the amount of $19.05 million.

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

	Beginning	Additions	Payments	Ending
Year ended June 30, 2019				
County of Los Angeles	$ 9,835,608	$ -	$ -	$ 9,835,608
River City Bank	19,050,000		-	19,050,000
Total	$ 28,885,608	$ -	$ -	$ 28,885,608
Amounts due within one year				-
Amounts due after one year				$ 28,885,608
Year ended June 30, 2020				
County of Los Angeles	$ 9,835,608	$ 110,142		$ 9,945,750
River City Bank	19,050,000	29,775,000	(48,825,000)	-
Total	$ 28,885,608	$ 29,885,142	$ (48,825,000)	$ 9,945,750
Amounts due within one year				9,945,750
Amounts due after one year				$ -

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. In July 2018 CPA adopted the Employee Handbook which included an employer contribution to the Plan equal to 3.5% of the employee salary. In September 2019 CPA amended its Employee Handbook to increase the employer contribution from 3.5% to 6% of the employee salary and added a 4% employer match contribution, for a maximum annual employer contribution to the Plan equal to 10% of the employee salary. As of June 30, 2020, there were 29 plan members. CPA contributed $288,000 and $152,000 during the years ended June 30, 2020 and 2019, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

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. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

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.

10. PURCHASE COMMITMENTS (continued)

The following table represents the expected, undiscounted, contractual obligations for power and electric capacity outstanding as of June 30, 2020:

Year ended June 30,	
2021	598,465,012
2022	428,670,607
2023	222,225,427
2024	116,567,304
2025	100,802,239
2026-41	1,216,151,486
	$ 2,682,882,075

As of June 30, 2020, 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 $23,000,000.

11. OPERATING LEASE

Rental expense for CPA's office space was $253,000 and $134,000 for the years ended June 30, 2020 and 2019, respectively. CPA entered into a new eight-year lease agreement. Obligations arising from the lease agreement commence following the substantial completion of leasehold improvements which are expected to occur in November 2020. CPA has an option to extend the lease for two additional years. The table below represents the scheduled future lease payments under this agreement.

Year ended June 30,	
2021	$ 32,436
2022	299,711
2023	439,727
2024	468,317
2025	482,367
2026-2028	1,713,097
	$ 3,435,656

12. LEGAL SETTLEMENTS

CPA entered into a settlement agreement with SCE in January 2020 arising from a dispute concerning services SCE provided to CPA under SCE's tariffs and received a payment of $3.5M in March 2020. This was recorded as an offset to the cost of electricity under operating expenses. In June 2020, CPA entered into another settlement agreement with SCE for enrollment data errors which resulted in missing revenue for CPA. CPA received a settlement amount from SCE of $4.25M in June 2020. This amount was recorded as other income under operating revenue.

13. COVID-19 RELIEF FUND

In June 2020, the CPA Board authorized expenditure of up to $2 million for bill assistance to residential and small business customers impacted by the economic downturn. This assistance is available in the form of credits on customer bills for customers who sign up for CARE/FERA/Medical Baseline programs, and for existing CARE/FERA/Medical Baseline and small business customers who sign up for extended payment plans. As of June 30, 2020, $580,773 of the bill credits were used and recorded as a revenue reduction.

14. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after June 30, 2020:

GASB has approved GASB Statement No. 84, Fiduciary Activities, GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements, GASB 96, Subscription-Based Information Technology Arrangements;* and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management is evaluating the effect of these new pronouncements.

15. SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The response to and impacts of Covid-19 have resulted in changing patterns of electricity usage and slowing of customer payments. The extent to which the ongoing response to and impacts of COVID-19 will affect CPA's operational and financial performance are unknown at this time and will be monitored by management.

15. SUBSEQUENT EVENTS (continued)

In July 2020 CPA's Board approved amendments to the Energy Risk Management Policy.

In September 2020 CPA repaid the outstanding loan balance of $9,945,750 to the County of Los Angeles.