Staff Report – Agenda Item 5

To:	Clean Power Alliance (CPA) Finance Committee
From:	David McNeil, Chief Financial Officer
Approved by:	Ted Bardacke, Executive Director
Subject:	Report from the Independent Auditor and Review Fiscal Year 2020-2021 Financial Statements and Fiscal Year 2020-2021 Budget to Actual Report
Date:	November 24, 2021

RECOMMENDATION

Receive report from the Independent Auditor and review FY 2020-2021 Financial Statements and FY 2020-2021 Budget to Actual report.

BACKGROUND

Each year CPA publishes fiscal year-end financial statements. CPA's Bylaws require the Finance Committee to select an independent auditor to perform a financial audit of the accounts of CPA on an annual basis. In May 2021, the Finance Committee selected Baker Tilly to perform an audit of CPA's Fiscal Year (FY) 2020-21 financial statements.

Staff is responsible for the preparation and fair presentation of the financial statements. The independent auditor performs tests to assure that the financial statements are free from material misstatement. The FY 2020-21 Financial Statements (Attachment 3) consist of the following:

- Independent Auditors' Report (Auditors' Report)
- Management's Discussion and Analysis
- Financial Statements
  - Statements of Net Position
  - Revenues and Expenses and Changes in Net Position

- Statements of Cash Flows
- Notes to the Financial Statements

DISCUSSION

Auditors' Report

The Auditors' Report includes its opinion that CPA's FY 2020-21 Financial Statements "present fairly, in all material respects, the financial position of Clean Power Alliance of Southern California as of June 30, 2021 and 2020, 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". The Auditors' Report contains what is generally regarded as an unqualified or "clean" audit opinion.

The Auditors' audit results letter states that they did not identify any deficiencies in internal control that they consider to be material weakness.

Representatives from Baker Tilly will present their audit results and answer questions during the meeting.

Financial Highlights

- CPA faced challenges in FY 2020-21 arising from extreme heat events in the summer of 2020, increased costs to procure electric capacity to meet regulatory requirements associated with the Resource Adequacy program, and the impacts of slowing customer payments arising from the moratorium on disconnections and late payment fees mandated by the CPUC and the Covid-19 induced economic recession.
- CPA was able to meet its financial objectives by transferring $27 million of deferred revenues accumulated in the prior year (and held in the Fiscal Stabilization Fund) to revenues in FY 2020-21 consistent with its Fiscal Stabilization Fund Policy.
- CPA's financial results also benefited from the application of CPA's $15.8 million California Arrearage Payment Program (CAPP) allocation to eligible past due balances which reduced bad debt expense by approximately $8 million.
- CPA increased its net position by $27.6 million or 3.4% of revenues.
- As of June 30, 2021, CPA had no outstanding loans or bank debt and apart from

the issuance of a $147,000 letter of credit, CPA's $37 million line of credit was unutilized.

- The financial results comply with CPA's credit covenants.

Key financial metrics and additional analysis of FY 2020-21 results are presented in the Presentation of FY 2020-21 Financial Results (Attachment 5).

FY 2020-21 Budget to Actual Report

The FY 2020-21 Budget to Actual Report compares actual results for the 12 months ending June 30, 2021, with the FY 2020-21 Budget as amended by the Board at its May 26, 2021 meeting. Budget to Actual highlights include:

- Operating revenues less energy cost (gross margin) was $810k and $10.2 million below the Amended and Base budget due to the above-normal temperatures in summer of 2020 which required CPA to serve load at high spot market prices, higher electric capacity (Resource Adequacy) costs, and lower than budgeted Congestion Revenue Rights (CRR) revenue.
- Operating expenses were 23% under the Base budget primarily due to non-utilization of contingencies, conservative use of funds, delays occupying the new office due to COVID-19 health risks, and lower than budgeted distribution of local program incentives. Staffing was 16% under the Base budget as a result of the competitive job market and staff departures.
- Energy costs exceeded the amended budget by 0.85% largely as a result of accelerated timing issues associated with the delivery of renewable energy.
- CPA finished the year within Budget limits for operating expense items established by the FY 2020-21 Budget as amended by the Board in May 2021.

Additional analysis of Budget to Actual results, including a comparison of actual FY 2020-21 results with the FY 2020-21 Amended Budget approved by the Board in May 2021, appears in the Presentation of FY 2020-21 Financial Results (Attachment 5).

Summary

CPA’s financial results for the year ending June 30, 2021 reflect the challenges of both the COVID-19 pandemic and climate change, but we were still able to achieve our financial objectives. CPA is in sound financial health and is well positioned to serve its customers and deliver on its mission.

ATTACHMENTS

1) Presentation from the Independent Auditor
2) Audit Results Letter
3) FY 2020-21 Audited Financial Statements
4) FY 2020-21 Budget to Actual Report
5) Presentation of FY 2020-21 Financial Results

Item 5
FY 2020-21 Financial Results

November 24, 2021

Summary of Financial Results

- CPA faced challenges in FY 2020-21 arising from extreme heat events in the summer of 2020, increased costs to procure electric capacity to meet regulatory requirements associated with the Resource Adequacy program, and the impacts of slowing customer payments arising from the moratorium on disconnections and late payment fees mandated by the CPUC and the Covid-19 induced economic recession.
- CPA was able to meet its financial objectives by transferring $27 million of deferred revenues accumulated in the prior year (and held in the Fiscal Stabilization Fund) to revenues in FY 2020-21 consistent with its Fiscal Stabilization Fund Policy.
- CPA's financial results also benefited from the application of CPA's $15.8 million California Arrearage Payment Program (CAPP) allocation to eligible past due balances which reduced bad debt expense by approximately $8 million.

Summary of Financial Results- Cont.

- CPA increased its net position by $27.6 million or 3.4% of revenues

- CPA had no bank debt or loans as of June 30, 2021. Liquidity (cash plus unused bank lines) increased by 3% from $92.2 million to $95 million.

- CPA finished the year within Budget limits for operating expense items established by the FY 2020-21 Budget as amended by the Board in May 2021. Energy costs exceeded the amended budget by $6.5 million or 0.85% due to the delivery of renewable energy that occurred sooner than budgeted. The expected annual cost of renewable energy in calendar year 2021 remains unchanged.

Balance Sheet Components, as of June 30:

		2021	% Total		2020	% Total	% Change
ASSETS							
Current assets							
Cash and cash equivalents	$	58,192,268	25.7%	$	56,158,767	30.2%	4%
Accounts receivable, net of allowance		88,223,900	39.0%		65,532,476	35.2%	35%
Accrued revenue		55,899,064	24.7%		49,192,550	26.4%	14%
Market settlements receivable		-	0.0%		147,873	0.1%	-100%
Other receivables		2,413,053	1.1%		348,545	0.2%	592%
Prepaid expenses		4,188,204	1.8%		6,345,580	3.4%	-34%
Deposits		13,326,842	5.9%		3,232,875	1.7%	312%
Restricted cash		3,614,700	1.6%		4,897,000	2.6%	-26%
Total current assets		225,858,032	99.7%		185,855,666	99.8%	22%
Noncurrent assets							
Capital assets, net of depreciation		489,912	0.2%		97,388	0.1%	403%
Deposits		88,875	0.0%		188,710	0.1%	-53%
Total noncurrent assets		578,788	0.3%		286,098	0.2%	102%
Total assets		226,436,819	100.0%		186,141,764	100.0%	22%

Balance Sheet Components, as of June 30:

	2021	% Total	2020	% Total	% Change
LIABILITIES					
Current liabilities					
Accounts payable	4,784,147	3.1%	2,303,802	2.0%	108%
Accrued cost of electricity	88,158,333	57.9%	86,772,867	77.1%	2%
Other accrued liabilities	1,799,011	1.2%	3,144,362	2.8%	-43%
User taxes and energy surcharges due to other governments	5,329,099	3.5%	4,959,748	4.4%	7%
Loans payable to County of Los Angeles	-	0.0%	9,945,750	8.8%	-100%
Supplier security deposits	43,738,400	28.7%	2,767,200	2.5%	1481%
Unearned program funds	1,597,986	1.0%		0.0%	
Total current liabilities	145,406,977	95.5%	109,893,729	97.6%	32%
Noncurrent liabilities					
Loans payable to County of Los Angeles	-		-		
Loans payable to River City Bank	-		-		
Supplier security deposits	6,724,000	4.4%	2,662,400	2.4%	153%
Deferred rent	76,543	0.1%	-	0.0%	
Total noncurrent liabilities	6,800,543	4.5%	2,662,400	2.4%	155%
Total liabilities	152,207,520	100.0%	112,556,129	100.0%	35%

Balance Sheet Components, as of June 30:

	2021	% Total	2020	% Total	% Change
DEFERRED INFLOWS OF RESOURCES					
Fiscal Stabilization Fund	-		27,000,000		-100%
NET POSITION					
Investment in capital assets	489,912	0.7%	97,388	0.2%	403%
Restricted for collateral	3,614,700	4.9%	4,897,000	10.5%	-26%
Unrestricted	70,124,687	94.5%	41,591,247	89.3%	69%
Total net position	$ 74,229,299	100.0%	$ 46,585,635	100.0%	59%

CPA

Select Financial Indicators

		06/30/2021		06/30/2020	% Change	Description
Working Capital		80,451,054		75,961,937	6%	Current Assets less Current Liabilities
Current Ratio		1.55		1.69	-8%	Current Assets divided by Current Liabilities
Days Sales Outstanding		40		31	31%	Account Receivable divided by Sales times 365 days
Equity		74,229,299		73,585,635	1%	Net Position plus Fiscal Stabilization Fund
Equity to Assets		33%		40%	-17%	Equity (Net Position + FSF) divided by Total Assets
Available Cash	$	58,192,268		56,158,767	4%	Unrestricted cash and cash equivalents
Available Line of Credit		36,853,000		36,030,000	2%	Total Line of Credit less Borrowing & Letters of Credit
Total Liquidity		95,045,268		92,188,767	3%	Sum of Available Cash and Line of Credit
Days Liquidity on Hand (TTM)	$	44	$	47	-7%	Total Liquidity divided by trailing 12 months expenses times 365 days
Gross Margin		6.4%		7.0%	-9%	Operating revenue less Energy Cost divided by Operating Revenue
Net Margin		3.4%		4.1%	-18%	Change in net position divided by Operating Revenue

- CPA increased leverage (equity to assets) and decreased liquidity (days liquidity on hand) as a result of the increase in assets and increase in accounts receivable.

- Both gross and net margins fell due to the extreme heat events in summer 2020, decline in CRR revenues, and increase in resource adequacy costs, offset by $27 million transferred from the Fiscal Stabilization Fund. Days Sales Outstanding (a measure of accounts receivable aging) increased year over year due and increase in accounts receivable which reflected the moratorium of disconnections and the impact of the COVID-19 driven recession

Budget to Actual Analysis

	A	B	C	D	E	F
		2020/21 YTD Amended Budget	2020/21 Budget	2020/21 YTD Actual	2020/21 Base Budget Variance (Under) Over	2020/21 Base Budget Variance % (Under) Over
	Operating revenues					
1	Revenue - electricity, net	$ 808,235,431	745,942,000	$ 796,803,546	$ 50,861,546	7%
2	Revenue transferred from/(to) Fiscal Stabilization Fund	9,607,035	-	27,000,000	27,000,000	
3	Other revenues	566,000	566,000	300,947	(265,053)	-47%
4	Total operating revenues	818,408,466	746,508,000	824,104,492	77,596,492	10%

- Revenue electricity, net was 7% above the Base Budget, but 2% under the amended Budget. Electricity revenue was higher than the Base Budget due to higher temperatures and electricity use in the summer offset by COVID-19 Bill Assistance provided by CPA to its customers totaling $1.4 million
- CPA transferred $27 million from the Fiscal Stabilization Fund to revenue to offset the increasing energy and resource adequacy costs and address slowing customer payments
- Other revenues arise primarily from funding received through the California Public Utilities Commission (CPUC) to offset Power Share Program costs

Budget to Actual Analysis

	A	B	C	D	E	F
		2020/21 YTD Amended Budget	2020/21 Budget	2020/21 YTD Actual	2020/21 Base Budget Variance (Under) Over	2020/21 Base Budget Variance % (Under) Over
	Energy costs					
5	Energy procurement	765,217,390	683,946,000	771,724,047	87,778,047	13%
	Total energy costs	765,217,390	683,946,000	771,724,047	87,778,047	101%
6	**Operating revenues less energy costs**	53,191,076	62,562,000	52,380,445	(10,181,555)	-16%

- Energy procurement costs were $6.5 million or 0.85% above the Amended Budget and 13% over the base budget. Higher energy costs reflect extreme heat events in the summer of 2020 which required CPA to serve load at high spot market prices, higher resource adequacy costs, lower than budgeted Congestion Revenue Rights (CRR) revenue, and the delivery of renewable energy that occurred sooner than budgeted.

- Operating revenue less energy costs (gross margin) was $810K and $10.2 million below the Amended and Base Budgets respectively.

Budget to Actual Analysis

	A	B	C	D	E	F
		2020/21 YTD Amended Budget	2020/21 Budget	2020/21 YTD Actual	2020/21 Base Budget Variance (Under) Over	2020/21 Base Budget Variance % (Under) Over
	Operating Expenses					
7	Communications and outreach	525,000	525,000	433,582	(91,418)	-17%
8	General and administrations	1,325,000	1,325,000	1,317,574	(7,426)	-1%
9	Occupancy	516,000	516,000	167,569	(348,431)	-68%
10	Billing data manager	11,881,000	11,881,000	11,192,248	(688,752)	-6%
11	SCE services	2,315,000	2,315,000	1,679,264	(635,736)	-27%
12	Technical services	2,752,000	2,752,000	1,155,699	(1,596,301)	-58%
13	Legal services	1,849,000	1,849,000	565,738	(1,283,262)	-69%
14	Other professional services	1,003,000	1,003,000	830,069	(172,931)	-17%
15	Mailers	865,000	865,000	795,505	(69,495)	-8%
16	Staffing	7,791,000	7,791,000	6,538,815	(1,252,185)	-16%
17	Customer programs	1,360,000	1,360,000	86,595	(1,273,405)	-94%
18	Total Operating Expenses	32,182,000	32,182,000	24,762,657	(7,419,343)	-23%
19	**Operating Income**	21,009,076	30,380,000	27,617,788	(2,762,212)	-9%

- CPA was under budget in all Operating Expense categories. Overall, CPA was 23% under the Base Budget due primarily to non utilization of contingencies, conservative use of funds, delays occupying the new office due to surge in COVID-19 in US, and slower than budgeted distribution of local program incentives.

- Staffing was 16% under the Base Budget as a result of a competitive job market during the pandemic and unexpected staff departures for various reasons during FY2020/21. CPA increased staffing from 29 to 39 full time employees during the fiscal year versus 43 full time positions that were budgeted

- Operating income was $2.7 million or 9% below the Base Budget and exceeded the Amended Budget by $6.6 million

Budget to Actual Analysis

		A	B	C	D	E	F
			2020/21 YTD Amended Budget	2020/21 Budget	2020/21 YTD Actual	2020/21 Base Budget Variance (Under) Over	2020/21 Base Budget Variance % (Under) Over
		Non-operating revenues (expenses)					
20		Interest income	250,000	250,000	227,842	(22,158)	-9%
21		Finance and interest expense	(298,000)	(298,000)	(134,607)	163,393	-55%
22		Depreciation	(176,000)	(176,000)	(67,359)	108,641	-62%
23		Total non-operating revenues (expenses)	(224,000)	(224,000)	25,876	249,876	-112%
24		**Change in net position**	20,785,076	30,156,000	27,643,664	(2,512,335)	-8%
		Other uses					
25		Capital outlay	1,074,000	1,074,000	459,884	(614,117)	-57%
26		Depreciation	(176,000)	176,000	(67,359)	(243,359)	-138%
27		Total other uses	898,000	1,250,000	392,524	(857,476)	-69%
28		**Change in fund balance**	$ 19,887,076	28,906,000	$ 27,251,140	$ (1,654,860)	-6%

- Interest income was lower than budgeted due to a decrease in cash balances and falling interest rates
- Capital expenditures were lower than budgeted, resulting from lower than budgeted spending on leasehold improvements
- The change in net position represents 3.4% of Operating revenues which was 92% under the Base Budget.

Thank You! Questions?

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