

CALIFORNIA CHOICE ENERGY AUTHORITY

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEAR ENDED JUNE 30, 2018

CALIFORNIA CHOICE ENERGY AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Choice Energy Authority
Lancaster, California

We have audited the accompanying financial statements of the California Choice Energy Authority (CCEA), a component unit of the City of Lancaster, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CCEA'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 auditors consider internal control relevant to CCEA'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 CCEA'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 the California Choice Energy Authority, as of June 30, 2018, 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.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the California Choice Energy Authority and do not purport to, and do not, present fairly the financial position of the City of Lancaster, California, as of June 30, 2018 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

White Nelson Dick Evans LLP

Irvine, California
March 6, 2019

CALIFORNIA CHOICE ENERGY AUTHORITY
STATEMENT OF NET POSITION

June 30, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 88,301
Receivables:	
Accounts	58,723
Due from other governments	199,727
Prepaid items	<u>24,976</u>
TOTAL ASSETS	<u>371,727</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	<u>264,342</u>
TOTAL CURRENT LIABILITIES	<u>264,342</u>
TOTAL LIABILITIES	<u>264,342</u>
NET POSITION:	
Unrestricted	<u>107,385</u>
TOTAL NET POSITION	<u>\$ 107,385</u>

See accompanying notes to financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the year ended June 30, 2018

OPERATING REVENUES	
Sales and service charges	\$ 1,495,702
Other	<u>2,243,082</u>
TOTAL OPERATING REVENUES	<u>3,738,784</u>
OPERATING EXPENSES	
Administration and general	<u>3,659,123</u>
TOTAL OPERATING EXPENSES	<u>3,659,123</u>
OPERATING INCOME	<u>79,661</u>
CHANGE IN NET POSITION	79,661
NET POSITION AT BEGINNING OF YEAR	<u>27,724</u>
NET POSITION AT END OF YEAR	<u><u>\$ 107,385</u></u>

See accompanying notes to the financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY
STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 3,538,751
Cash paid to suppliers for goods and services	<u>(3,450,450)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>88,301</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 88,301</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 79,661</u>
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	21,277
(Increase) decrease in due from other governments	(199,727)
(Increase) decrease in prepaid items	(24,976)
Increase (decrease) in accounts payable	233,649
Increase (decrease) in due to other governments	<u>(21,583)</u>
Total adjustments	<u>8,640</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 88,301</u></u>

See accompanying notes to the financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY

Notes to Basic Financial Statements

June 30, 2018

1. GENERAL

The financial statements are intended to reflect the financial position and changes in the financial position attributable to the California Choice Energy Authority (CCEA), a component unit of the City of Lancaster, California (the City). These financial statements are exclusively for Authority and do not purport to, and do not, present fairly the financial position and changes in the financial position for the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Description of the Reporting Entity

CCEA was formed on March 28, 2017 pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise of powers common to public agencies, for the purpose of helping cities in Southern California Edison territory to participate in community choice aggregation without having to sacrifice control often associated with joint power authorities or taking on the significant liability for a single entity community choice aggregation. The two member agencies are the City of Lancaster and City of San Jacinto. The CCEA is governed by the Lancaster City Council with each City joining as an associate member of the JPA. Each associate City's Council would set rates for their City, purchase their energy and contract their CCA services through existing CCEA contracts which would help keep costs low and maximize revenues for each associate member.

b. Basis of Presentation

CCEA reports its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the statement of net position. The statement of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

CALIFORNIA CHOICE ENERGY AUTHORITY

Notes to Basic Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Current Year Standards

GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension, effective for periods beginning after June 15, 2017, did not impact CCEA.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, did not impact CCEA.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, did not impact CCEA.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, did not impact CCEA.

Pending Accounting Standards

GASB has issued the following statements, which may impact CCEA’s financial reporting requirements in the future:

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

e. Cash and Investments

Investments are reported in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as interest income for that fiscal year. Interest income includes interest earnings, changes in fair value (realized/unrealized), gains or losses realized upon the liquidation, maturity or sale of investments.

Cash and investments of the CCEA are pooled with the City of Lancaster’s funds for investment purposes, with interest being allocated monthly to various funds based on each fund’s prior month-end cash and investment balance.

CALIFORNIA CHOICE ENERGY AUTHORITY

Notes to Basic Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The consumption method of accounting is used for prepaid items.

g. Net Position Flow Assumptions

Sometimes CCEA will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is CCEA's practice to consider restricted – net position to have been depleted before unrestricted – net position is applied.

h. Operating Revenues and Expenses:

Operating revenues, such as sales and service charges, result from exchange transactions associated with the principal activity of CCEA. Exchange transactions are those in which each party receives and gives up essentially equal values.

Revenues not included in the above category are reported as nonoperating revenues. Nonoperating revenues such as grant funding and investment income, result from nonexchange transactions or ancillary activities in which CCEA gives (receives) value without directly receiving (giving) value in exchange.

Operating expenses include administration costs. All expenses not meeting this definition are reported as nonoperating expenses.

i. Net Position:

The financial statements utilize a net position presentation. Net position is categorized as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
- Restricted Net Position - This component of net position consists of constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of *net investment in capital assets* or *restricted*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources at the reporting date. Accordingly, actual results could differ from those estimates.

3. CASH AND INVESTMENTS

a. Equity in the Cash and Investment Pool of the City of Lancaster

CCEA has no separate bank accounts or investments other than its equity in the cash and investment pool managed by the City. CCEA is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The fair value of CCEA's investment in this pool is reported in the accompanying financial statements at amounts based upon CCEA's pro rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting record maintained by the City, which are recorded at estimated fair value.

b. Disclosures Relating to the Investment Policy, Interest Rate Risk, Credit Risk and Custodial Credit Risk

Additional disclosures related to the investment policy, interest rate risk, credit risk and custodial credit risk are available in the City of Lancaster's Comprehensive Annual Financial Report.

c. Fair Value Measurements

CCEA categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements), inputs are quoted price of similar assets in active markets (Level 2), and the lowest priority to unobservable inputs (Level 3 measurements).

CCEA's investment in the City investment pool is not subject to the fair value hierarchy.

4. SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of March 6, 2019, which is the date these financial statements were available to be issued.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
California Choice Energy Authority
Lancaster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the California Choice Energy Authority (CCEA), a component unit of the City of Lancaster, California (the City), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the CCEA's basic financial statements, and have issued our report thereon dated March 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the CCEA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the CCEA's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CCEA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CCEA's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the CCEA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CCEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CCEA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CCEA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California

March 6, 2019