

**CALIFORNIA CHOICE ENERGY AUTHORITY**

**FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED JUNE 30, 2019**

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 (Authority), a component unit of the City of Lancaster, California (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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 the Authority'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 Authority'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, 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.

## **Emphasis of Matter**

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, 2019 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  
January 27, 2020

CALIFORNIA CHOICE ENERGY AUTHORITY  
STATEMENT OF NET POSITION

June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	352,902
Receivables:		
Accounts		110,000
Due from other governments		773,347
Deposits		349,078
Prepaid items		<u>34,557</u>

TOTAL ASSETS 1,619,884

LIABILITIES

CURRENT LIABILITIES

Accounts payable		470,989
Due to the City of Lancaster		<u>502,655</u>

TOTAL CURRENT LIABILITIES 973,644

NET POSITION

Unrestricted		<u>646,240</u>
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TOTAL NET POSITION \$ 646,240

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, 2019

OPERATING REVENUES	
Sales and service charges	<u>\$ 5,713,339</u>
TOTAL OPERATING REVENUES	<u>5,713,339</u>
OPERATING EXPENSES	
Administration and general	<u>5,174,484</u>
TOTAL OPERATING EXPENSES	<u>5,174,484</u>
OPERATING INCOME	<u>538,855</u>
CHANGE IN NET POSITION	538,855
NET POSITION AT BEGINNING OF YEAR	<u>107,385</u>
NET POSITION AT END OF YEAR	<u><u>\$ 646,240</u></u>

See accompanying notes to the financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY  
STATEMENT OF CASH FLOWS

For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 5,088,442
Cash paid to suppliers for goods and services	(5,326,496)
Cash received from City of Lancaster	<u>502,655</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>264,601</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	264,601
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>88,301</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 352,902</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 538,855</u>
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(51,277)
(Increase) decrease in due from other governments	(573,620)
(Increase) decrease in deposits	(349,078)
(Increase) decrease in prepaid items	(9,581)
Increase (decrease) in accounts payable	206,647
Increase (decrease) in due to City of Lancaster	<u>502,655</u>
Total adjustments	<u>(274,254)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 264,601</u></u>

See accompanying notes to the financial statements.

# CALIFORNIA CHOICE ENERGY AUTHORITY

## Notes to Basic Financial Statements

June 30, 2019

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### 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 (Authority), a component unit of the City of Lancaster, California (the City). These financial statements are exclusively for the 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

The Authority was formed on March 28, 2017, to help member cities, the City of Lancaster and the City of San Jacinto, 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.

#### b. Basis of Presentation

The Authority operates 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.

#### d. 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.



# CALIFORNIA CHOICE ENERGY AUTHORITY

## Notes to Basic Financial Statements

June 30, 2019

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Prepaid Items

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

f. Net Position Assumptions

Sometimes the Authority 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 the Authority's practice to consider restricted – net position to have been depleted before unrestricted – net position is applied.

g. 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

At June 30, 2019, cash and cash equivalents of \$352,902 consist of an interest-earning checking account.

#### Investments Authorized by the California Government Code

The California Government Code authorizes the Authority to invest in certain types of investments. The table below identifies these investment types and the related maximum percentages by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Securities	None	None	None
US Government-Sponsored Agency Securities	None	None	None
Certificates of Deposit	None	None	None
Money Market Mutual Funds	N/A	None	10%
Local Agency Investment Fund	None	None	\$ 65,000,000

# CALIFORNIA CHOICE ENERGY AUTHORITY

## Notes to Basic Financial Statements

June 30, 2019

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### 3. *CASH AND INVESTMENTS (CONTINUED)*

#### **Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2019, the Authority's deposits of \$352,902 are covered by the Federal Deposit Insurance Corporation.

### 4. *SUBSEQUENT EVENTS*

Events occurring after June 30, 2019, have been evaluated for possible adjustments to the financial statements or disclosure as of January 27, 2020, which is the date these financial statements were available to be issued.