

CALIFORNIA CHOICE ENERGY AUTHORITY
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
FOR THE YEAR ENDED JUNE 30, 2020



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CALIFORNIA CHOICE ENERGY AUTHORITY

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For the year ended June 30, 2020

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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, 2020, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 2020, 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, 2020 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
December 30, 2020

CALIFORNIA CHOICE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2020

The information presented in the Management's Discussion and Analysis is intended to provide a narrative overview of the California Choice Energy Authority's (the Authority) financial activities as of and for the fiscal year ended June 30, 2020. Please consider this information in conjunction with the accompanying basic financial statements.

Financial Highlights

- ❖ The assets of the Authority exceeded its liabilities at the close of fiscal year June 30, 2020, by \$433,541 (net position).
- ❖ The Authority's total net position decreased by \$212,699 in fiscal year 2019-20.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements are composed of two components: (1) financial statements and (2) notes to basic financial statements.

Authority-wide Financial Statements

Statement of Net Position: The statement of net position includes all assets and liabilities. Assets and liabilities are reported at their book value, on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net position of the Authority.

Statement of Revenues, Expenses, and Changes in Net Position: The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the year on an accrual basis.

Statement of Cash Flows: The statement of cash flows presents the inflows and outflows of cash for the year and is summarized by operating and investing activities. The statement is prepared using the direct method of cash flows and therefore presents gross rather than net amounts for the year's activities.

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes to basic financial statements can be found on pages 6-8 of this report.

In addition to the basic financial statements, this report also presents supplementary information relating to the Authority's budget. To demonstrate compliance with the budget, a schedule comparing final budget and actual expenditures can be found on page 6 of this report.

CALIFORNIA CHOICE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2020

Financial Analysis

Summary of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Assets:			
Current assets	\$ 2,933,810	\$ 1,619,884	\$ 1,313,926
Capital assets	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>2,933,810</u>	<u>1,619,884</u>	<u>1,313,926</u>
Liabilities:			
Current liabilities	<u>2,500,269</u>	<u>973,644</u>	<u>1,526,625</u>
Net Position:			
Invested in capital assets	0	0	0
Unrestricted	<u>433,541</u>	<u>646,240</u>	<u>(212,699)</u>
Net position	<u>\$ 433,541</u>	<u>\$ 646,240</u>	<u>\$ (212,699)</u>

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$433,541 at June 30, 2020. Current assets increased due to an increase in cash of \$1,547,618 and decrease in receivables of \$378,057.

By far, the largest portion of the Authority's net position reflects its available member contributions for expenses to be incurred by the Authority.

CALIFORNIA CHOICE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2020

Financial Analysis (Continued)

Summary of Changes in Net Position
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Operating revenues	\$ 5,438,167	\$ 5,713,339	\$ (275,172)
Operating expenses	<u>(5,650,866)</u>	<u>(5,174,484)</u>	<u>476,382</u>
Operating income (loss)	(212,699)	538,855	(751,554)
Nonoperating revenues	<u>0</u>	<u>0</u>	<u>(0)</u>
Change in net position	(212,699)	538,855	(751,554)
Net position, beginning of year	<u>646,240</u>	<u>107,385</u>	<u>538,855</u>
Net position, end of year	<u>\$ 433,541</u>	<u>\$ 646,240</u>	<u>\$ (212,699)</u>

Operating expenses of \$5,650,866 shown on the statement of revenues, expenses, and changes in net position consist of the following:

	<u>2020</u>	<u>2019</u>
Professional Svcs - Members	\$ 3,885,064	\$ 2,995,918
Professional Svcs - Admin	1,575,311	1,631,425
Professional Svcs – Prospective Members	97,758	394,197
Insurance Premiums	34,707	25,176
Miscellaneous	<u>58,026</u>	<u>127,768</u>
Total	<u>\$ 5,650,866</u>	<u>\$ 5,174,484</u>

Operating expenses increased by \$476,382 primarily due to an increase in professional services – members of \$889,146 and decrease in professional services – prospective members of \$296,439.

Capital Assets

The Authority had no capital assets as of June 30, 2020.

CALIFORNIA CHOICE ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2020

Expenditures Budget to Actuals

	<u>Budget</u>	<u>Actuals</u>	<u>Variance</u>
Professional Svcs - Members	\$3,850,855	\$3,885,064	(\$34,209)
Professional Svcs – Admin	1,362,600	1,575,311	(212,711)
Professional Svcs – Prospective Members	100,000	97,758	2,242
Insurance Premiums	25,000	34,707	(9,707)
Miscellaneous	<u>156,840</u>	<u>58,026</u>	<u>98,814</u>
Total	<u>\$5,495,295</u>	<u>\$5,650,866</u>	<u>(\$155,571)</u>

Actual expenditures exceeded budget by \$155,571, primarily due to professional svcs – admin exceeding the budgeted amount.

Next Year's Budget

In the fiscal year 2020-2021 budget, professional services - members continue to be the most significant expense at \$3,438,103 (68%) of the total budgeted expense of \$5,037,278. Costs professional services - admin are the second highest budgeted expense at \$1,362,600, followed by budgeted expenses for promotions and advertising of \$97,210. The 2020-2021 budget decreased by \$458,017 from the 2019-2020 budget due to the completion of implementation services for new members.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the California Choice Energy Authority, 44933 Fern Ave, Lancaster, CA 93534.

CALIFORNIA CHOICE ENERGY AUTHORITY
STATEMENT OF NET POSITION

June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,900,520
Accounts receivable	505,290
Prepaid items	<u>528,000</u>

TOTAL ASSETS	<u>2,933,810</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	444,517
Due to the City of Lancaster	714,352
Due to other governments	5,400
Unearned revenue	528,000
Supplier deposit	<u>808,000</u>

TOTAL CURRENT LIABILITIES	<u>2,500,269</u>
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NET POSITION

Unrestricted	<u>433,541</u>
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TOTAL NET POSITION	<u><u>\$ 433,541</u></u>
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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, 2020

OPERATING REVENUES	
Sales and service charges	\$ 5,438,167
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TOTAL OPERATING REVENUES	5,438,167
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OPERATING EXPENSES	
Professional services - members	3,885,064
Professional services - administration	1,575,311
Professional services - prospective members	97,758
Insurance premiums	34,707
Miscellaneous	58,026
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TOTAL OPERATING EXPENSES	5,650,866
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OPERATING LOSS	(212,699)
	<hr/>
CHANGE IN NET POSITION	(212,699)
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NET POSITION AT BEGINNING OF YEAR	646,240
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NET POSITION AT END OF YEAR	\$ 433,541
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See accompanying notes to financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY
STATEMENT OF CASH FLOWS

For the year ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 7,152,224
Cash paid to suppliers for goods and services	(5,816,303)
Cash received from City of Lancaster for energy purchases	<u>211,697</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,547,618</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,547,618
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>352,902</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,900,520</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	<u>\$ (212,699)</u>
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(395,290)
(Increase) decrease in due from other governments	773,347
(Increase) decrease in deposits	349,078
(Increase) decrease in prepaid items	(493,443)
Increase (decrease) in accounts payable	(26,472)
Increase (decrease) in due to City of Lancaster	211,697
Increase (decrease) in due to other governments	5,400
Increase (decrease) in deferred revenue	528,000
Increase (decrease) in supplier deposit	<u>808,000</u>
Total adjustments	<u>1,760,317</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,547,618</u></u>

See accompanying notes to financial statements.

CALIFORNIA CHOICE ENERGY AUTHORITY

Notes to Basic Financial Statements

June 30, 2020

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 is governed by the Lancaster City Council with each City joining as an associate member of the JPA. The Authority was formed to help member cities in Southern California Edison territory to participate in community choice aggregation (CCA) without having to sacrifice control often associated with joint power authorities or taking on the significant liability for a single entity community choice aggregation. Each associate City's Council would set rates for their City, purchase their energy and contract their CCA services through existing Authority contracts which helps keep costs low and maximize revenues for each associate member. Associate members assume only those responsibilities with which their councils and staff are most comfortable and capable of handling. The Authority handles the procurement, regulatory and compliance and billing and data management for associate members.

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 cash equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

CALIFORNIA CHOICE ENERGY AUTHORITY

Notes to Basic Financial Statements

June 30, 2020

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. Deposits

The Authority receives deposits from energy providers for projects under construction to secure energy and resource adequacy in advance. Once the project is operational, the Authority will return the deposit.

g. Unearned Revenue

The Authority has unearned revenues for payments that were received in advance from customers for the subsequent period. The Authority will recognize the revenue the service period for the advance customer payment in the service period for which the revenue is earned.

h. 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.

i. 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.

CALIFORNIA CHOICE ENERGY AUTHORITY
Notes to Basic Financial Statements
June 30, 2020

3. CASH AND INVESTMENTS

At June 30, 2020, cash and cash equivalents of \$1,900,520 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	\$ 75,000,000

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, 2020, the Authority's deposits of \$1,900,520 are covered by the Federal Deposit Insurance Corporation or collateralized.

CALIFORNIA CHOICE ENERGY AUTHORITY**Notes to Basic Financial Statements****June 30, 2020**

4. CONTRACT REQUIREMENTS AND COMMITMENTS

The Authority has master “Take or Pay” agreements with different energy providers that associate members use to purchase energy to provide for future electric capacity for associate member agencies customers. Associate members enter into separate contracts with the providers and these contracts constitute an obligation of the associate member agencies to purchase a set volume of electricity at a set price throughout the terms of the contracts.

During the fiscal year ended June 30, 2020, the total payments made by associate member agencies under the take or pay contracts was \$82,596,966. At June 30, 2020, the remaining take or pay contracts for each associate member are as follows:

<u>Associate Member</u>	<u>Total Remaining Contract</u>	<u>Termination Dates</u>
Apple Valley Choice Energy	\$ 48,500,644	December 2028
Lancaster Choice Energy	130,408,602	December 2028
Pico Rivera Innovative Municipal Energy	35,344,382	December 2033
Rancho Mirage Energy Authority	57,073,322	December 2033
San Jacinto Power	33,886,331	December 2033

