

WESTERN COMMUNITY ENERGY

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

WESTERN COMMUNITY ENERGY

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Independent Auditor's Report

To the Board of Directors
Western Community Energy
Riverside, California

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Report on the Financial Statements

We have audited the accompanying financial statements of the Western Community Energy (the Authority), as of and for the period from inception (August 23, 2018) to 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

The Authority's 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.

Auditor's 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 and the State Controller's *Minimum Audit Requirements for California Special District's*. 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 auditor's 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 entity'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 entity'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 Authority, as of June 30, 2019, and the changes in financial position and cash flows for the period from inception (August 28, 2018) to the period ended June 30, 2019 in accordance with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special Districts.

Other Matters

Required Supplementary Information

Management has elected to omit the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 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 the Authority's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 27, 2020

WESTERN COMMUNITY ENERGY

STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS

Current Assets

Cash & Cash Equivalents (Note 2) \$ 207,535

Total Assets 207,535

LIABILITIES & NET POSITION

Current Liabilities

Due to Other Governments (Note 3) 1,715,997

Total Liabilities 1,715,997

Net Position

Unrestricted (1,508,462)

Total Net Position (1,508,462)

Total Liabilities & Net Position \$ 207,535

See accompanying notes to the basic financial statements

WESTERN COMMUNITY ENERGY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

<u>Operating Revenue</u>	
Customer Charges	\$ -
	<hr/>
Total Operating Revenues	-
	<hr/>
<u>Operating Expenses</u>	
Consulting and Professional	1,423,294
Administration Fees	85,168
	<hr/>
Total Operating Expenses	1,508,462
	<hr/>
Net Income/(Loss)	(1,508,462)
Net Position, Beginning of Year	-
	<hr/>
Net Position, End of Year	<u>\$ (1,508,462)</u>

See accompanying notes to the basic financial statements

WESTERN COMMUNITY ENERGY
STATEMENT OF CASH FLOWS
PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

Cash Flows From Operating Activities

Cash payments for services and supplies	<u>\$ (1,508,462)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,508,462)</u>

Cash Flows From Non-Capital Financing Activities

Proceeds from loan from other government	<u>1,715,997</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>1,715,997</u>
Net Increase (Decrease) in Cash and Cash Equivalents	207,535

Cash and Cash Equivalents at Beginning of the Year	<u>-</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 207,535</u></u>

Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities

Operating Income (Loss)	<u>\$ (1,508,462)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (1,508,462)</u></u>

There were no capital and related financing activities and investing activities.

See accompanying notes to the basic financial statements

WESTERN COMMUNITY ENERGY
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. Reporting Entity - Western Community Energy ("Authority") was organized on August 23, 2018 pursuant to the Joint Exercise of Powers Agreement by City of Canyon Lake, City of Eastvale, City of Hemet, City of Jurupa Valley, City of Perris, and City of Wildomar ("Member Agencies"). In 2002, AB 117 was signed into law allowing public agencies to aggregate the electrical load of interested consumers within their jurisdictional boundaries and purchase electricity on behalf of those consumers. The WCE was formed with the purpose and intent to collectively study, promote, develop, conduct, operate and manage energy, energy efficiency and conservation, and other energy-related and climate change programs related to a Community Choice Aggregation program ("CCA Program"), and exercise all other powers necessary and incidental to accomplishing this purpose. The Member Agencies have each adopted an ordinance electing to implement through the Authority a community choice aggregation program pursuant to California Public Utilities Code § 3 66.2.

The WCE will be initially administered by the Western Riverside Council of Governments ("WRCOG"), which shall provide Executive Director, staff, and consultant services to WCE. WRCOG shall provide administrative services for three years from the Effective Date of Joint Exercise of Powers Agreement. The term and conditions of the administrative services agreement may be extended by mutual agreement of WRCOG and the WCE without further amendment of the original JPA Agreement.

- B. Basis of Accounting - The financial statements of the Authority are presented as an enterprise fund. All of the Authority's transactions are accounted for using the economic measurement focus and accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded as liabilities are incurred.
- C. Cash & Cash Equivalents - For the purpose of the statement of cash flows, all cash and investments have been classified as cash and cash equivalents.
- D. Use of Estimates - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.

WESTERN COMMUNITY ENERGY
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

- E. Operating Revenues and Expenses - The Authority's operating revenues and expenses generally result from providing service in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are customer charges for electric services. Operating expenses include the costs associated with the development of the Authority and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.
- F. Net Position Flow Assumption - It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position. The Authority currently only has unrestricted net position.

2. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents of \$207,535 at June 30, 2019 consist of cash in bank. The carrying amount of the Authority's cash is covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

WESTERN COMMUNITY ENERGY
 NOTES TO FINANCIAL STATEMENTS
 PERIOD FROM INCEPTION (AUGUST 23, 2018) TO JUNE 30, 2019

2. CASH AND CASH EQUIVALENTS (CONTINUED):

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Money Market Funds	N/A	20%	None
Local Government Investment Pools (LGIP)	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65 million **

** Limit set by LAIF governing Board, not California Government Code

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority 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 Authority is currently not subject to the following risks: credit, concentration of credit, or interest rate risk.

3. DUE TO OTHER GOVERNMENTS:

WRCOG has funded certain activities necessary to implement the CCA Program. It is anticipated that the CCA program will launch in April and May of 2020. If the program becomes operational, these initial costs shall be included in the customer charges for electric services to the extent permitted by law, and WRCOG shall be reimbursed from the payment of such charges by customers of the Authority. Prior to such reimbursement, WRCOG shall provide such documentation of costs paid as the Board may request. The Authority may establish a reasonable time period over which such costs are recovered. In the event the program does not become operational, WRCOG shall not be entitled to any reimbursement of the initial costs.