

**WESTERN COMMUNITY ENERGY**

**FINANCIAL STATEMENTS**

**WITH INDEPENDENT AUDITOR'S REPORT**

**FOR FISCAL YEAR ENDED JUNE 30, 2020**

# 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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### **MEMBERS**

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### **Report on the Financial Statements**

We have audited the accompanying financial statements of Western Community Energy (the Authority), 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**

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, 2020, and the changes in financial position and cash flows for the fiscal year then ended 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 opinion 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 February 1, 2021 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  
February 1, 2021

WESTERN COMMUNITY ENERGY

STATEMENT OF NET POSITION  
JUNE 30, 2020

**ASSETS**

Current Assets:

Cash and cash equivalents (Note 2)	\$ 5,196,733
Accounts receivable, net	<u>12,497,279</u>

Total Assets	<u>17,694,012</u>
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**LIABILITIES**

Current Liabilities:

Accounts payable	11,974,477
Interest payable	9,416
Due to other governments (Note 3)	3,086,557
Loan payable/credit agreement-operating line (Note 5)	<u>4,100,000</u>

Total Liabilities	<u>19,170,450</u>
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**NET POSITION**

Unrestricted (deficit)	<u>(1,476,438)</u>
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Total Net Position (deficit)	<u>\$ (1,476,438)</u>
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*See accompanying notes to the basic financial statements.*

WESTERN COMMUNITY ENERGY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**OPERATING REVENUES**

Customer charges	\$ 15,587,623
	<u>15,587,623</u>
Total Operating Revenues	<u>15,587,623</u>

**OPERATING EXPENSES**

Energy purchases	8,564,716
Resource adequacy	5,187,474
Professional fees	1,002,349
Legal fees	175,051
Bank fees	349
Stipends	6,750
Office expense and supplies	17,536
Reimbursement for services	356,710
Membership dues	1,500
Overhead allocation	168,006
	<u>168,006</u>
Total Operating Expenses	<u>15,480,441</u>

Operating Income	107,182
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**NONOPERATING EXPENSES**

Interest expense	<u>75,158</u>
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Change in Net Position	32,024
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Net Position (deficit), Beginning of Year	<u>(1,508,462)</u>
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Net Position (deficit), End of Year	<u>\$ (1,476,438)</u>
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*See accompanying notes to the basic financial statements.*

WESTERN COMMUNITY ENERGY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**CASH FLOWS OPERATING ACTIVITIES**

Cash received from customers	\$ 2,932,893
Cash payments to suppliers and services	<u>(2,032,740)</u>
Net Cash Provided by Operating Activities	<u>900,153</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from loan advances	4,100,000
Interest paid	<u>(10,955)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>4,089,045</u>
Net Increase in Cash and Cash Equivalents	4,989,198
Cash and Cash Equivalents at Beginning of the Year	<u>207,535</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 5,196,733</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ <u>107,182</u>
Changes in Assets and Liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(12,497,279)
Increase (decrease) in liabilities:	
Accounts payable	11,910,274
Interest payable	9,416
Due to other governments	<u>1,370,560</u>
Total Adjustments	<u>792,971</u>
Net Cash Provided by Operating Activities	<u><u>\$ 900,153</u></u>

*See accompanying notes to the basic financial statements.*

WESTERN COMMUNITY ENERGY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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 § 366.2.

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 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.
- E. Allowance for Doubtful Accounts - The Authority uses the allowance method to account for uncollectible customer accounts. The allowances are based on management's estimate of possible bad debts. The allowance for doubtful customer accounts is \$157,451 at June 30, 2020.

WESTERN COMMUNITY ENERGY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

F. 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.

G. 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 \$5,196,733 at June 30, 2020 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.

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. As of June 30, 2020, the Authority deposits with financial institutions, \$4,946,733 was in excess of federal depository insurance limits.

The Authority is currently not subject to the following risks: credit, concentration of credit, or interest rate risk.

Authorized Investments

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  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

2. CASH AND CASH EQUIVALENTS (CONTINUED):

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
Money Market Funds	N/A	20%	None
Local Government Investment Pools (LGIP)	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$75 million **

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

3. DUE TO OTHER GOVERNMENTS:

WRCOG has funded certain activities necessary to implement the CCA Program. The CCA program was launched in April of 2020. The initial costs have been included in the customer charges for electric services to the extent permitted by law, and WRCOG will be reimbursed for 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.

4. PROGRAM LAUNCH UPDATE:

WCE launched in April 2020 in the Cities of Norco, Perris, and Wildomar. It launched in May 2020 in the Cities of Eastvale, Hemet and Jurupa Valley. Net Energy Metering (NEM) customers are those who have solar panels installed in their homes. WCE has decided to phase-in these customers on a quarterly basis in order to coincide with Southern California Edison's (SCE) 12-month true-up process, with the first enrollment phase being October 2020 for customers who decide to opt into the program.

5. LONG-TERM LIABILITIES:

Credit agreement with Barclays Bank

On December 11, 2019, the Board of Directors approved a credit agreement with Barclays Bank, PLC. The purpose of the credit agreement was to provide credit support for the purchase of energy, in the form of letters of credit; and loan advances to cover operating costs. With a total of \$16M available credit; \$10M will be allocated for Letters of Credit (LoC) and \$6M for the Operating Line. The term of the LoC financing will be five years and the term of the operating facility will be three years. Operating facility is anticipated to be repaid by the year 2021 and kept open until the year 2023. Letters of credit will also remain open for its full term of 5 years. WCE may request a change in the amounts allocated to LoC and operating needs. Barclays has agreed to consider such requests to accommodate WCE's needs. Interest rate is based on current London Inter-Bank Offered Rate (LIBOR) plus 3.20%. LIBOR is expected to be phased-out in 2020 and will be replaced with a new index that is anticipated to be more favorable.

WESTERN COMMUNITY ENERGY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

5. LONG-TERM LIABILITIES (CONTINUED):

Credit agreement with Barclays Bank (Continued)

All revenue from the sale of energy, will be collected by Southern California Edison and placed into a lockbox account that will be used to pay energy providers and California Independent System Operator. All excess funds from the lockbox account will be disbursed to an operating funds flow account that will be used to pay debt service payments to Barclays and fund the operating reserve account. Barclays will have a security interest in these two accounts. All excess funds after the payment of debt service and funding of reserve will flow into the primary WCE operating account, where funds will be used for other operating expenses.

Account Control Agreements between Barclays, WCE, and River City Bank will give Barclays the right to take control of the accounts if there is an Event of Default.

There are two major financial covenants that must be met on specific dates: Debt Service Coverage Ratio (DSCR) and Reserve Requirement. WCE must hit a DSCR of 1.25x in April 2021, 1.5x in July 2021, and 2x in October 2021. There is a reserved requirement of \$3 million that must be funded over time into a separate account that will be used as collateral for the credit facility. WCE must hit 20% of the reserve requirement by April 2021, 50% by July 2021, and 100% by October 2021.

The outstanding balance of the loan payable – Operating Line and interest expense at June 30, 2020 was \$4,100,000 and \$75,158, respectively. Unused lines of credit total \$11,900,000.

6. COVID-19 Considerations:

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. Due to COVID, a moratorium was placed by the Governor that prohibited utilities from disconnecting service due to non-payment. This, along with the countless job losses due to COVID, have created a significant increase to WCE's delinquencies. Additionally, due to some of the warmest months on record in California, WCE experienced higher-than-expected energy costs. While WCE hedges most of its anticipated energy usage by procuring in advance, COVID has had impacts on when users utilize energy, and more residents were at home using energy during these warm months. This additional energy is purchased on the open market and is sold at a premium, causing a drastic increase to WCE's energy costs. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty. The duration of these uncertainties and the ultimate financial effects cannot be estimated at this time.