

# **CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

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## **Basic Financial Statements with Independent Auditor's Report**

**For the Fiscal Year Ended June 30, 2018**



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**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**  
Basic Financial Statements with Independent Auditor's Report  
For the Fiscal Year Ended June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Clean Power Alliance of Southern California

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

We have audited the accompanying basic financial statements of the Clean Power Alliance of Southern California (CPA) as of and for the fiscal year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise CPA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Basic Financial Statements***

CPA's management is responsible for the preparation and fair presentation of these basic 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 the basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of CPA as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 required supplementary information 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 20, 2018 on our consideration of CPA'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 CPA's internal control over financial reporting and compliance.

*BCA Watson Rice, LLP*

Torrance, California  
December 20, 2018

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2018

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The Management's Discussion and Analysis provides an overview of the Clean Power Alliance of Southern California's (CPA) financial activities as of and for the year ended June 30, 2018. The information presented here should be considered in conjunction with the audited financial statements.

**Contents of this report**

This report is divided into the following sections:

- Management's discussion and analysis, which provides an overview of operations.
- The basic financial statements, which offer information on CPA's financial status:
  - The *Statement of Net Position* includes all of CPA's assets, liabilities, and net position using the accrual basis of accounting. The Statement of Net Position provides information about the nature and amount of resources and obligations at a specific point in time. Over time, an increase or decrease in net position may serve as a useful indicator of CPA's financial position.
  - The *Statement of Revenues, Expenses, and Changes in Net Position* reports all of CPA's revenue and expenses for the years shown. All changes in fund net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future periods.
  - The *Statement of Cash Flows* reports the cash provided and used by operating activities, as well as other sources and uses, such as capital asset acquisitions. Consequently, only transactions that affect CPA's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the *Statement of Cash Flows* to assist in the understanding of the difference between cash flows from operating activities and operating income or loss.
  - Notes to the basic financial statements, which provide additional details and information related to the basic financial statements.

**NATURE OF OPERATIONS**

CPA was formed pursuant to California Assembly Bill 117 which enables communities to purchase power on behalf of their residents and businesses and creates retail choice for electric generation services.

CPA, formerly Los Angeles Community Choice Energy (LACCE), was created as a California Joint Powers Authority on June 27, 2017. CPA was established to study, promote, develop, conduct, operate, and manage energy programs in Southern California. Governed by an appointed board of directors (Board), CPA has the authority to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. CPA acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by the California Independent System Operator (CAISO) and Southern California Edison (SCE).

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

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The parties to CPA's Joint Powers Agreement consist of local governments whose governing bodies elect to join CPA. Pursuant to the Public Utilities Code, when new parties join CPA, all electricity customers in its jurisdiction automatically become default customers of CPA for electric generation, provided that customers are given the option to "opt out".

CPA's goal is to provide customers with competitively priced and affordable electricity with high renewable energy content and low greenhouse gas emissions. CPA offers its customers three electricity services to choose from: Lean Power, Clean Power, and 100% Green Power. Lean Power provides 36% renewable energy content, Clean Power provides 50% renewable energy support, and 100% Green Power provides 100% renewable energy content.

CPA began operations in February 2018 by serving approximately 1,800 municipal accounts.

### Financial Reporting

CPA presents its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

### FINANCIAL HIGHLIGHTS

The following table is a summary of CPA's assets, liabilities, and net position as of June 30:

	<b>2018</b>
Current assets	\$ 9,621,793
Noncurrent assets	7,250
Total assets	<u>9,629,043</u>
Current liabilities	2,470,275
Noncurrent liabilities	9,835,608
Total liabilities	<u>12,305,883</u>
Net position	
Unrestricted (deficit)	<u>(2,676,840)</u>
Total net position	<u>\$ (2,676,840)</u>

### Current Assets

Current assets totaled \$9,622,000 as of June 30, 2018. Current assets are mostly comprised of the following items: \$3,296,000 in cash and restricted cash in a depository account, \$2,702,000 invested in the Los Angeles County Investment Pool, \$741,000 in accounts receivable and other receivables, \$908,000 in accrued revenue, and \$1,950,000 in security deposits.

### Current Liabilities

Current liabilities totaled \$2,470,000 as of June 30, 2018 and consist primarily of \$1,513,000 of electricity delivered to customers that is not yet due to be paid by CPA and \$940,000 in accounts payable

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

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for service providers and other operating expenses. CPA is required to collect and remit taxes on certain customer sales and had a current liability of \$17,000 for these taxes as of June 30, 2018.

### Noncurrent Liabilities

Noncurrent liabilities consist entirely of a \$9,836,000 loan payable to the County of Los Angeles. This non-interest bearing loan supported CPA's start up and continuing operating costs. The loan is due for repayment on September 30, 2020.

The following table is a summary of CPA's results of operations:

	<b>2018</b>
Operating revenues	\$ 3,382,705
Interest income	7,126
Total income	<u>3,389,831</u>
Operating expenses	<u>6,066,671</u>
Decrease in net position	<u>\$ (2,676,840)</u>

### Operating Revenues

Operating revenues for the year consist of electricity sales to customers. CPA began providing service to customers beginning in February 2018.

### Operating Expenses

The major operating cost incurred during the fiscal year was \$3,299,000 in energy purchases to support customer sales. Other operating expenses include costs for the start-up and implementation of the agency, costs associated with the enrollment of new customers, as well as costs to support ongoing operations. Prior to receiving payments from its customers, operating expenses were financed by a loan from the County of Los Angeles.

### Change in Net Position

The change in net position represents the difference between revenues and expenses. CPA's expenses exceeded its revenues resulting in a negative change in net position. The negative change in net position was consistent with its implementation plan. The negative net position was financed by accounts payable and debt.

### PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK

During the normal course of business, CPA enters into various agreements, including renewable energy agreements and other power purchase agreements to purchase power and electricity capacity. CPA enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products. California law established a Renewable Portfolio Standard (RPS) that requires load-serving entities, such as CPA, to gradually increase the amount of renewable energy they deliver to their customers. In October 2015, the California Governor signed Senate Bill (SB) 350,

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the Clean Energy and Pollution Reduction Act of 2015 into law. SB 350 became effective January 1, 2016, and increases the amount of renewable energy that must be delivered by most load-serving entities, including CPA, to their customers from 33% of their total annual retail sales by the end of the 2017-2020 compliance period, to 50% of their total annual retail sales by the end of the 2028-2030 compliance period, and in each three-year compliance period thereafter. SB100, signed into law by the California Governor in September 2018, increased this 2030 target by 60% of total annual retail sales.

SB 350 provides compliance flexibility and waiver mechanisms, including increased flexibility to apply excess renewable energy procurement in one compliance period to future compliance periods. Beginning January 1, 2021, at least 65% of the procurement a retail seller, such as CPA, counts toward the renewables portfolio standard requirement of each compliance period shall be from its contracts of ten years or more in duration. CPA manages risks associated with these commitments by aligning purchase commitments with expected demand for electricity and assuring diversity of technologies, geographical locations, and suppliers.

Commitments under power purchase agreements totaled approximately \$225 million as of June 30, 2018.

Management intends to continue its conservative use of financial resources and expects to generate operating surpluses in future years.

#### **CONTACTING CPA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide CPA's customers, creditors, and other interested parties with a general overview of the Organization's finances and to demonstrate CPA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to Chief Financial Officer, Clean Power Alliance, 555 W. 5<sup>th</sup> Street, 35<sup>th</sup> Floor, Los Angeles, CA 90013.

## **BASIC FINANCIAL STATEMENTS**

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

Statement of Net Position

June 30, 2018

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**ASSETS**

Current assets

Cash and cash equivalents (Note 4)	\$ 2,546,067
Investment in Los Angeles County Investment Pool (Note 4)	2,701,780
Accounts receivable, net of allowance for doubtful accounts (Note 5)	660,508
Other receivables	75,800
Interest receivables	5,092
Accrued revenue	907,546
Prepaid expenses	25,000
Deposits (Note 2)	1,950,000
Restricted cash	<u>750,000</u>
Total current assets	9,621,793

Noncurrent assets

Rent security deposits	<u>7,250</u>
Total assets	<u>9,629,043</u>

**LIABILITIES**

Current liabilities

Accounts payable	940,351
Accrued cost of electricity	1,512,698
User taxes and energy surcharges due to other governments (Note 2)	<u>17,226</u>
Total current liabilities	2,470,275

Noncurrent liabilities

Loan payables to County of Los Angeles (Note 6)	<u>9,835,608</u>
Total liabilities	<u>12,305,883</u>

**NET POSITION**

Unrestricted (deficit)	<u>\$ (2,676,840)</u>
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See accompanying notes to the basic financial statements.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2018

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**Operating Revenues**

Electricity sales, net	\$ 3,343,365
Miscellaneous income	39,340
Total operating revenues	<u>3,382,705</u>

**Operating Expenses**

Cost of electricity	3,298,724
Staff compensation	222,051
Consultants and other professional fees	2,418,688
General and administration	127,208
Total operating expenses	<u>6,066,671</u>
Operating loss	(2,683,966)

**Nonoperating Revenues (Expenses)**

Interest income	<u>7,126</u>
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**Change in Net Position**

Net position at beginning of year	(2,676,840)
Net position at end of year	<u>-</u>
	<u>\$ (2,676,840)</u>

See accompanying notes to the basic financial statements.

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

### Statement of Cash Flows For the Fiscal Year Ended June 30, 2018

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#### **Cash Flows From Operating Activities**

Receipts from electricity sales	\$ 2,155,770
Payments to suppliers for goods and services	(3,309,957)
Deposits and collateral paid	(1,950,000)
Net cash used by operating activities	<u>(3,104,187)</u>

#### **Cash Flows From Non-Capital Financing Activities**

Loan proceeds	<u>9,100,000</u>
Net cash provided by non-capital financing activities	<u>9,100,000</u>

#### **Cash Flows From Investing Activities**

Interest income	<u>2,034</u>
Net cash provided by investing activities	<u>2,034</u>

Net change in cash and cash equivalents	5,997,847
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	<u>\$ 5,997,847</u>

#### **Reconciliation to the Statement of Net Position**

Cash and cash equivalents	\$ 2,546,067
Investment in Los Angeles County Investment Pool	2,701,780
Restricted cash	<u>750,000</u>
Cash and cash equivalents	<u>\$ 5,997,847</u>

See accompanying notes to the basic financial statements.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

Statement of Cash Flows (Continued)  
For the Fiscal Year Ended June 30, 2018

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**Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

Operating loss	\$ (2,683,966)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(660,508)
Increase in other receivable	(75,800)
Increase in accrued revenue	(907,546)
Increase in prepaid expenses	(25,000)
Increase in deposits	(1,950,000)
Increase in rent security deposits	(7,250)
Increase in accounts payable	940,351
Increase in accrued cost of electricity	1,512,698
Increase in user taxes and energy surcharges due to other governments	17,226
Increase in loans payable	735,608
Net cash used by operating activities	<u>\$ (3,104,187)</u>

See accompanying notes to the basic financial statements.

# CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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## 1. REPORTING ENTITY

The Clean Power Alliance of Southern California (CPA) is a joint powers authority created on June 27, 2017. As of June 30, 2018, participating communities consist of the following local governments:

Unincorporated Los Angeles County	Moorpark
Unincorporated Ventura County	Ojai
Agoura Hills	Oxnard
Alhambra	Paramount
Arcadia	Redondo Beach
Beverly Hills	Rolling Hills Estates
Calabasas	Santa Monica
Camarillo	Sierra Madre
Claremont	Simi Valley
Carson	South Pasadena
Culver City	Temple City
Downey	Thousand Oaks
Hawaiian Gardens	Ventura
Hawthorne	West Hollywood
Malibu	Whittier
Manhattan Beach	

CPA is separate from and has no right to receive financial support from its members. CPA is governed by a Board of Directors whose membership is composed of elected officials representing each one of its member communities.

CPA was established as a Community Choice Aggregation Program under California Public Utilities Code Section 366.2 to study, promote, develop, conduct, operate, and manage energy programs in Southern California, and to exercise all other powers necessary and incidental to accomplishing these objectives. A key objective of CPA is to provide electric service that includes the use of renewable sources and reduces greenhouse gas emissions.

CPA began providing electricity to customers in February 2018. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the CAISO and SCE.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

CPA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. CPA's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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

#### BASIS OF ACCOUNTING (Continued)

at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

CPA's financial statements are presented in accordance with the provisions of GASB No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

*Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2018, CPA had \$0 net investment in capital assets.

*Restricted net position* – This component of net position represents restricted assets net of liabilities that relate to those specific restricted assets. A restricted asset is an asset for which constraints have been placed on the asset's use by creditors, contributors, laws, or regulations of other governments, or as a consequence of a restriction established by the reporting entity's own governing body at the time a particular fee, charge, levy, or assessment was approved. These restrictions must be narrower than the general purposes for which the reporting government can use its resources. As of June 30, 2018, CPA had \$0 restricted net position.

*Unrestricted net position* – When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used. As of June 30, 2018, CPA had \$2.68 million in unrestricted net deficit.

#### SECURITY DEPOSITS

Various energy contracts entered into by CPA require CPA to provide the supplier with a security deposit. The deposits are generally held for the term of the contract. Deposits with energy suppliers are classified as current or noncurrent assets depending on the length of the time the deposits will be held. Other components of deposits include those for regulatory and other operating purposes.

#### CAPITAL ASSETS

As of June 30, 2018, CPA did not have capital assets or an accounting policy governing capital assets. During the current fiscal year, CPA adopted a new policy and will report capital assets based on this policy for future years.

## **CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **REVENUE RECOGNITION**

CPA recognizes revenue on the accrual basis. This includes invoices issued to customers during the period and electricity estimated to have been delivered but not yet billed. Revenues are recorded when earned, regardless of the timing of the related cash flows.

#### **ELECTRICAL POWER PURCHASED**

During the normal course of business CPA purchases electric power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from CPA's participation in the CAISO centralized market. These costs are recognized as "Cost of electricity" in the Statement of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and voluntary targets, CPA acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). CPA obtains Certificates with the intent to retire them. An expense is recognized at the point that the cost of the RPS eligible energy is due and payable to the supplier. CPA purchases capacity commitments from qualifying generators to comply with the California Energy Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the CAISO to ensure the safe and reliable operation of the grid in real time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

#### **STAFFING COSTS**

CPA pays employees semi-monthly and fully pays its obligation for benefits each month. CPA does not provide pension, post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements.

#### **INCOME TAXES**

CPA is a Joint Powers Authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

#### **USER TAXES AND ENERGY SURCHARGES DUE TO OTHER GOVERNMENTS**

CPA is required by governmental authorities to collect and remit taxes on certain customer sales. These taxes do not represent revenues or expenses to CPA.

#### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### 3. PRONOUNCEMENTS ISSUED AND IMPLEMENTED DURING THE YEAR

In June 2015, GASB issued **Statement No. 75**, “*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions.*” This Statement is to improve accounting and financial reporting by governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and improves information about financial support that is provided by other entities for making decisions, assessing accountability, and creating additional transparency. This Statement replaces Statements No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”, as amended, and No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*”. As of June 30, 2018, CPA did not have a postemployment benefit plan in place and this Statement did not have an impact to the financial statements.

In March 2016, GASB issued **Statement No. 81**, “*Irrevocable Split Interest Agreements.*” This Statement is to improve accounting and financing reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial statements for reporting periods beginning after December 15, 2016. As of June 30, 2018, CPA did not have irrevocable split interest agreements in place and this Statement did not have an impact to the financial statements.

In March 2017, GASB issued **Statement No. 85**, “*Omnibus 2017.*” This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). This Statement includes requirements for the timing and measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, and simplification of certain aspects of the alternative measurement method for OPEB. The provisions of Statement No. 85 are effective for financial statements for reporting periods beginning after June 15, 2017. Implementation of this Statement did not have an impact on the CPA’s financial statements for the fiscal year ended June 30, 2018.

In May 2017, GASB issued **Statement No. 86**, “*Certain Debt Extinguishment Issues.*” This Statement is to improve consistency in accounting and financing reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of Statement No. 86 are effective for financial statements for reporting periods beginning after June 15, 2017. Implementation of GASB Statement No. 86 did not have an impact on CPA’s financial statements for the fiscal year ended June 30, 2018.

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### 4. CASH AND INVESTMENTS

#### Pooled Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

##### Statement of Net Position:

Cash and cash equivalents	\$ 2,546,067
Investment in the County Treasury Pool	2,701,780
Restricted cash	<u>750,000</u>
Total cash and investments	<u>\$ 5,997,847</u>

Cash and investments as of June 30, 2018 consist of the following:

Equity in Los Angeles County investment pool	\$ 2,701,780
Cash deposits	<u>3,296,067</u>
Total cash and investments	<u>\$ 5,997,847</u>

#### Cash Deposits

CPA maintains its cash in a bank demand deposit and restricted non-interest bearing depository account, which at times may exceed federally insured limits. As of June 30, 2018, CPA had deposits of \$2,546,067 in available cash and \$750,000 in restricted cash within a non-interest bearing depository account.

Although the demand and restricted deposits with a financial institution were in excess of federal depository insurance limits, management believes that CPA is not exposed to any significant credit risk or losses related to cash in bank.

#### Equity in the Cash and Investment Pool of the County of Los Angeles

CPA has investments in the Los Angeles County Treasury Pool. CPA is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Los Angeles County Treasurer and Tax Collector.

CPA has not adopted an investment policy separate from that of the County. The fair value of CPA's investment in this pool is reported in the accompanying financial statements at amounts based upon CPAs pro-rata share of the fair value calculated by the County for the entire County portfolio. The balance available for withdrawal is based on the accounting records maintained by the Los Angeles County Auditor-Controller, which are recorded on an amortized cost basis.

Investments are stated at fair value and are valued on a monthly basis. The Treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix Pricing is used to value securities based on the securities' relationship

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### 4. CASH AND INVESTMENTS (Continued)

#### Equity in the Cash and Investment Pool of the County of Los Angeles (Continued)

to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities classified in Level 3 are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

#### Investments Authorized by Debt Agreements

Investment of debt proceeds is governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy. The table below identifies the investment types that are authorized. The table also identifies certain provisions of these debt agreements that address interest rate 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>	<u>Minimum Rating</u>
U.S. Treasury Notes, Bills and Bonds	None	None	None	None
U.S. Agency Securities	None	None	None	None
Local Agency Obligations	5 years	10%	10%	None
Asset-Backed Securities	5 years	20%	\$750 million	AA
Bankers' Acceptances	180 days	40%	\$750 million	A-1/P-1/F1
Negotiable Certificate of Deposits	3 years	30%	\$750 million	P-1/A
Commercial Paper	270 days	40%	\$1.5 billion	A-1/P-1/F1
Corporate and Medium-Term Notes	3 years	30%	\$750 million	A-1/P-1/F1
Local Agency Investment Fund	N/A	\$65 million	None	None
Money Market Mutual Funds	N/A	15%	10%	AAA
Repurchase Agreements	30 days	\$1 billion	\$500 million	None
Reverse Repurchase Agreements	92 days	\$500 million	\$250 million	None
Forwards, Futures, and Options	90 days	\$100 million	\$50 million	A
Interest Rate Swaps	None	None	None	A
Securities Lending Agreements	92 days	20%	None	None
Supranationals	5 years	30%	None	AA

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County's Investment Policy limits most investment maturities to less than five years, with the exception of U. S. Treasury Notes, Bills, and Bonds and U.S Agency Securities which may have maturities beyond five years. The County Treasurer manages the Pool and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of six months or less and by holding all investments to maturity.

Information about CPAs exposure to interest rate risk as a result of its equity in the cash and investment pool of the County is provided by disclosures in the notes to the basic financial statements of the County that shows the distribution of the County's investments by maturity.

**CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

**4. CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Totals	Remaining Maturity (in Months)		
		12 Months Or Less	13 to 24 Months	More Than 24 Months
LA County Treasury Pool	\$ 2,701,780	\$ 2,701,780	\$	\$
	<u>\$ 2,701,780</u>	<u>\$ 2,701,780</u>	<u>\$</u>	<u>\$</u>

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type. The County investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. These guidelines are summarized in the notes to the basic financial statements of the County.

Investment Type	Totals	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End	
				AAA	Not Rated
LA County Treasury Pool	\$ 2,701,780	None	\$	\$	\$ 2,701,780
	<u>\$ 2,701,780</u>		<u>\$</u>	<u>\$</u>	<u>\$ 2,701,780</u>

Concentration of Credit Risk

There are no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. All investments of CPA are in an investment pool. Although CPA has no limitations on the amount that can be invested in any one issuer beyond those stipulated by the California Government Code, all investments are in the Los Angeles County Treasury Pool which is subject to the County investment policy limitations on the amount of pooled funds that may be invested in any one issuer.

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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. CPA does not have significant separate certificates of deposit or demand accounts with fiscal agents that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### 4. CASH AND INVESTMENTS (Continued)

#### Custodial Credit Risk (Continued)

CPA does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk; however, GASB Statement No. 40 requires disclosures of common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. Information on common deposit and investment risks for the entire County Treasury Pool is presented in Note 5 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

### 5. ACCOUNTS RECEIVABLE

The majority of account collections occur within the first few months following customer invoicing. CPA records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to the reserve for uncollectible accounts for fiscal year 2017-18 were \$0.

### 6. LOANS PAYABLE

In August 2017, CPA and the County of Los Angeles executed a Memorandum of Understanding (MOU) to provide a non-interest bearing loan to CPA in an amount not to exceed \$10 million to be repaid June 30, 2018. In April 2018, the County's Board of Supervisors approved an extension of the repayment term of the loan to June 30, 2019. In August 2018, the County's Board of Supervisors approved a further extension of repayment of the loan to September 30, 2020. The purpose of the loan was to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs.

During the fiscal year 2017-18, CPA received \$9,100,000 of cash loan proceeds and \$735,608 noncash loan proceeds from the County of Los Angeles.

### 7. RISK MANAGEMENT

CPA is exposed to various insurable risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions; employment practices; and other risks. CPA purchases general liability and other insurance from various commercial carriers with policy terms continuing to May 2019.

### 8. COMMITMENTS

As of June 30, 2018, CPA had outstanding non-cancelable commitments of approximately \$225 million for energy and capacity that has not yet been provided under purchase agreements that continue to December 2020.

CPA had outstanding non-cancelable commitments to professional service providers for services yet to be performed of \$296,097 under agreements that continue to June 2019.

## CLEAN POWER ALLIANCE OF SOUTHERN CALIFORNIA

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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### 9. SUBSEQUENT EVENTS

On July 12, 2018 CPA's Board adopted the Energy Risk Management Policy (ERMP). The ERMP establishes CPA's Energy Risk Program and applies to all power procurement and related business activities that may impact the risk profile of CPA. The ERMP documents the framework by which CPA staff and consultants will identify and quantify risk, develop and execute procurement strategies, develop controls and oversight and monitor, and measure and report on the effectiveness of the ERMP. Risks covered by the ERMP include market price risk, credit risk, volumetric risk, operational risk, opt-out risk, legislative and regulatory risk, and other risks arising from operating as a Community Choice Aggregation and participating in California energy markets.

On August 7, 2018 CPA entered into a Revolving Credit Agreement with River City Bank. The Agreement includes a \$20 million line of credit that can be used to support the issuance of letters of credit and to provide working capital.

In September 2018, new legislation was passed in the California legislature that expands direct access for commercial customers throughout the State. It is unknown what the impact of this will be on CPA or how much commercial load might be eligible under this direct access expansion.

On October 5, 2018, CPA elected to no longer participate in the Los Angeles County Investment Pool and withdrew its funds from the pool. The funds were transferred to River City Bank.

On October 11, 2018, the California Public Utilities Commission (CPUC) issued a decision revising the calculation methodology of the Power Charge Indifference Adjustment (PCIA) charge. The PCIA is an exit fee charged by investor-owned utilities, including SCE, to customers that switch to another provider of electricity generation service, including CPA. The fee is designed to cover above-market costs from contracts that the utilities entered into but no longer need and cannot sell in the market for the price they paid. In November 2018, SCE requested that the CPUC permit an increase in the PCIA to allow SCE to recoup costs incurred in 2018. This request is under review by the CPUC. CPA is monitoring the implementation of the CPUC's October decision and SCE's November request and the possible impact to its customers.