

REDWOOD COAST ENERGY AUTHORITY
County of Humboldt

FINANCIAL STATEMENTS

Year Ended June 30, 2016

With

INDEPENDENT AUDITOR'S REPORT

REDWOOD COAST ENERGY AUTHORITY

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June 30, 2016

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REDWOOD COAST ENERGY AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Directors
Redwood Coast Energy Authority
633 3rd Street
Eureka, California 95501

We have audited the accompanying financial statements of the governmental activities and the general fund of the Redwood Coast Energy Authority ("RCEA") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise RCEA'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.

Auditor's Responsibility

Our responsibility is to express opinions 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 of 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

REDWOOD COAST ENERGY AUTHORITY
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -
CONTINUED

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of RCEA as of June 30, 2016, and the respective changes in financial position thereof 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 and budgetary comparison information on pages 4a through 4d and 24 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.

REDWOOD COAST ENERGY AUTHORITY
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -
CONTINUED

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RCEA's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Organization schedule included in supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2018, on our consideration of RCEA'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 RCEA's internal control over financial reporting and compliance.

David L. Morris & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
February 22, 2018

Year Ending June 30, 2016

Redwood Coast Energy Authority (RCEA) was formed in 2003 as a Joint Powers Authority (JPA) of the seven incorporated cities of Humboldt County, California (the Cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Trinidad and Rio Dell), and the County of Humboldt, with the subsequent addition of Humboldt Bay Municipal Water District. As a JPA, RCEA is governed by a nine member board representing each jurisdiction.

The mission of RCEA is to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient and renewable resources available in the region.

To accomplish this mission, during the year ending June 30, 2016 RCEA employed seventeen full-time staff (Executive Director, Operations Manager, Office Manager, Program Manager, Business Manager, six Energy Specialists, four Energy Technicians, and two Program Assistants). RCEA also employed numerous student interns and serves as a placement site for AmeriCorps members.

All of RCEA's funding comes from contracts and grants, generally bringing resources to Humboldt County that would not otherwise be available. The operating budget for the year ending June 30, 2016 was approximately \$2.4 million. Funding sources during the year included:

- A contract with Pacific Gas & Electric Company (PG&E) to promote energy efficiency through a local government partnership known as the Redwood Coast Energy Watch.
- Contracts with local educational agencies to help plan and implement energy efficiency and clean energy projects using Proposition 39 funding.
- Contracts with the California Energy Commission for regional alternative fuels planning and electric vehicle charging infrastructure.
- Smaller contracts with the Schatz Energy Research Center, West Coast Watershed, Runyon Saltzman Einhorn.

The assets of RCEA exceeded its liabilities by \$806,033 at June 30, 2016. Of this amount, \$638,783 are unrestricted and may be used to meet RCEA ongoing program needs.

RCEA's total net position increased by \$1,581 during the year ending June 30, 2016. The increase is the result of program revenues exceeding program expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the RCEA's basic financial statements. RCEA's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government Wide Financial Statements

The *government wide financial statements* are designed to provide readers with a broad overview of RCEA's finances, in a manner similar to a private-sector business and are presented on the full accrual basis.

The *statement of net position* presents information on all of RCEA's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of RCEA is improving or deteriorating.

The *statement of activities* presents information showing how RCEA's net position changed during the year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. RCEA, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. RCEA's sole fund is the general fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. Governmental fund financial statements focus on near term inflows and outflows of current financial resources, as well as on balances of current financial resources available at the end of the fiscal year. This information is useful in evaluating RCEA's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long-term impact of RCEA's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the full accrual government wide financial statements. As a single purpose government, RCEA has chosen to present the two types of reporting on the same statement, with reconciling amounts provided.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

Government Wide Financial Statements Analysis

Condensed Statement of Net Position

June 30,	2016	2015
Assets		
Current assets	\$ 838,589	\$ 1,074,091
Capital assets, net of accumulated depreciation	173,772	85,547
Total Assets	1,012,361	1,159,638
Liabilities		
Current liabilities	206,328	355,186
Total net position	\$ 806,033	\$ 804,452

Changes in Net Position

Year ended June 30,	2016	2015
Revenues		
Program revenues:		
Contract	\$1,999,194	\$3,256,018
Other income	18,783	19,091
General revenues- investment income	1,005	965
Total revenues	2,018,982	3,276,074
Expenditures		
Salaries and employee benefits	1,110,609	1,060,791
Services and supplies	881,854	2,055,054
Net depreciation	24,938	11,488
Total expenditures	2,017,401	3,127,333
Increase in net position	1,581	148,741
Net position – beginning of year	804,452	655,711
Net position – end of year	\$ 806,033	\$ 804,452

RCEA revenues are primarily received on a reimbursement basis. The decrease in revenue from the year ending June 30, 2015 to the year ending June 30, 2016 was the result of a decrease in program activities. Similarly, the decrease in expenses for the year ending in June 30, 2016 is due primarily to a decrease in program activities.

Government Fund Financial Analysis

The general fund is the sole fund of RCEA. As a measure of the general fund's reserves, it may be useful to compare unreserved fund balance and total fund expenditures. Unreserved fund balance at the end of June 30, 2016 and 2015 represents 30.5% and 21.8% of total fund expenditures for the respective years.

Budgetary highlights

The original budget for the fiscal year was adopted at the June 29, 2015, meeting of Board of Directors. Subsequent amendments were adopted January 11, 2016. A detail *statement of revenues, expenditures, and changes in fund balance – budget and actual – general fund* is presented as a part of the *government wide financial statements*. A summary of the budget variance for the fiscal year ended June 30, 2016, is as follows:

	Budgeted Amounts	Actual	Variance From Budget - Favorable (Unfavorable)
Total revenues	\$ 2,364,048	\$ 2,018,982	\$ (345,066)
Program expenditures	\$ 2,042,140	\$ 1,409,246	\$ 632,894
Implementation expenditures	355,908	698,288	(342,380)
Total expenditures	\$ 2,398,048	\$ 2,107,534	\$ 290,514
Excess of revenues over expenditures	\$ (34,000)	\$ (88,552)	\$ (54,552)

The primary variance in budgeted expenditures versus actual expenditures is due to savings in salaries and employee benefits amounting to \$94,091 and other program expenditures of \$196,423.

Economic Factors and Subsequent Year's Budget and Rates

For the year ended June 30, 2017 the following factors affect RCEA's finances:

- The continuing implementation of the Energy Watch program and the Proposition 39 program.
- Continuing activities related to alternative fuels and electric vehicle charging infrastructure funded by the California Energy Commission.
- The development and launch of a Community Choice Aggregation Program for Humboldt County, which in May 2017 began providing electricity generation service to customers in partnership with PG&E.

These factors were considered in preparing RCEA's budget for the year ending June 30, 2017.

Requests for Information

This financial report is designed to provide a general overview of RCEA's finances for those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Redwood Coast Energy Authority, 633 Third Street, Eureka, California 95501.

REDWOOD COAST ENERGY AUTHORITY

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 201,420
Accounts receivable (net of allowance of \$7,261)	531,993
Prepaid expenses	45,305
Inventory	55,771
Security deposit	4,100
Invested in capital assets, net of depreciation	173,772
Total Assets	<u>1,012,361</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 1,012,361</u>
LIABILITIES	
Accounts payable	\$ 102,187
Accrued wages payable	39,459
Accrued vacation payable	36,473
Accrued workers compensation payable	2,058
Retentions payable	19,629
Long-term liabilities:	
Due within one year	1,908
Due in more than one year	4,614
Total Liabilities	<u>206,328</u>
DEFERRED INFLOWS OF RESOURCES	
Total deferred inflows of resources	<u>-</u>
NET POSITION	
Net investment in capital assets	167,250
Unrestricted	<u>638,783</u>
Total Net Position	<u>\$ 806,033</u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

		<u>Program Revenues</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>For</u>	<u>Grants and</u>	<u>change in</u>
		<u>Services</u>	<u>Contributions</u>	<u>Net Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities				
Grants and program services	\$ 1,407,338	\$ 13,783	\$ 2,004,194	\$ 610,639
Implementation expenses:				
Administrative	610,063			(610,063)
Total governmental activities	<u>\$ 2,017,401</u>	<u>\$ 13,783</u>	<u>\$ 2,004,194</u>	<u>\$ 576</u>
General revenues:				
Interest and investment earnings				<u>\$ 1,005</u>
Total general revenues				<u>1,005</u>
Change in net position				1,581
Net position, beginning				<u>804,452</u>
Net position, ending				<u>\$ 806,033</u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>General Fund</u>
ASSETS	
Cash	\$ 201,420
Accounts receivable (net of allowance of \$7,261)	531,993
Prepaid expenses	45,305
Inventory	55,771
Security deposit	4,100
Total Assets	<u>838,589</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Total deferred outflows of resources	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 838,589</u>
 LIABILITIES	
Accounts payable	\$ 102,187
Accrued wages payable	39,459
Accrued workers compensation payable	2,058
Retentions payable	19,629
Accrued vacation payable	36,473
Total Liabilities	<u>199,806</u>
 DEFERRED INFLOWS OF RESOURCES	
Total deferred inflows of resources	<u>-</u>
 FUND BALANCES	
Nonspendable	101,076
Unassigned	537,707
Total Fund Balance	<u>638,783</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 838,589</u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balances - governmental fund balance sheet	\$	638,783
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital and intangible assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets, intangible assets, accumulated depreciation and accumulated amortization.

Capital assets at historical cost	\$	236,690	
Accumulated depreciation and amortization		<u>(62,918)</u>	
Net			173,772

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities are reported, including long-term liabilities.

Note payable		<u>(6,522)</u>
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Total Net Position, Governmental Activities	\$	<u><u>806,033</u></u>
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The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

For The Year Ended June 30, 2016

	General Fund
Revenues:	
Contract revenue	\$ 1,999,194
Grant revenue	5,000
Other income	13,783
Investment income	1,005
Total Revenues	2,018,982
Expenditures:	
Program expenditures:	
Direct install subcontractor labor	205,231
Direct install hardware and materials	136,232
Direct incentive and rebate payments	1,322
Salaries and employee benefits	751,497
Program related services	314,964
Total Program Expenditures	1,409,246
Administrative expenditures:	
Salaries and employee benefits	359,112
Professional services	66,201
Travel and training	18,528
Bank charges	715
Office supplies and expense	41,367
Rent	49,200
Janitorial	6,081
Facility expense	3,448
Utilities	9,149
Meeting expense	6,110
Insurance	9,156
Dues and membership	3,842
Capital outlay	113,163
Debt service - principal	1,908
Advertising	10,308
Total Administration Expenditures	698,288
Total Expenditures	2,107,534
Excess of Revenues Over (Under) Expenditures	(88,552)
Other financing sources (uses):	
Proceeds from debt	-
Total Other Financing Sources (Uses)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(88,552)
Fund Balance at Beginning of Year	727,335
Fund Balance at End of Year	\$ 638,783

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

Total changes in fund balances, governmental funds	\$	(88,552)
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$	113,163	
Depreciation and amortization expense		<u>(24,938)</u>	
Net			88,225

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

Payment of debt principal		<u>1,908</u>
Changes In Net Position, Governmental Activities	\$	<u><u>1,581</u></u>

The accompanying notes are an integral part of this statement.

REDWOOD COAST ENERGY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Redwood Coast Energy Authority ("RCEA") is a joint powers authority formed in 2003 under Health and Safety Code Section 6500 to develop and implement sustainable energy initiatives that reduce energy demand, increase energy efficiency, and advance the use of clean, efficient and renewable resources available in the Humboldt County region of California. The member agencies of RCEA are the County of Humboldt, the Humboldt Bay Municipal Water District, the cities of Arcata, Blue Lake, Eureka, Ferndale, Fortuna, Rio Dell, and Trinidad. RCEA is governed by a Board of Directors comprised of representatives of the member agencies.

The California Public Utilities Commission ("CPUC") and the Local Government Commission ("LGC"), a California not-for-profit membership organization, have undertaken a pilot project to encourage the formation of regional organizations such as RCEA to promote energy efficiency, conservation and increased local self-reliance. The CPUC has made funds available to the LGC to help local governments establish and operate agencies such as RCEA. Funds are collected from rate payers by Pacific Gas and Electric ("PG&E") and distributed to RCEA in accordance with the objectives of this project.

B. Fund Accounting

The accounts of RCEA are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. RCEA maintains one fund to account for the activity of the Redwood Coast Energy Authority.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

Major Governmental Funds:

The General Fund is the general operating fund of RCEA. It is used to account for all financial resources except those required to be accounted for in a separate fund.

C. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government.

The statement of activities presents a comparison between direct expenses and program revenues for each function of RCEA's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. RCEA does not allocate indirect expenses in the statement of activities. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about RCEA's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Any remaining funds are aggregated and reported as nonmajor funds.

2. Measurement Focus, Basis of Accounting

Government-wide Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which RCEA gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

RCEA considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include contracts and grants from the California Energy Commission, the County of Humboldt, Ecology Action, and Pacific Gas and Electric Company.

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

Deferred Inflows and Outflows of Resources:

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until that future period.

Deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

When RCEA incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is RCEA's policy to use restricted resources first, then unrestricted resources.

D. Budget and Budgetary Accounting

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the Government Code and other statutory provisions, commonly known as the County Budget Act, RCEA prepares and legally adopts a budget for the General Fund on or before August 30 for each fiscal year.

The budget is revised by RCEA during the year to give consideration to unanticipated income and expenditures. The original and final budgets are presented for the General Fund.

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

1. Deposits and Investments

RCEA maintains 59 percent of its cash in the Humboldt County Treasury. The County pools these funds with those of other governmental entities in the County and invests the cash. These pooled funds are carried at cost which approximates market value.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Humboldt County Treasury had no investments in derivatives. RCEA does not have a specific policy which relates to interest rate risk.

2. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

RCEA has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. RCEA has chosen to report the expenditures when incurred.

3. Program Revenues and Accounts Receivable

Program revenues include contract revenue and operating grants earned from other governmental agencies and not-for-profits.

Accounts receivable represent program revenues which have been earned for which the related cash has not been received. Management has determined and recorded an allowance for uncollectible accounts in the amount of \$7,261 as of June 30, 2016.

4. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. RCEA's policy is to capitalize assets with an initial cost of more than \$2,000 and an estimated useful life in excess of two years. Capital assets are depreciated using the straight-line method over estimated useful lives between 5 to 20 years.

5. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until that future period. RCEA had no items that qualified for reporting in this category as of June 30, 2016.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

RCEA had no items that qualified for reporting in this category as of June 30, 2016.

6. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of RCEA. The current portion of the liabilities is recognized in the General Fund at year-end. Accumulated sick leave benefits are not recognized as liabilities of RCEA. RCEA's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

7. Fund Balance Reserves and Designation

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of RCEA's Governing Board. RCEA's Governing Board is the highest level of decision-making authority for RCEA. Commitments may be established, modified, or rescinded only through resolutions approved by the Governing Board.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Under RCEA's adopted policy, only the Governing Board may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, RCEA considers restricted funds to have

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, RCEA considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless RCEA's Governing Board has provided otherwise in its commitment or assignment actions.

As of June 30, 2016, fund balances were composed of the following:

	General Fund
Nonspendable:	
Prepaid expenses	\$ 45,305
Inventories	55,771
Total Nonspendable	101,076
Unassigned:	
Other unassigned	537,707
Total Unassigned	537,707
Total Fund Balance	\$ 638,783

8. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by RCEA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. RCEA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. New Governmental Accounting Standards Board (GASB) Standards

GASB Statement no. 72 - In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. RCEA has implemented GASB Statement No. 72 for the year ended June 30, 2016. Implementation of GASB No. 72 did not have a significant impact on the financial statements.

2. Cash and Investments

All cash held by the financial institutions is fully insured or collateralized. Cash in banks at June 30, 2016 consisted of the following:

	Reported Amount	Bank Balance
Umpqua Bank	27,416	\$ 151,374
Chase Bank	54,613	6,613
Total	\$ 82,029	\$ 157,987

The bank balance is the balance prior to adjustment for items that had not yet cleared the bank as of June 30, 2016.

Fair Value Measurements

RCEA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 - inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs include:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical assets or liabilities in inactive markets;
- c) Inputs other than quoted prices that are observable for the asset or liability;

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are significant unobservable inputs.

As of June 30, 2016, RCEA held no individual investments. RCEA's fair value measurements were as follows at June 30, 2016:

Investment Type	Fair Value	Level
Pooled Cash in County Treasury	\$ 119,246	2

RCEA has not recorded fair value adjustments in the basic financial statements as they were determined to be immaterial to RCEA.

Credit Risk - Investments

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.

The County Treasurer's investments consist of 70.82 percent federal agencies, 25.37 percent money markets, 0.59 percent municipal bonds, 1.76 percent treasury coupons, and 1.46 percent certificates of deposit. The S & P credit ratings for these investments include AAA, AA, A+e, and Ae, and non-rated for certificates of deposit and the California State Treasurer's local agency investment fund.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, RCEA 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 a failure of the counter party (e.g., broker-dealer) to a transaction, RCEA will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit RCEA's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2016, none of RCEA's deposits were exposed to custodial credit risk.

Interest Rate Risk – Investments

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the Humboldt County Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the Humboldt County Treasurer's investments is 815 days.

Concentration of Credit Risk

The investment policy of RCEA contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represented 5 percent or more of total County investments at June 30, 2016.

3. Receivables

Receivables at June 30, 2016 consisted of the following:

	<u>General Fund</u>
California Energy Commission	\$ 219,851
EUC Assessment	200
Local Government Commission	9,336
Pacific Gas and Electric Company	157,123
Retentions	73,376
Proposition 39 School Districts	54,913
West Coast Watershed	17,194
Total	<u>\$ 531,993</u>

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

Retentions are due upon completion of the projects. RCEA expects to collect all retentions.

4. Capital Assets

Capital asset activity for the period ended June 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets being depreciated</i>				
Leasehold Improvements	\$ 27,937			\$ 27,937
Equipment	65,654	\$ 143,099		208,753
Work in Process	29,936		\$ 29,936	-
Total capital assets being depreciated	123,527	143,099	29,936	236,690
Less: Accumulated depreciation for:				
Leasehold Improvements	(3,261)	(1,397)		(4,658)
Equipment	(34,719)	(23,541)		(58,260)
Total accumulated depreciation	(37,980)	(24,938)	-	(62,918)
Capital assets being depreciated, net	85,547	118,161	29,936	173,772
Governmental activities capital assets, net	\$ 85,547	\$ 118,161	\$ 29,936	\$ 173,772

For the year ended June 30, 2016, depreciation expense was \$24,938.

5. Risk Management

RCEA is covered for general business, liability, automobile, and errors and omissions through the Special Districts Risk Management Authority ("SDRMA"), a public entity risk pool. As a member of a public entity risk pool, RCEA is responsible for appointing an employee as a liaison between RCEA and SDRMA, implementing all policies of the SDRMA, and promptly paying all contributions. SDRMA is responsible for providing insurance coverage as agreed upon, assisting RCEA with implementation, providing claims adjusting, and defending any civil action brought against an officer of RCEA.

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

6. Excess of Expenditures Over Appropriations

Excesses of expenditures over appropriations in individual funds for the year ending June 30, 2016 are as follows:

	Excess Expenditures
Salaries and employee benefits - administrative	\$ 359,112
Travel and training	1,528
Insurance	756
Dues and membership	342
Advertising	308
Debt service - principal	1,908

7. Retirement Plan

RCEA has established a Savings Incentive Match Plan for employees (a "Simple IRA") where RCEA and employees make contributions to individual retirement accounts ("IRAs"). Under the Simple IRA, RCEA must make contributions matching participating employee contributions, up to a maximum of 3 percent of an employee's gross salary per year. Employees may contribute up to the maximum federally allowed amount. All regular employees of RCEA are eligible to participate in the Simple IRA plan. Plan contributions by RCEA for the year ended June 30, 2016 were \$19,570.

8. Long-Term Obligations

RCEA obtained a loan with PG&E in January 2014 for energy upgrades in the amount of \$10,974 at 0 percent interest for 69 months. Future payments obligations are as follows:

Year Ended June 30,	Principal
2017	\$ 1,908
2018	1,908
2019	1,908
2020	798
Totals	\$ 6,522

REDWOOD COAST ENERGY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the Year Ended June 30, 2016

9. Line of Credit

RCEA maintains an unsecured line of credit through Umpqua Bank with a credit limit of \$75,000 and an interest rate of 5 percent. As of June 30, 2016, this line of credit had a zero balance.

10. Lease of Real Property

RCEA entered into a 23 month lease for its facility as of May 1, 2013, with monthly payments of \$4,100. The lease was renewed in 2014/15 for an additional 12 months, with monthly payments of \$4,100. Total rent expense was \$49,200 for the year ended June 30, 2016. Future lease commitments are \$49,200 for the year ending June 30, 2017.

11. Concentrations and Contingencies

RCEA receives the majority of its funding through a contract with PG&E to provide energy efficient programs. For the year ended June 30, 2016, this amount represented 64 percent of total revenue. As of June 30, 2016 accounts receivable from PG&E were \$157,123.

12. Subsequent Events

In October 2016, RCEA obtained a \$700,000 unsecured, non-revolving line of credit with a 5% interest rate, 1% underwriting fee, and 72 month term to assist in the launch of the Community Choice Aggregation program.

In December 2016, RCEA approved a revised salary schedule significantly increasing employee wages. The unadjusted and unaudited salaries and employee benefits expense for 2016/17 is \$1,532,178, representing an increase of \$421,569 (38%) over 2015/16 audited salaries and employee benefits expense.

The budget for 2016/17 anticipates a net operating deficit of \$718,546.

REQUIRED SUPPLEMENTARY INFORMATION

REDWOOD COAST ENERGY AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND

For The Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		With Final Budget - Favorable (Unfavorable)
Revenues:				
Non-government agencies	\$1,454,150	\$1,554,150	\$ 1,359,696	\$ (194,454)
Government agencies	792,198	792,198	639,498	(152,700)
Foundation trusts/grants	-	-	5,000	5,000
Other income	17,500	17,500	13,783	(3,717)
Investment income	200	200	1,005	805
Total Revenues	<u>2,264,048</u>	<u>2,364,048</u>	<u>2,018,982</u>	<u>(345,066)</u>
Expenditures:				
Program expenditures -				
Direct install, incentives, and rebates	359,000	359,000	342,785	16,215
Salaries and employee benefits	1,204,700	1,204,700	751,497	453,203
Contracts - program related services	478,440	478,440	314,964	163,476
Total Program Expenditures	<u>2,042,140</u>	<u>2,042,140</u>	<u>1,409,246</u>	<u>632,894</u>
Implementation expenditures -				
Administrative expenditures:				
Salaries and employee benefits	-	-	359,112	(359,112)
Professional services	45,000	70,000	66,201	3,799
Travel and training	17,000	17,000	18,528	(1,528)
Bank charges	900	900	715	185
Office supplies and expense	46,300	50,300	41,367	8,933
Rent	49,200	49,200	49,200	-
Janitorial	6,500	6,500	6,081	419
Facility expense	4,700	4,700	3,448	1,252
Utilities	10,000	10,000	9,149	851
Meeting expense	6,500	6,500	6,110	390
Insurance	8,400	8,400	9,156	(756)
Dues and membership	4,500	3,500	3,842	(342)
Capital outlay	118,908	118,908	113,163	5,745
Advertising	10,000	10,000	10,308	(308)
Debt service - principal	-	-	1,908	(1,908)
Total Implementation Expenditures	<u>327,908</u>	<u>355,908</u>	<u>698,288</u>	<u>(342,380)</u>
Total Expenditures	<u>2,370,048</u>	<u>2,398,048</u>	<u>2,107,534</u>	<u>290,514</u>
Excess of Revenues Over (Under) Expenditures	<u>(106,000)</u>	<u>(34,000)</u>	<u>(88,552)</u>	<u>(54,552)</u>
Other financing sources (uses):				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	(106,000)	(34,000)	(88,552)	(54,552)
Fund Balance at Beginning of Year	<u>727,335</u>	<u>727,335</u>	<u>727,335</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 621,335</u>	<u>\$ 693,335</u>	<u>\$ 638,783</u>	<u>\$ (54,552)</u>

SUPPLEMENTARY INFORMATION

REDWOOD COAST ENERGY AUTHORITY
ORGANIZATION
June 30, 2016

Redwood Coast Energy Authority is a Joint Powers Authority formed in 2003, representing seven municipalities, the County of Humboldt, and the Humboldt Bay Municipal Water District.

The Board of Trustees for the fiscal year ended June 30, 2016 was composed of the following:

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Jurisdiction</u>
Linda Atkins	Chairperson	Eureka
Sheri Woo	Vice Chairperson	Humboldt Bay Municipal Water District
Susan Ornelas	Member	Arcata
Doug Brower	Member	Ferndale
Jean Lynch	Member	Blue Lake
Tiara Brown	Member	Fortuna
Jack Thompson	Member	Rio Dell
Dwight Miller	Member	Trinidad
Ryan Sundberg	Member	County of Humboldt

ADMINISTRATION

Matthew Marshall
Executive Director

John R. Goff, CPA
Mark G. Wetzel, CPA
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP
Certified Public Accountants

Kenneth X. Stringer, CPA
Aaron S. Weiss, CPA
Joshua S. Miller, CPA
Matthew J. Hague, CPA

REDWOOD COAST ENERGY AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Redwood Coast Energy Authority
633 Third Street
Eureka, California 95501

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of Redwood Coast Energy Authority ("RCEA"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise RCEA's basic financial statements, and have issued our report thereon dated February 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RCEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RCEA's internal control. Accordingly, we do not express an opinion on the effectiveness of RCEA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

REDWOOD COAST ENERGY AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as Findings 2016-1 through 2016-7, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RCEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Redwood Coast Energy Authority's Response to Findings

RCEA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. RCEA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David L. Morris & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

February 22, 2018

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS

June 30, 2016

2016-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES - REPEAT FINDING

Criteria

Good internal controls include maintaining current written accounting policies and procedures.

Condition

During our consideration of internal controls over financial reporting to determine the audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements, we noted that the written accounting policies and procedures in place are out of date and not specific to RCEA.

Effect

Not having current written accounting policies and procedures increases the risk that misappropriations and errors will occur.

Cause

RCEA did not update its written accounting policies and procedures.

Recommendation

We recommend that RCEA establish and document current accounting policies and procedures which cater to the needs of the organization. We further recommend that these policies be read at board meetings and approved by formal board action.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

2016-2: INTERNAL CONTROLS OVER EXPENDITURES

Criteria

Good internal controls over expenditures include obtaining and documenting the required support, authorization, and approval prior to issuing the disbursement.

Condition

During our testing of expenditures, in which we tested 58 percent of all operating expenditures, we noted 3 instances totaling \$4,006 where there was no documentation supporting the expenditure.

Effect

The lack of documentation supporting the disbursements could result in errors or inappropriate expenditures being incurred.

Cause

RCEA did not retain the documentation supporting the expenditure.

Recommendation

We recommend that RCEA retain all documentation supporting expenditures.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2016-3: PREPARATION OF BANK RECONCILIATIONS

Criteria

Good internal controls over cash include preparation of monthly bank reconciliations by a custodian of the bank account in a timely manner.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

Condition

RCEA maintains a checking account with Umpqua Bank for general operations and with Chase Bank for payroll expenditures. RCEA also maintains a trust fund account with the county of Humboldt. The custodian of the funds did not prepare monthly bank reconciliations for the Umpqua and Chase accounts in a timely manner from December 2015 to May 2016. The custodian of the funds did not prepare monthly bank reconciliations for the trust fund account.

Effect

Failure to prepare bank reconciliations could result in future errors not being detected in a timely manner.

Cause

RCEA did not follow its policy to reconcile all bank accounts monthly in a timely manner.

Recommendation

We recommend that RCEA follow its policy to reconcile all bank accounts monthly in a timely manner.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2016-4: INTERNAL CONTROLS OVER REVENUES - REPEAT FINDING

Criteria

Good internal controls over revenues include maintaining supporting documentation for invoices submitted to customers.

Condition

During our testing of revenues, in which we tested 72 percent of all revenues, we noted 4 instances totaling \$132,270 where there was no original signed documentation

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

supporting vendor rebate reimbursements or complete documentation supporting reimbursement requests. We were able to trace the total batch reimbursement amount to an RCEA spreadsheet identifying the customer and total project cost, so, in our opinion, no revenue was received inappropriately.

Effect

By not maintaining all documentation, RCEA was unable to produce support for all invoices selected for detailed testing.

Cause

RCEA did not maintain all documentation to support the invoices tested. Due to staff turnover and timing of the audit, RCEA was unable to locate the supporting documentation prior to issuance of the report.

Recommendation

We recommend that RCEA maintain all supporting documentation for invoices submitted to customers.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2016-5: PAYROLL INTERNAL CONTROL - REPEAT FINDING

Criteria

Good internal controls over payroll include supervisor review and approval of time sheets. In addition, prior to issuance of payroll bonuses, RCEA should determine if they are an allowable expenditure.

Condition

During our testing of payroll we noted that a board member was not approving the executive director's time sheet. We also noted annual bonuses paid to employees totaling \$8,400.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

Effect

Not having a board member or supervisor sign and approve time sheets increases the chance that inappropriate or incorrect wages could be paid and not detected in a timely manner. We noted no actual inappropriate payments to the executive director for the year ended June 30, 2016. The bonuses paid may not be in compliance with government regulations.

Cause

RCEA did not have a policy regarding approval of executive director time sheets. RCEA was unaware that bonuses may not be allowable expenditures.

Recommendation

We recommend that RCEA establish procedures for a board member to review and approve the executive director's time sheet. We further recommend that RCEA consult with legal counsel prior to issuing any further bonuses to determine if the bonuses were allowable payroll expenditures.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2016-6: TIMELY CLOSING OF ACCOUNTING PERIOD - REPEAT FINDING

Criteria

Good internal controls include completing the annual accounting period close in a timely fashion.

Condition

RCEA closed the June 30, 2016 year end approximately 16 months after the year end.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

Effect

The audit report was issued approximately 20 months after the year end.

Cause

Staffing limitations and turnover resulted in delayed closing of year end.

Recommendation

We recommend that RCEA works closely with staff or an outside firm to ensure that the year end is closed in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

2016-7: INTERNAL CONTROLS - BUDGET ALLOCATIONS

Criteria

Good internal controls over budgeting include allocating program and administrative expenditures as separate line items in the annual budget.

Condition

The 2015/16 budget did not allocate salaries and employee benefits between program expenditures and administrative expenditures.

Effect

Not having the allocation between program and administrative expenditures in the budget increases the risk that RCEA is not able to track these expenditures accurately against budgeted amounts throughout the year.

Cause

RCEA did not have a policy requiring allocation of salaries and employee benefits between program expenditures and administrative expenditures.

REDWOOD COAST ENERGY AUTHORITY

FINDINGS AND RECOMMENDATIONS - CONTINUED

June 30, 2016

Recommendation

We recommend that RCEA establish procedures for allocating salaries employee benefits between program expenditures and administrative expenditures during the budgeting process.

Views of Responsible Officials and Planned Corrective Actions

RCEA agrees to the recommendation and will adhere to the corrective action plan described in the "RCEA's Corrective Action Plan" section immediately following this section of the audit report.

REDWOOD COAST ENERGY AUTHORITY

RCEA'S CORRECTIVE ACTION PLAN

June 30, 2016

FINDING 2016-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES -
REPEAT FINDING

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *Written accounting procedures will be drafted as staff time allows. Such written procedures will be provide for board review upon completion.*

Proposed Completion Date: *December 31, 2018*

FINDING 2016-2: INTERNAL CONTROLS OVER EXPENDITURES

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *Supporting documentation for all expenditures is presently required for all disbursements.*

Proposed Completion Date: *Completed.*

FINDING 2016-3: PREPARATION OF BANK RECONCILIATIONS

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *All bank and investment accounts are reconciled on a monthly basis, in a timely manner.*

Proposed Completion Date: *Implemented.*

REDWOOD COAST ENERGY AUTHORITY

RCEA'S CORRECTIVE ACTION PLAN

June 30, 2016

FINDING 2016-4: INTERNAL CONTROLS OVER REVENUES - REPEAT FINDING

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *Supporting documentation for all invoices submitted to customers is presently being maintained.*

Proposed Completion Date: *Implemented.*

FINDING 2016-5: PAYROLL INTERNAL CONTROL - REPEAT FINDING

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *RCEA no longer pays employees an annual bonus. Per the Financial Management Policy adopted June 19, 2017, board member's signature is no longer a requirement. The Executive Director's timesheets are now reviewed and signed by the Director of Finance and Human Resources.*

Proposed Completion Date: *Implemented.*

FINDING 2016-6: TIMELY CLOSING OF ACCOUNTING PERIOD - REPEAT FINDING

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: *This will be a continuing issue until such time as the audits are brought current.*

Proposed Completion Date: *Subsequent accounting periods will be closed as those audited financial statements are prepared. A reasonable date for the close of the fiscal year ending June 30, 2018, is September 30, 2018.*

REDWOOD COAST ENERGY AUTHORITY

RCEA'S CORRECTIVE ACTION PLAN

June 30, 2016

2016-7: INTERNAL CONTROLS - BUDGET ALLOCATIONS

Name of contact person: Matthew Marshall, Executive Director

Corrective Action: Future budgets will be on a program basis. Upgraded financial accounting software is in the process of installation at this time. Such upgrades were purchased with a line-item budget as a priority.

Proposed Completion Date: *June 30, 2018.*

REDWOOD COAST ENERGY AUTHORITY
STATUS OF PRIOR YEAR FINDINGS

June 30, 2016

2015-1: GENERAL ACCOUNTING POLICIES AND PROCEDURES - REPEAT FINDING

Condition

During our consideration of internal controls over financial reporting to determine the audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements, we noted that the written accounting policies and procedures in place are out of date and not specific to RCEA.

Cause

RCEA did not update its written accounting policies and procedures as they were updated.

Current Status

Not implemented. See Finding 2016-1.

2015-2: INTERNAL CONTROL OVER REVENUES - REPEAT FINDING

Condition

During our testing of revenues, in which we tested 76 percent of all revenues, we noted 5 instances totaling \$11,632 where there was no documentation supporting the invoice. These invoices were expense reimbursements for time and materials used in program services. The customer received the documentation prior to paying the invoice, so, in our opinion, no revenue was received inappropriately.

Cause

RCEA did not maintain all documentation to support the invoices tested. Due to staff turnover and timing of the audit, RCEA was unable to locate the supporting documentation prior to issuance of the report.

Current Status

Not implemented. See Finding 2016-4.

REDWOOD COAST ENERGY AUTHORITY
STATUS OF PRIOR YEAR FINDINGS - CONTINUED

June 30, 2016

2015-3: PAYROLL INTERNAL CONTROL-REPEAT FINDING

Condition

Good internal controls over payroll include supervisor review and approval of time sheets. In addition, prior to issuance of payroll bonuses, RCEA should determine if they are an allowable expenditure.

Cause

RCEA did not have a policy regarding approval of executive director time sheets. RCEA was unaware that bonuses may not be allowable expenditures.

Current Status

Not implemented. See Finding 2016-5.

2015-4: TIMELY CLOSING OF ACCOUNTING PERIOD - REPEAT FINDING

Condition

RCEA closed the June 30, 2015 year end approximately 18 months after the year end.

Cause

Staffing limitations and scheduling conflicts with an outside firm resulted in delayed closing of year end.

Current Status

Not implemented. See Finding 2016-6.