VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 17

TO: Board of Directors

FROM: Edward Burnham, Finance and Operations Director
Mitch Sears, Executive Officer

SUBJECT: Receive and approve audited December 31, 2021 financial statements presented by James Marta & Company

DATE: April 14, 2022

RECOMMENDATIONS:

1. Accept and approve the Audited Financial Statements for the period of July 1, 2021, to December 31, 2021;
2. Accept the Communication with Governance Letter; and
3. Accept the Internal Control Letter

BACKGROUND & DISCUSSION:

As part of VCE's Board approved transition to a fiscal year aligned with the calendar year, VCE has commissioned a financial audit to align its annual financial audit with the new January to December fiscal year. The attached financial statements were audited by VCE's Independent Auditor, James Marta & Company. The Financial Statements include the following reports:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Statement of Net Position
- Statement of Revenues, Expenditures and Changes in Net Position
- Statement of Cash Flows
- Notes to the Basis Financial Statements

As part of the accounting Professional standards, the auditors are required to communicate to the VCE Board of Directors various matters relating to the audit as noted in the following:

- Governance letter
- Internal Control Letter

This report and attachments constitute the auditor's communication to the Board.

AUDITOR'S FINDINGS

During the course of the audit, the auditor's found no material concerns over the financial statements and a material weakness in our internal controls. Specifically:

- VCE received an unqualified ("clean") audit opinion, meaning the financial statements present VCE's financial position fairly and appropriately
- VCE's internal controls over financial reporting were considered by the auditor, with material weakness in internal controls over financial reporting
- No significant issues were identified in working with our management team or performing the audit

Attachments:

1. Audited Financial Statements for the period of July 1, 2021 to December 31, 2021
2. Communication with Governance Letter
3. Internal Control Letter

VALLEY CLEAN ENERGY

VALLEY CLEAN ENERGY ALLIANCE

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND THE FISCAL YEAR ENDED JUNE 30, 2021

VALLEY CLEAN ENERGY ALLIANCE

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DECEMBER 31, 2021 AND JUNE 30, 2021

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Clean Energy Alliance
Davis, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valley Clean Energy Alliance (VCE), which comprise the statements of net position as of December 31, 2021 and June 30, 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the periods then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Valley Clean Energy Alliance as of the six months ended December 31, 2021 and the fiscal year ended June 30, 2021, and the results of its operations and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Valley Clean Energy Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Valley Clean Energy Alliance's Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VCE's ability to continue as a going concern for twelve months beyond the date when the financial statements are issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 VCE's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VCE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information

Valley Clean Energy Alliance changed its fiscal year end from June 30 to December 31 during this period to align with the calendar year. Accordingly, the financial statements presented comparatively show the year ended June 30, 2021 and the six-month period ended December 31, 2021.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2022 on our consideration of the VCE'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 solely 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 the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VCE's internal control over financial reporting and compliance.

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 7, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the periods ended December 31, 2021 and June 30, 2021. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of VCE was made possible by the passage, in 2002, of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses, and creating competition in power generation.

VCE was created as a California Joint Powers Authority (JPA) in January 2017 pursuant to the Joint Exercise of Powers Act and is a public agency separate from its members. Governed by a board of directors consisting of two elected officials representing each of the following local governments: the County of Yolo and the cities of Davis and Woodland. VCE provides electric service to retail customers as a Community Choice Aggregation Program (CCA) under the California Public Utilities Code Section 366.2.

VCE's mission is to deliver cost-competitive clean electricity, product choice, price stability, energy efficiency, and greenhouse gas emission reductions. VCE provides electric service to retail customers and has the rights and powers to set rates and charges for electricity and services it furnishes, incur indebtedness, and other obligations. VCE acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by the California Independent System Operator (CAISO) and Pacific Gas and Electric Company (PG&E).

In June 2018, VCE began providing service to approximately 56,000 customer accounts as part of its initial enrollment phase. In calendar year 2020, VCE phased in approximately 7,000 Net Energy Metering (NEM) customers. In January 2021, VCE phased in approximately 7,100 customers from its new City of Winters jurisdiction.

Since its formation, Valley Clean Energy has operated with a fiscal accounting year ending on June 30, aligned with the Member Jurisdictions' Fiscal Year. Over the past two years, VCE has experienced high volatility in the energy sector and overall economy, primarily driven by the uncertainty during the COVID-19 pandemic and possible long-term recession. VCE has experienced other financial impacts compared to the adopted budgets driven by forces outside VCE's direct control, including the forward market pricing for energy costs, PG&E generation rate adjustments, and power charge indifference adjustments (PCIA). The VCE Board adopted the calendar year as its new financial year as the optimal timeline of financial milestones to reduce the risks of operating budget performance.

Financial Reporting

VCE presents its financial statements in accordance with Generally Accepted Accounting Principles for proprietary funds, as prescribed by the Governmental Accounting Standards Board.

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 VCE's financial results.

- The Statement of Net Position includes all of VCE's assets, liabilities, and net position using the accrual basis of accounting. The Statement of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.
- The Statement of Revenues, Expenses, and Changes in Net Position report all of VCE's revenue and expenses for the period shown.
- The Statement of Cash Flows report the cash provided and used by operating activities, as well as other sources and payments, such as debt financing.
- Notes to the Basic Financial Statements, which provide additional details and information pertaining to the financial statements.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following table is a comparative summary of VCE's assets, liabilities, and net position.

	December 31, 2021	June 30, 2021	% change from June 30, 2021 to December 31, 2021	June 30, 2020	% change from June 30, 2020 to June 30, 2021
Current assets	$14,853,514	$21,175,913	-30%	$22,407,057	-5%
Noncurrent assets	3,561,158	3,099,608	15%	2,445,520	27%
Total Assets	18,414,672	24,275,521	-24%	24,852,577	-2%
Current liabilities	8,728,436	11,531,607	-24%	6,914,208	67%
Noncurrent liabilities	-	-	0%	1,350,684	-100%
Total Liabilities	8,728,436	11,531,607	-24%	8,264,892	40%
Net Position					
Designated – Local Programs	224,500	224,500	0%	136,898	64%
Restricted	3,561,158	3,099,608	15%	2,345,520	32%
Unrestricted	5,900,578	9,419,806	-37%	14,105,267	-33%
Total Net Position	$ 9,686,236	$ 12,743,914	-24%	$ 16,587,685	-23%

Assets

Current assets ended December 31, 2021, at approximately 14.9 million, a decrease of approximately $6.3 million compared to June 30, 2021. The primary contributor to the overall decrease in currents assets was a decrease in cash utilized for rate stabilization. In response, the VCE Board adopted a cost-based rate policy and a temporary rate increase above PG&E in November 2021 to minimize the total decrease of cash due to the increased PG&E power charge indifference adjustment (PCIA) rates and rising in power costs experienced during the 2021 heat storm.

Current assets ended June 30, 2021 at approximately 21.2 million, a decrease of approximately $1.2 million as compared to June 30, 2020. The contributor to the overall decrease in currents assets was an increase in receivables net of allowance for doubtful accounts of approximately $2.02 million. The net accounts receivable increase was driven by state mandates during COVID-19. Since service to customers began, VCE has operated at a surplus which has resulted in the growth of current assets. Accrued revenue differs from accounts receivable in that it is the result of electricity use by VCE customers before invoicing to those customers has occurred.

Overall, noncurrent assets increased approximately $0.65 million in June 30, 2021 due to an increase of in restricted cash for power purchase reserves.

Liabilities

Current liabilities at December 31, 2021, were comprised primarily of the accrued cost of electricity, accounts payable, other accrued liabilities, security deposits, and the current portion of long-term debt. Current liabilities decreased by $2.8 million to $8.7 million in the period ended December 31, 2021. The most significant contributor to the overall decrease in current liabilities was the decrease in power costs related to the change in accounting year ending period. Prior audited financial statements ending in June reflected an ending balance during the peak season. Current and future financial statements ending in December reflect an ending balance during off peak season.

Current liabilities at June 30, 2021 were comprised primarily of accrued cost of electricity, accounts payable, other accrued liabilities, security deposits, and current portion of long-term debt. Current liabilities increased by $4.6 million to $11.5 million in the year ended June 30, 2021. The most significant contributors to the overall increase in current liabilities was an increase of $1M in the outstanding balance to a term loan with an annual renewable requirement, and $1.9M related to the receipt of supplier security deposits for energy supplies. Other significant increases for $2M occurred in accrued cost of electricity.

Non-current liabilities decreased $1.4 million in the year ended June 30, 2021 related to term loan described above in current liabilities.

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

	December 31, 2021	June 30, 2021	% change from June 30, 2021 to December 31, 2021	June 30, 2020	% change from June 30, 2020 to June 30, 2021
Operating revenues	$29,357,623	$54,656,880	-46%	$55,248,868	-1%
Interest income	8,731	50,285	-83%	102,954	-51%
Total Income	29,366,354	54,707,165	-46%	55,351,822	-1%
Operating Expenses	32,401,487	58,494,704	-45%	45,887,956	27%
Interest and related expenses	22,545	56,232	-60%	98,613	-43%
Total Expenses	32,424,032	58,550,936	-45%	45,986,569	27%
Change in Net Position	$ (3,057,678)	$ (3,843,771)	20%	$ 9,365,253	-141%

Operating Revenues

In the period ended December 31, 2021, VCE's operating revenues were approximately $4.7M higher than budgeted, driven by the increased load required during the heatwave of 2021. Residential and agricultural customers were the primary customers requiring additional load. VCE's operating revenue is from the sale of electricity to its customer base.

In fiscal year ended June 30, 2021, VCE's operating revenues decreased by $0.8 million in fiscal year 2021, This decrease was primarily a result of increases in Power Charge Indifference Adjustment (PCIA), as well as slight decreases to generation rates. VCE's operating revenue is from the sale of electricity to its customer base, which consists of residential, commercial, industrial and agricultural customers.

Operating Expenses

In the period ended December 31, 2021, VCE's operating expenses were 8% over the budgeted operations. This increase was primarily due to a $2.7 million increase in the cost of electricity, driven by the increased load noted above. VCE procures energy from various sources and focuses on purchasing at competitive prices and maintaining a balanced renewable power portfolio. The remaining operating expenses consist of contract services, staff compensation, and other general administrative expenses.

In the fiscal year ended June 30, 2021, VCE's operating expenses grew by $12.6 million over the prior year of operations in the fiscal year ended June 30, 2020. This increase was primarily due to a $12.7 million increase in cost of electricity, driven by increased load, addition of NEM customers and Winters. VCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. The remaining operating expenses consists of contract services, staff compensation and other general administrative expenses.

ECONOMIC OUTLOOK

As a CCA in its fourth year of operations transitioning out of the COVID-19 pandemic, VCE continues to focus on limiting customer opt outs by keeping rates competitive, increasing brand recognition, and providing a superior customer experience. VCE has recently started to procure power through long-term power purchase agreements to assist in stabilizing renewable power costs in the future and help VCE accomplish its mission of providing renewable energy and reducing greenhouse gas emissions. This will help reduce the potential effect of future energy market price volatility and create a stable environment for VCE and its ratepayers. VCE faces significant budgetary pressures over the next two years due to several regulatory and market factors, including rising Power Charge Indifference Adjustment (PCIA) costs and increasing market costs to procure resource adequacy supplies.

VCE's Board adopted a rate policy in November 2021 to set customer rates to recover operating costs and build reserve funds. VCE has projected a full recovery of cash reserves and increased credit lines for liquidity in 2022. Beginning March 1, 2022, PG&E's bundled rates increased by 33%, while PCIA decreased by 57%; these rates continue for a full 12 months. VCE adopted a 2022 budget based on matching PG&Es bundled rates to offset higher power costs, rebuild reserves, and allow VCE to implement limited customer programs in 2022. Longer-term, VCE continues to transition into its long-term fixed-price renewable PPA's that are scheduled to come online in 2022, 2023, and 2024. VCE has factored in a conservative increase of 25% in PCIA in 2023 and rate stabilization beginning in 2024.

REQUESTS FOR INFORMATION

This financial report is designed to provide VCE's board members, stakeholders, customers, and creditors with a general overview of the VCE's finances and to demonstrate VCE's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to the Director of Finance and Internal Operations, 604 2nd Street, Davis, CA 95616.

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF NET POSITION

DECEMBER 31, 2021 AND JUNE 30, 2021

	DECEMBER 31, 2021	JUNE 30, 2021
ASSETS		
Current assets		
Unrestricted Cash	$ 3,671,384	$ 8,256,056
Accounts receivable, net of allowance	7,406,469	7,982,540
Accrued revenue	1,768,193	2,935,291
Prepaid expenses	9,192	15,143
Other current assets and deposits	1,998,276	1,986,883
Total Current Assets	14,853,514	21,175,913
Restricted assets:		
Cash in - debt service reserve fund	1,100,000	1,100,000
Cash in - power purchase reserve fund	2,461,158	1,999,608
Total Restricted assets	3,561,158	3,099,608
TOTAL ASSETS	$ 18,414,672	$ 24,275,521
LIABILITIES		
Current Liabilities		
Accounts payable	$ 445,042	$ 399,766
Accrued cost of electricity	4,580,941	6,649,130
Accrued payroll	63,909	43,705
Interest payable	2,786	3,259
Due to member agencies	117,945	123,406
Other accrued liabilities	2,364,787	2,961,654
Line of credit	1,153,026	1,350,687
Total Current Liabilities	8,728,436	11,531,607
NET POSITION		
Net position		
Designated - local program reserves	$ 224,500	$ 224,500
Restricted	3,561,158	3,099,608
Unrestricted	5,900,578	9,419,806
TOTAL NET POSITION	$ 9,686,236	$ 12,743,914

The accompanying notes are an integral part of these financial statements.

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND THE YEAR ENDED JUNE 30, 2021

	DECEMBER 31, 2021	JUNE 30, 2021
OPERATING REVENUE		
Electricity sales, net	$ 29,357,623	$ 54,441,240
Other revenue	-	215,640
TOTAL OPERATING REVENUES	29,357,623	54,656,880
OPERATING EXPENSES		
Cost of electricity	30,138,826	54,233,726
Contractors	1,383,829	2,609,080
Staff compensation	537,689	1,158,120
General and administrative	341,143	493,778
TOTAL OPERATING EXPENSES	32,401,487	58,494,704
TOTAL OPERATING INCOME (LOSS)	(3,043,864)	(3,837,824)
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,731	50,285
Interest and related expenses	(22,545)	(56,232)
TOTAL NONOPERATING REVENUES (EXPENSES)	(13,814)	(5,947)
CHANGE IN NET POSITION	(3,057,678)	(3,843,771)
Net position at beginning of period	12,743,914	16,587,685
Net position at end of period	$ 9,686,236	$ 12,743,914

The accompanying notes are an integral part of these financial statements.

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2021 AND THE YEAR ENDED JUNE 30, 2021

	DECEMBER 31, 2021	JUNE 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	$ 31,149,236	$ 52,466,863
Payments for security deposits with energy suppliers	-	100,000
Payments to purchase electricity	(32,255,458)	(52,246,340)
Payments for contract services, general, and administration	(2,276,073)	(1,483,501)
Payments for staff compensation	(517,485)	(1,126,219)
Other cash payments	(11,393)	(1,768,703)
Net Cash Provided (Used) by Operating Activities	(3,911,173)	(4,057,900)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loans from member agencies	-	(395,319)
Draw of line of credit	-	1,976,610
Principal payments of debt	(197,661)	(1,976,610)
Interest and related expense	(23,019)	(57,408)
Net Cash Provided (Used) by Non-Capital Financing Activities	(220,680)	(452,727)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	8,731	50,285
Net Cash Provided (Used) by Investing Activities	8,731	50,285
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,123,122)	(4,460,342)
Cash and cash equivalents at beginning of period	11,355,664	15,816,006
Cash and cash equivalents at ending of period	$ 7,232,542	$ 11,355,664
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (3,043,864)	$ (3,837,824)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in net accounts receivable	576,071	(2,022,329)
(Increase) decrease in net accrued revenue	1,167,098	37,904
(Increase) decrease in prepaid expense	5,951	(14,518)
(Increase) decrease in other assets and deposits	(11,393)	(1,884,343)
Increase (decrease) in accounts payable	45,276	(242,634)
Increase (decrease) in accrued payroll	20,204	31,901
Increase (decrease) in due to member agencies	(5,461)	6,940
Increase (decrease) in accrued cost of electricity	(2,116,632)	1,987,385
Increase (decrease) in other accrued liabilities	(596,867)	1,869,570
Increase (decrease) in user taxes and energy surcharges	48,444	10,048
Net Cash Provided by Operating Activities	$ (3,911,173)	$ (4,057,900)

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Valley Clean Energy Alliance (VCE) is a California joint powers authority created on January 1, 2017 and its voting members consist of the following local governments: the County of Yolo and the cities of Davis, Woodland and Winters (collectively, the "Member Agencies"). VCE is governed by an eight-member Board of Directors whose membership is composed of two elected officials representing each of the Member Agencies.

VCE's mission is to address climate change by reducing energy related greenhouse gas emissions through renewable energy supply and energy efficiency at stable and competitive rates for customers while providing local economic and workforce benefits. VCE provides electric service to retail customers as a Community Choice Aggregation Program under the California Public Utilities Code Section 366.2.

VCE began the delivery of electricity in June, 2018. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the California Independent System Operator and Pacific Gas and Electric Company.

CHANGE IN FISCAL YEAR END

In November 2021, VCE's Board of Directors approved a resolution to change the existing fiscal year of July 1st to June 30th to align with the calendar year of January 1st to December 31st. The financial statements presented in this report are not comparative due to this change in the reporting period. Advantages of the change to a calendar year include accounting for the peak revenue season, May through September, in the span of one reporting year. Additionally, VCE's power contracts are based on the calendar year time frame, as is VCE's regulatory compliance reporting.

BASIS OF ACCOUNTING

VCE'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.

VCE'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 at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – net investment in capital assets, restricted, and unrestricted.

CASH AND CASH EQUIVALENTS

For purpose of the Statement of Cash Flows, VCE defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. Cash and cash equivalents include restricted cash which were the amounts restricted for debt collateral and power purchase reserve.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS

Deposits are classified as current and noncurrent assets depending on the length of the time the deposits will be held. Deposits include those for regulatory and other operating purposes.

OPERATING AND NON-OPERATING REVENUE

Operating revenues consists of revenue from the sale of electricity to customers. Interest income is considered non-operating revenue.

REVENUE RECOGNITION

VCE recognizes revenue on the accrual basis. This includes invoices issued to customers during the reporting period and electricity estimated to have been delivered but not yet billed. Management estimates that a portion of the billed amounts will not be collected. Accordingly, an allowance has been recorded.

ELECTRICAL POWER PURCHASED

In 2017, VCE entered into a five (5) year contract with the Sacramento Municipal Utility District (SMUD) to provide technical and financial analysis; data management and call center services; wholesale energy services; and operational staff services. As part of the contract, SMUD provides power portfolio purchase services to and on behalf of VCE. Electricity costs include the cost of energy and ancillary services arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from VCE's participation in the California Independent System Operator's centralized market. The cost of electricity and ancillary services are recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2021, $4,356,854 was accrued as payable to SMUD, comprised of $4,028,559 in accrued electricity costs and $328,295 in accrued contractual services As of June 30, 2021, $6,578,919 was accrued as payable to SMUD, comprised of $6,578,811 in accrued electricity costs and $108 in accrued contractual services.

RENEWABLE ENERGY CREDITS

To comply with the State of California's Renewable Portfolio Standards (RPS) and self- imposed benchmarks, VCE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). VCE obtains Certificates with the intent to retire them, and does not sell or build surpluses of Certificates. An expense is recognized at the point that the cost of the RPS eligible energy is billed by the supplier. VCE is in compliance with external mandates and self-imposed benchmarks.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STAFFING COSTS

VCE pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. VCE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. VCE provides compensated time off, and the related liability is recorded in these financial statements

INCOME TAXES

VCE 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.

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.

RECLASSIFICATION

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

NET POSITION

VCE reports net position balances in the following categories: Designated, Restricted, and Unrestricted. Local program reserves are designated funds as approved by the board in support of the VCE's mission and programs plan. Restricted funds are those restricted to a particular purpose, and that restriction is set out in the Contract Agreement. Unrestricted funds support the operating expenses or projects of the organization.

The following are the components of VCE's Net Position at December 31, 2021 and June 30, 2021.

	December 31, 2021	June 30, 2021
Designated - local program reserves	$ 224,500	$ 224,500
Restricted	3,561,158	3,099,608
Unrestricted	5,900,578	9,419,806
Totals	$ 9,686,236	$ 12,743,914

2. CASH AND CASH EQUIVALENTS

VCE maintains its cash in interest and non-interest-bearing deposit accounts at River City Bank (RCB) of Sacramento, California. VCE's deposits with RCB are subject to California Government Code Section 16521 which requires that RCB collateralize public funds in excess of the FDIC limit of $250,000 by 110%. VCE monitors its risk exposure to RCB on an ongoing basis. VCE's has not adopted its own Investment Policy and follows the investment policy of the County of Yolo.

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable were as follows:

	December 31, 2021	June 30, 2021
Accounts receivable from customers	$ 9,342,777	$ 9,565,448
Allowance for uncollectible accounts	(1,936,308)	(1,582,908)
Accounts receivable, net	$ 7,406,469	$ 7,982,540

The majority of account collections occur within the first few months following customer invoicing. VCE estimates that a portion of the billed accounts will not be collected. VCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenues in the Statement of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for the six months ended December 31, 2021 were $353,400 and for the year ended June 30, 2021 were $537,500. Due to the ongoing pandemic, VCE has elected not to pursue collections, at this time, for any outstanding balances regardless of age, to alleviate the pressure on their customers.

Accrued revenue presented in the Statements of Net Position represents revenue from customer electricity usage that has not been billed at the end of the period. Accrued revenue recognized for the period ended December 31, 2021 and June 30, 2021 was $1,768,193 and $2,935,291, respectively.

4. DEBT

LINE OF CREDIT AND TERM LOAN

In May 2018, VCE entered into a non-revolving, $11,000,000 Credit Agreement (Agreement) with RCB for the purpose of providing working capital to fund power purchases during seasonal differences in cash flow and reserves as needed to support power purchases. RCB requires collateral for the line of credit of $1.1 million which is reported as restricted cash. Interest accrues on the outstanding balance and is payable each month and computed at One-Month LIBOR plus 1.75% per annum, subject to a floor of 1.75% per annum. The Agreement expired on May 15, 2019 with an option to extend the line for another six months. VCE extended the line of credit and the Agreement to November 15, 2019, with continuing extensions granted until August 31, 2020. At the expiration of the Agreement, any outstanding balance can be converted to an amortizing term loan which matures up to five years from conversion date. The Agreement contains various covenants that include requirements to maintain certain financial ratios, stipulated funding of debt service reserves, and various other requirements including the subordination of the member agency loans.

At the October 10, 2019 Board meeting the Board authorized VCE to convert an existing $1,976,610 Credit Agreement balance to an amortizing 5-year term loan. VCE converted the Agreement to the loan and has paid the loan down to $1,153,026 as of December 31, 2021.

In September 2020, VCE had agreed in principle to one-year renewals to September 1, 2021, for both the Agreement and the term loan. The Agreement limit was reduced from $11,000,000 to a line of credit which allows up to $5,000,000 for cash advances and up to $7,000,000 for letters of credit, with the total of both to not exceed $7,000,000. The interest rate on the line of credit was 2.03% at the close of business on December 31, 2021.

The 5-year term loan had been shortened to a maturity date of September 1, 2021, with the outstanding balance due at that time unless another renewal is agreed upon. In August 2021, VCE had a second modification of the term loan whereas VCE will pay the loan in equal monthly principal payments of $32,943.50 beginning September 1, 2021. The final payment is due January 1, 2022, and will be for all outstanding principal and all accrued interest not yet paid. The interest rate was 3.57%, fixed for the loan term.

If VCE defaults on the line of credit, RCB may, by notice of the borrower, take any of the following actions:

(a) terminate any obligation to extend any further credit hereunder (including but not limited to Advances) on the date (which may be the date thereof) stated in such notice;
(b) declare all Advances and all indebtedness under the Notes then outstanding (including all outstanding principal and all accrued but unpaid interest), and all other Obligations of Borrower to Lender, to be immediately due and payable without further demand, presentment, protest or notice of any kind; and
(c) exercise and enforce any and all rights and remedies contained in any other Loan Document or otherwise available to Lender at law or in equity.

Debt principal activity and balances for all notes and loans were as follows:

	Beginning	Addition	Payments	Ending
Year Ended June 30, 2021				
River City Bank - Loan	1,746,006	3	(395,322)	1,350,687
Total	$ 1,746,006	$ 3	$ (395,322)	$ 1,350,687
Amounts due within one year				(1,350,687)
Amounts due after one year				$ -
Six Months Ended December 31, 2021				
River City Bank - Loan	1,350,687	-	(197,661)	1,153,026
Total	$ 1,350,687	$ -	$ (197,661)	$ 1,153,026
Amounts due within one year				(1,153,026)
Amounts due after one year				$ -

5. DEFINED CONTRIBUTION RETIREMENT PLAN

VCE provides retirement benefits to eligible employees through a 401(a) discretionary defined contribution plan and 457(b) deferred compensation plan (Plans). The Plans are administered by International City Management Association Retirement Corporation (ICMA-RC). At December 31, 2021, VCE had 4 plan participants. VCE contributes 7% of covered payroll and up to an additional 3% of covered payroll as a match to employee tax deferred contributions (into the 457(b) deferred compensation plan) into the 401(a) discretionary defined contribution plan.

For the periods ended December 31, 2021 and June 30, 2021, VCE contributed $30,072 and $45,603, respectively. The Plans' provisions and contribution requirements as they apply to VCE are established and may be amended by the Board of Directors.

6. OPERATING LEASE

In 2018, VCE entered into a nine-month lease for its office space with the City of Davis. The most recent lease agreement renewal with the City covers the twelve months ending January 2023. Rental expense under this lease was $7,951 and $16,932 for the periods ending December 31, 2021 and June 30, 2021, respectively. The total for future minimum lease payments is $16,560 for the calendar year ended December 31, 2022.

Management has reviewed lease agreements related to the new lease accounting rules under GASB 87. It has been determined that the office rent and a copier lease are the only operating leases for the period and are not material for the implementation of the new lease accounting requirements.

7. RELATED PARTY TRANSACTIONS

VCE entered into a cooperative agreement with each respective member agency to provide management, legal, accounting and administrative services. The services billed from the Member Agencies to VCE outstanding for the periods ending December 31, 2021 and June 30, 2021 totaled $117,945 and $123,406, respectively. The cooperative agreements provide for interest to be accrued on any outstanding balances at an average yield.

8. RISK MANAGEMENT

VCE is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters, for which VCE manages its risk by participating in the public entity risk pool described below and by retaining certain risks.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. The joint powers authority is governed by a board consisting of representatives from member municipalities. The board controls the operations of the joint powers authority, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of this joint powers authority are not VCE's responsibility.

VCE is a member of the Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA) which provides coverage for general and auto liability and workers' compensation.

Once VCE's deductible is met, YCPARMIA becomes responsible for payment of all claims up to the limit. In addition, the California Joint Powers Risk Management Authority (CJPRMA) provide coverage for amounts in excess of YCPARMIA's limits. YCPARMIA provides workers' compensation insurance coverage up to statutory limits, above VCE's self-insurance limit of $1,000 per occurrence, and general and auto liability coverage of $40,000,000, above VCE's self-insurance limit of $1,000 per occurrence. For the period ended June 30, 2021 and 2021, VCE contributed $9,206 and $6,645 for coverage, respectively. Audited financial statements are available from YCPARMIA their website www.ycparmia.org. Condensed information for YCPARMIA for the most recent available year end is as follows:

	YCPARMIA June 30, 2020
Total Assets	$ 23,830,770
Deferred Outflows of Resources	$ 244,686
Total Liabilities	$ 20,106,930
Deferred Inflows of Resources	$ 484,830
Net Position	$ 3,483,696
Total Revenues	$ 12,547,701
Total Expenses	$ 13,429,777
Change in Net Position	$ (882,076)

The June 30, 2020 were the most recent audited financial statements available at the time of the preparation of this report.

9. COMMITMENTS AND CONTINGENCIES

On October 25, 2017, VCE entered into an agreement with SMUD to provide on-going professional services, including, but not limited to: wholesale energy services, customer and data services, billing administration and reporting. As of December 31, 2021, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed estimated to be $3.2 million.

10. SUBSEQUENT EVENTS

VCE's Board adopted a rate policy in November 2021 to set customer rates to recover operating costs and build reserve funds. VCE has projected a full recovery of cash reserves and increased credit lines for liquidity in 2022. Beginning March 1, 2022, PG&E's bundled rates increased by 33%, while the Power Charge Indifference Adjustment (PCIA) fee decreased by 57%; these rates continue for a full 12 months. VCE adopted a 2022 budget based on matching PG&Es bundled rates to offset higher power costs, rebuild reserves, and allow VCE to implement limited customer programs in 2022. Longer-term, VCE continues to transition into its long-term fixed-price renewable Power Purchase Agreements (PPE's) that are scheduled to come online in 2022, 2023, and 2024. VCE has factored in a conservative increase of 25% in PCIA in 2023 and rate stabilization beginning in 2024.

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its period ended December 31, 2021 through April 7, 2022, the date the financial statements were issued. Management is not aware of any other subsequent events that would require recognition or disclosure in the accompanying financial statements.

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
Valley Clean Energy Alliance
Davis, California

We have audited the financial statements of Valley Clean Energy Alliance as of and for the six months ended December 31, 2021 and the fiscal year ended June 30, 2021, and have issued our report thereon dated April 7, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 30, 2021 our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Valley Clean Energy Alliance solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal controls and other matters noted during our audit in a separate letter to you dated April 7, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope previously communicated to you. The audit was not conducted consistent with the planned timing, as management did not provide all closing adjustments until the day of issuance of the report.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Valley Clean Energy Alliance is included in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. However, there are upcoming Governmental Accounting Standards that we have listed in Attachment A.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimate affecting the financial statements is the estimate of accounts receivable.

Management's estimate of the allowance for doubtful accounts is based on actual revenues earned for the year which may not be collectible. Management reported increased doubtful accounts for the year due to economic conditions as a result of the COVID-19 pandemic, but will continue to monitor as conditions improve. We evaluated the key factors and assumptions used to develop the estimate of doubtful accounts and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the accrued revenue is based on actual revenues earned but not yet billed for December 2021. We evaluated the key factors and assumptions used to develop the estimate of accrued revenue and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Valley Clean Energy Alliance's financial statements relate to revenue recognition.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management (Attachment B, Proposed Journal Entries)

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached journal entry listing presents adjustments and reclassifications that we identified as a result of our audit procedures, were brought to the attention of, and corrected by, management (Attachment B, Adjusting Journal Entries).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Valley Clean Energy Alliance's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated April 7, 2022.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Valley Clean Energy Alliance, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Valley Clean Energy Alliance's auditors.

This report is intended solely for the information and use of the Board of Directors, and management of Valley Clean Energy Alliance and is not intended to be and should not be used by anyone other than these specified parties.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
April 7, 2022

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to Valley Clean Energy Alliance in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Valley Clean Energy Alliance. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB Statement No. 87, Leases
Effective for the fiscal year ending June 30, 2023

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period
Effective for the fiscal year ending June 30, 2022

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

GASB Statement No. 91, Conduit Debt Obligations
Effective for the fiscal year ending June 30, 2023

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

We do not expect GASB 91 to have any significant impact to Valley Clean Energy Alliance at this time.

GASB Statement No. 92, Omnibus 2020
Effective dates vary

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports – *Effective for the fiscal year ending December 31, 2021*
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan – *Effective for the fiscal year ending December 31, 2021*
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits – *Effective for the fiscal year ending December 31, 2021*
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements – *Effective for the fiscal year ending December 31, 2021*
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition – *Effective for the government acquisitions occurring in reporting periods beginning after June 15, 2020*
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers – *Effective for the fiscal year ending December, 2021*
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature – *Effective for the fiscal year ending December 31, 2021*
- Terminology used to refer to derivative instruments. – *Effective for the fiscal year ending December 31, 2021*

Certain provisions of GASB 92 may have a financial statement impact to Valley Clean Energy Alliance. VCE is currently assessing the financial statement impact of GASB 92.

GASB Statement No. 93, Replacement of Interbank Offered Rates
Effective for the fiscal year ending June 30, 2023

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended

Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
Effective for the fiscal year ending June 30, 2024

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements
Effective for the fiscal year ending June 30, 2024

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

Adjusting Journal Entries

Adjusting Journal Entries JE # 1			
Auditor entry to agree Equity to PY audit for AJEs not posted by client and for rounding variance.			
13710-0000	BILLED REVENUES	178,329	
22210-0000	ACCOUNTS PAYABLE	84,195	
45370-0000	BANKING FEES	1	
26310-0000	RETAINED EARNINGS - UNRESERVED		84,195
26310-0000	RETAINED EARNINGS - UNRESERVED		178,329
26310-0000	RETAINED EARNINGS - UNRESERVED		1
Total		**262,525**	**262,525**

Adjusting Journal Entries JE # 2			
PBC entry to correct Prepaids and Accrued Cost of Electricity balances at year-end.			
23040-0000	ACCRUED COST OF ELECTRICITY	870,000	
41510-0000	POWER PURCHASES	6,038	
14520-0000	RESERVE ADEQUACY		876,038
Total		**876,038**	**876,038**

Adjusting Journal Entries JE # 3			
Auditor entry to agree Billed Revenues to AR Aging.			
13710-0000	BILLED REVENUES	260,934	
30120-0000	COMMERCIAL & INDUSTRIAL SALES		260,934
Total		**260,934**	**260,934**

Adjusting Journal Entries JE # 4			
Auditor entry to adjust NEM receivables and payables to Aging report.			
30110-0000	RESIDENTIAL SALES	104,658	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	156,988	
13725-0000	NEM RECEIVABLE		162,609
23020-0000	NEM CREDITS		99,037
Total		**261,646**	**261,646**

Adjusting Journal Entries JE # 7			
PBC entry to correct Lockbox and ICS cash accouts.			
13120-0000	CASH - LOCKBOX	300,000	
30110-0000	RESIDENTIAL SALES	191,176	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	127,450	
13120-0000	CASH - LOCKBOX		318,626
13150-0000	CASH - ICS MM		300,000
Total		**618,626**	**618,626**

Proposed Journal Entry

Proposed Journal Entries JE # 5			
To adjust for underaccrual of December SMUD utilities expenses.			
45323-0000	SMUD - OPERATIONAL SERVICES	15,803	
22210-0000	ACCOUNTS PAYABLE		15,803
Total		**15,803**	**15,803**

Proposed Journal Entries JE # 6			
PBC to adjust Energy Resources Surcharge liability for payment made during the year.			
23010-0000	ENERGY RESOURCES SURCHARGE	57,056	
30110-0000	RESIDENTIAL SALES		57,056
Total		**57,056**	**57,056**

MANAGEMENT REPRESENTATION LETTER

April 7, 2022

James Marta & Company LLP
Certified Public Accountants
Sacramento, CA 95825

This representation letter is provided in connection with your audit of the Statement of Net Position and the Statement of Revenues, Expenditures and Changes in Net Position and the statement of cash flows of Valley Clean Energy Alliance for the periods ended December 31, 2021 and June 30, 2021, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of Valley Clean Energy Alliance in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of April 7, 2022:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 30, 2021, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

- We have reviewed and approved the adjusting journal entries reflected in the audit statements and the proposed journal entry at Attachment 1.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Valley Clean Energy Alliance has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Valley Clean Energy Alliance is contingently liable.

- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
  - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- Valley Clean Energy Alliance has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Mitch Sears, Executive Director

Edward Burnham, Director of Finance & Internal Operations

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Adjusting Journal Entries

Adjusting Journal Entries JE # 1			
Auditor entry to agree Equity to PY audit for AJEs not posted by client and for rounding variance.			
13710-0000	BILLED REVENUES	178,329	
22210-0000	ACCOUNTS PAYABLE	84,195	
45370-0000	BANKING FEES	1	
26310-0000	RETAINED EARNINGS - UNRESERVED		84,195
26310-0000	RETAINED EARNINGS - UNRESERVED		178,329
26310-0000	RETAINED EARNINGS - UNRESERVED		1
Total		**262,525**	**262,525**

Adjusting Journal Entries JE # 2			
PBC entry to correct Prepaids and Accrued Cost of Electricity balances at year-end.			
23040-0000	ACCRUED COST OF ELECTRICITY	870,000	
41510-0000	POWER PURCHASES	6,038	
14520-0000	RESERVE ADEQUACY		876,038
Total		**876,038**	**876,038**

Adjusting Journal Entries JE # 3			
Auditor entry to agree Billed Revenues to AR Aging.			
13710-0000	BILLED REVENUES	260,934	
30120-0000	COMMERCIAL & INDUSTRIAL SALES		260,934
Total		**260,934**	**260,934**

Adjusting Journal Entries JE # 4			
Auditor entry to adjust NEM receivables and payables to Aging report.			
30110-0000	RESIDENTIAL SALES	104,658	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	156,988	
13725-0000	NEM RECEIVABLE		162,609
23020-0000	NEM CREDITS		99,037
Total		**261,646**	**261,646**

Adjusting Journal Entries JE # 7			
PBC entry to correct Lockbox and ICS cash accouts.			
13120-0000	CASH - LOCKBOX	300,000	
30110-0000	RESIDENTIAL SALES	191,176	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	127,450	
13120-0000	CASH - LOCKBOX		318,626
13150-0000	CASH - ICS MM		300,000
Total		**618,626**	**618,626**

Proposed Journal Entry

Proposed Journal Entries JE # 5			
To adjust for underaccrual of December SMUD utilities expenses.			
45323-0000	SMUD - OPERATIONAL SERVICES	15,803	
22210-0000	ACCOUNTS PAYABLE		15,803
Total		**15,803**	**15,803**

Proposed Journal Entries JE # 6			
PBC to adjust Energy Resources Surcharge liability for payment made during the year.			
23010-0000	ENERGY RESOURCES SURCHARGE	57,056	
30110-0000	RESIDENTIAL SALES		57,056
Total		**57,056**	**57,056**

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*

Independent Auditor's Report

Board of Directors
Valley Clean Energy Alliance

We have audited, 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, the financial statements of Valley Clean Energy Alliance (VCE), which comprise the statement of financial position as of December 31, 2021 and June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the six months and year ended, respectively, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2022.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that we consider to be a material weakness. See finding 2021-01, Closing Entries.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VCE'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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings as item 2021-01.

Valley Clean Energy Alliance's Response to Findings

Valley Clean Energy Alliance's response to the findings identified in our audit are described in the accompanying schedule of findings. VCE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

James Marta + Company LLP

James Marta & Company LLO
Certified Public Accountants
Sacramento, California
April 7, 2022

2021-01 Closing Entries

<u>Observation</u>

During the course of our audit, we identified three adjustments that needed to be posted which were material to the overall financial statements. See Attachment II, entries numbered 1, 3, 4, and 7. The material portions of the entries were related to the proper recording of receivables and revenues at December 31, 2021. The auditor identified entries number 1, 3, and 4 during the course of the audit and discussed with management, who approved them for posting into the general ledger. Based on differences we identified in cash, management researched and identified entry number 7 at the end of our audit. Since these adjustments were not identified by Valley Clean Energy Alliance as part of their standard closing procedures, they may indicate a deficiency in the internal control process over financial reporting.

<u>Recommendation</u>

We recommend that management set up a process in place for the timely review and approval of the cash, accounts receivable, and revenue reconciliations. This will help to identify and correct any possible errors and inconsistencies in a timely manner.

<u>Management Response</u>

Management agrees with the entries as discussed with the auditors. Coming out of the previous audit (FY2020-21), management identified areas for process improvements to specifically identify, address, and prevent findings such as those included in the entries in future reporting periods. Management notes that due to the unique and one-time shortened 6-month time-period for the current audit that is associated with VCE's transition to a fiscal year aligned with the calendar year, the improvements noted above have not yet been fully implemented. Management has also discussed and agreed with its partners engaged in the process to address the improvements needed. Management expects the process improvements to be included in the March accounting close period. They will be maintained from that point forward.

ATTACHMENT II: ADJUSTING JOURNAL ENTRIES

Adjusting Journal Entries

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