



# **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**

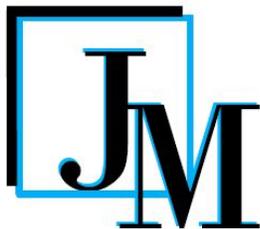
**VALLEY CLEAN ENERGY ALLIANCE**

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**DECEMBER 31, 2021 AND JUNE 30, 2021**

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**James Marta & Company LLP**  
**Certified Public Accountants**

*Accounting, Auditing, Consulting, and Tax*

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**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.

### *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.

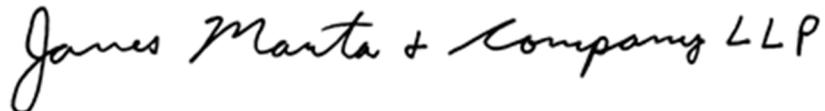
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENTS DISCUSSION AND ANALYSIS**  
**FOR THE PERIODS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021**

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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.

# VALLEY CLEAN ENERGY ALLIANCE

## MANAGEMENTS DISCUSSION AND ANALYSIS

### FOR THE PERIODS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021

- 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.

	<u>December 31, 2021</u>	<u>June 30, 2021</u>	<u>% change from June 30, 2021 to December 31, 2021</u>	<u>June 30, 2020</u>	<u>% change from June 30, 2020 to June 30, 2021</u>
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%
<b>Total Assets</b>	<b>18,414,672</b>	<b>24,275,521</b>	<b>-24%</b>	<b>24,852,577</b>	<b>-2%</b>
Current liabilities	8,728,436	11,531,607	-24%	6,914,208	67%
Noncurrent liabilities	-	-	0%	1,350,684	-100%
<b>Total Liabilities</b>	<b>8,728,436</b>	<b>11,531,607</b>	<b>-24%</b>	<b>8,264,892</b>	<b>40%</b>
<b>Net Position</b>					
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%
<b>Total Net Position</b>	<b>\$ 9,686,236</b>	<b>\$ 12,743,914</b>	<b>-24%</b>	<b>\$ 16,587,685</b>	<b>-23%</b>

### 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

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENTS DISCUSSION AND ANALYSIS**  
**FOR THE PERIODS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021**

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:

	<u>December 31, 2021</u>	<u>June 30, 2021</u>	<u>% change from June 30, 2021 to December 31, 2021</u>	<u>June 30, 2020</u>	<u>% change from June 30, 2020 to June 30, 2021</u>
Operating revenues	\$29,357,623	\$54,656,880	-46%	\$55,248,868	-1%
Interest income	8,731	50,285	-83%	102,954	-51%
<b>Total Income</b>	<u>29,366,354</u>	<u>54,707,165</u>	<u>-46%</u>	<u>55,351,822</u>	<u>-1%</u>
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%
<b>Total Expenses</b>	<u>32,424,032</u>	<u>58,550,936</u>	<u>-45%</u>	<u>45,986,569</u>	<u>27%</u>
<b>Change in Net Position</b>	<u>\$ (3,057,678)</u>	<u>\$ (3,843,771)</u>	<u>20%</u>	<u>\$ 9,365,253</u>	<u>-141%</u>

**VALLEY CLEAN ENERGY ALLIANCE**  
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**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.

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENTS DISCUSSION AND ANALYSIS**  
**FOR THE PERIODS ENDED DECEMBER 31, 2021 AND JUNE 30, 2021**

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**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 2<sup>nd</sup> Street, Davis, CA 95616.

**VALLEY CLEAN ENERGY ALLIANCE**

**STATEMENT OF NET POSITION**

**DECEMBER 31, 2021 AND JUNE 30, 2021**

	<u>DECEMBER 31, 2021</u>	<u>JUNE 30, 2021</u>
<b>ASSETS</b>		
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	<u>14,853,514</u>	<u>21,175,913</u>
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	<u>3,561,158</u>	<u>3,099,608</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,414,672</u>	<u>\$ 24,275,521</u>
<b>LIABILITIES</b>		
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	<u>8,728,436</u>	<u>11,531,607</u>
<b>NET POSITION</b>		
Net position		
Designated - local program reserves	\$ 224,500	\$ 224,500
Restricted	3,561,158	3,099,608
Unrestricted	5,900,578	9,419,806
<b>TOTAL NET POSITION</b>	<u>\$ 9,686,236</u>	<u>\$ 12,743,914</u>

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**

	<b>DECEMBER 31, 2021</b>	<b>JUNE 30, 2021</b>
<b>OPERATING REVENUE</b>		
Electricity sales, net	\$ 29,357,623	\$ 54,441,240
Other revenue	-	215,640
<b>TOTAL OPERATING REVENUES</b>	<b>29,357,623</b>	<b>54,656,880</b>
<b>OPERATING EXPENSES</b>		
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
<b>TOTAL OPERATING EXPENSES</b>	<b>32,401,487</b>	<b>58,494,704</b>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>(3,043,864)</b>	<b>(3,837,824)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	8,731	50,285
Interest and related expenses	(22,545)	(56,232)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(13,814)</b>	<b>(5,947)</b>
<b>CHANGE IN NET POSITION</b>	<b>(3,057,678)</b>	<b>(3,843,771)</b>
Net position at beginning of period	12,743,914	16,587,685
Net position at end of period	<b>\$ 9,686,236</b>	<b>\$ 12,743,914</b>

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**

	<u>DECEMBER 31, 2021</u>	<u>JUNE 30, 2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(3,911,173)</u>	<u>(4,057,900)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
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)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<u>(220,680)</u>	<u>(452,727)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	8,731	50,285
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>8,731</u>	<u>50,285</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(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	<u>\$ 7,232,542</u>	<u>\$ 11,355,664</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
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
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (3,911,173)</u>	<u>\$ (4,057,900)</u>

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

# VALLEY CLEAN ENERGY ALLIANCE

## NOTES TO THE FINANCIAL STATEMENTS

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

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### 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 1<sup>st</sup> to June 30<sup>th</sup> to align with the calendar year of January 1<sup>st</sup> to December 31<sup>st</sup>. 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.

## VALLEY CLEAN ENERGY ALLIANCE

### NOTES TO THE FINANCIAL STATEMENTS

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

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#### 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.

# VALLEY CLEAN ENERGY ALLIANCE

## NOTES TO THE FINANCIAL STATEMENTS

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

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### 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.

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

# VALLEY CLEAN ENERGY ALLIANCE

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### 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:

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

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

**VALLEY CLEAN ENERGY ALLIANCE**

**NOTES TO THE FINANCIAL STATEMENTS**

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

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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:

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

**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,

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## NOTES TO THE FINANCIAL STATEMENTS

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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.

# VALLEY CLEAN ENERGY ALLIANCE

## NOTES TO THE FINANCIAL STATEMENTS

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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](http://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.