



VALLEY CLEAN ENERGY

VALLEY CLEAN ENERGY ALLIANCE
FINANCIAL STATEMENTS

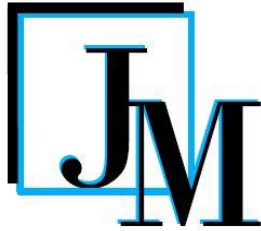
FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022

VALLEY CLEAN ENERGY ALLIANCE

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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, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 VCE as of the year ended December 31, 2023 and 2022, and the results of its operations and its cash flows for the years 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 VCE 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

VCE'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 and Government Auditing Standards 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.

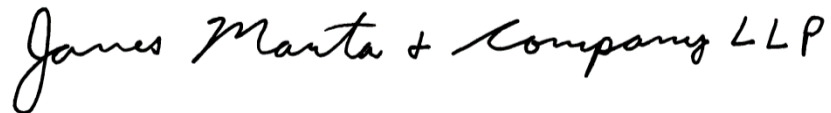
In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2024, 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
May 3, 2024

MANAGEMENT DISCUSSION AND ANALYSIS

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the years ended December 31, 2023 and December 31, 2022. 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, Winters, 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, VCE has operated with a fiscal accounting year ending on June 30, aligned with the Member Jurisdictions' Fiscal Year. Since early 2020, VCE has seen high volatility in the energy sector and overall economy. VCE's fiscal impacts were primarily driven by uncertainty associated with the COVID-19 pandemic, 2021 Power Charge Indifference Adjustment (PCIA) increases, resource adequacy and power market cost increases driven in part by the war in Ukraine. These factors required VCE to draw against reserves in the past two years to stabilize customer rates and maintain its rate policy to be competitive with PG&E generation rates. Beginning in 2022, VCE began to replenish its cash reserves and grow its financial strength (as envisioned in the Strategic Plan) for its initial investment grade credit rating.

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.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

- 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.

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>% change from 2023 to 2022</u>	<u>December 31, 2021</u>	<u>% change from 2022 to 2021</u>
Current assets	\$ 43,363,001	\$ 20,172,977	115%	\$ 14,853,514	36%
Noncurrent assets	2,993,604	3,961,586	-24%	3,561,158	11%
Total Assets	46,356,605	24,134,563	92%	18,414,672	31%
Current liabilities	10,073,964	8,542,745	18%	8,728,436	-2%
Noncurrent liabilities	-	181,284	0%	-	0%
Total Liabilities	10,073,964	8,724,029	15%	8,728,436	0%
Net Position					
Designated – Local Programs	840,000	224,500	274%	224,500	0%
Restricted	1,100,000	3,809,273	-71%	3,561,158	7%
Unrestricted	34,342,641	11,376,761	202%	5,900,578	93%
Total Net Position	\$ 36,282,641	\$ 15,410,534	135%	\$ 9,686,236	59%

Assets

Current assets ended December 31, 2023, at approximately 43.4 million, an increase of approximately \$20.2 million compared to December 31, 2022. The primary contributor to the overall increase in current assets was an increase in cash resulting from competitive rate increases and the building of operating cash reserves. The VCE Board adopted a cost-based rate policy and automatic rate adjustment policy to continue to preserve and build cash reserves in preparation for obtaining our initial investment grade credit rating.

Overall, non-current assets decreased approximately \$968K on December 31, 2023 due to a decrease of in restricted cash for power purchase reserves related to the wholesale energy services portion of the SMUD contract. VCE completed the transition to The Energy Authority (TEA) for wholesale energy services in 2023 and no longer had a restricted cash and lockbox contract requirements.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Liabilities

Current liabilities at December 31, 2023, were comprised primarily of the accrued cost of electricity, accounts payable, other accrued liabilities, and security deposits. Current liabilities increased by \$ 1.5M for the year ended December 31, 2023 due to increased power cost hedges for the winter of 2023.

Non-current liabilities decreased \$181K in the year ended December 31, 2023 related to VCE early payoff of the River City Bank (RCB) term loan scheduled to mature in 2024.

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

	December 31, 2023 (Twelve Months)	December 31, 2022 (Twelve Months)	% change from 2022 to 2023	December 31, 2021 (Six Months)	% change from December 31, 2021 (Six Months) to December 31, 2022
Operating revenues	\$ 95,429,498	\$ 86,661,734	10%	\$ 29,357,623	195%
Interest income	327,157	46,501	604%	8,731	433%
Total Income	95,756,655	86,708,235	10%	29,366,354	195%
Operating Expenses	74,869,670	80,897,469	-7%	32,401,487	150%
Interest and related expenses	14,878	86,468	-83%	22,545	284%
Total Expenses	74,884,548	80,983,937	-8%	32,424,032	150%
Change in Net Position	\$ 20,872,107	\$ 5,724,298	-265%	\$ (3,057,678)	-287%

Operating Revenues

In the year ended December 31, 2023, VCE's operating revenues were approximately \$14.0M below budgeted amount. VCE's customers energy use in most sectors have been lower than forecasted. For example, two large sectors showed lower than forecast energy use: (1) residential and (2) commercial use related to agriculture due to a wet and long winter, lower overall summer temperatures, and reduced heat events. VCE's operating revenue is driven from the sale of electricity to its customer base.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Operating Expenses

In the year ended December 31, 2023, VCE's operating expenses were 7% lower than budgeted operations. The decrease was primarily due to a \$3. million decrease in the cost of electricity, driven by the decreased average forward market power prices from the high 2022/23 winter costs due to an abnormally wet winter and increased hydro production. 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.

ECONOMIC OUTLOOK

As a CCA in its sixth year of operations and post 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 that have been subject to regulatory and market pressures outside of direct control, 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 and an automatic rate adjustment policy to address environmental and regulatory changes within a budget year. VCE has also adopted a base green product to maintain its competitiveness with PG&E by offering a least-cost option to its customers. VCE has recovered from COVID, continues to build cash reserves, and maintained its credit lines for liquidity in 2023. Longer-term, a majority of VCE's long-term fixed-price renewable PPA's that began delivery in 2023. VCE customer rates, including PCIA costs, have been reduced to near zero in 2023. As forecasted average forward market energy prices decrease, PCIA costs are forecasted to increase for 2025. Current customer rates are forecasted to be stabilized due to offsetting resource adequacy (RA) and renewable energy credit (REC) costs remain high.

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

AS OF DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Unrestricted Cash	\$ 27,479,933	\$ 3,850,610
Accounts receivable, net of allowance	10,599,982	11,085,087
Accrued revenue	3,434,034	3,430,397
Prepaid expenses	42,169	-
Other current assets and deposits	1,806,883	1,806,883
Total Current Assets	43,363,001	20,172,977
Restricted assets:		
Cash in - debt service reserve fund	1,100,000	1,100,000
Cash in - power purchase reserve fund	-	2,709,273
Total Restricted assets	1,100,000	3,809,273
Noncurrent Assets		
Other noncurrent assets and deposits	1,893,604	152,313
Total Noncurrent Assets	1,893,604	152,313
TOTAL ASSETS	\$ 46,356,605	\$ 24,134,563
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 446,056	\$ 399,529
Accrued cost of electricity	5,743,525	4,657,891
Accrued payroll	58,367	116,285
Interest payable	-	2,248
Due to member agencies	4,132	25,160
Other accrued liabilities	3,821,884	2,810,664
Line of credit	-	530,968
Total Current Liabilities	10,073,964	8,542,745
Noncurrent Liabilities		
Line of credit	-	181,284
Total Noncurrent Liabilities	-	181,284
TOTAL LIABILITIES	10,073,964	8,724,029
NET POSITION		
Net position		
Designated - local program reserves	840,000	224,500
Restricted	1,100,000	3,809,273
Unrestricted	34,342,641	11,376,761
TOTAL NET POSITION	\$ 36,282,641	\$ 15,410,534

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 YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Electricity sales, net	\$ 94,681,216	\$ 85,322,760
Other revenue	748,282	1,338,974
TOTAL OPERATING REVENUES	<u>95,429,498</u>	<u>86,661,734</u>
OPERATING EXPENSES		
Cost of electricity	68,527,737	75,130,283
Contractors	3,063,635	2,556,894
Staff compensation	1,450,487	1,282,519
Program expenses	1,014,792	1,168,019
General and administrative	813,019	759,754
TOTAL OPERATING EXPENSES	<u>74,869,670</u>	<u>80,897,469</u>
TOTAL OPERATING INCOME (LOSS)	<u>20,559,828</u>	<u>5,764,265</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	327,157	46,501
Interest and related expenses	(14,878)	(86,468)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>312,279</u>	<u>(39,967)</u>
CHANGE IN NET POSITION	20,872,107	5,724,298
Net position at beginning of period	15,410,534	9,686,236
Net position at end of period	<u>\$ 36,282,641</u>	<u>\$ 15,410,534</u>

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 95,146,830	\$ 79,912,041
Payments for security deposits with energy suppliers	(1,741,291)	(152,313)
Payments to purchase electricity	(67,426,248)	(74,983,435)
Payments for contract services, program expenses, general, and administration	(3,896,896)	(4,167,896)
Payments for staff compensation	(1,508,405)	(1,230,143)
Other cash payments	748,282	1,530,367
Net Cash Provided (Used) by Operating Activities	21,322,272	908,621
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments of debt	(712,252)	(440,774)
Interest and related expense	(17,127)	(87,007)
Net Cash Provided (Used) by Non-Capital Financing Activities	(729,379)	(527,781)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	327,157	46,501
Net Cash Provided (Used) by Investing Activities	327,157	46,501
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,920,050	427,341
Cash and cash equivalents at beginning of period	7,659,883	7,232,542
Cash and cash equivalents at ending of period	\$ 28,579,933	\$ 7,659,883
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 20,559,828	\$ 5,764,265
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in net accounts receivable	485,105	(3,678,618)
(Increase) decrease in net accrued revenue	(3,637)	(1,662,204)
(Increase) decrease in prepaid expense	(42,169)	9,192
(Increase) decrease in other assets and deposits	(1,741,291)	39,080
Increase (decrease) in accounts payable	46,527	(45,513)
Increase (decrease) in accrued payroll	(57,918)	52,376
Increase (decrease) in due to member agencies	(21,028)	(92,785)
Increase (decrease) in accrued cost of electricity	1,101,489	146,848
Increase (decrease) in other accrued liabilities	1,011,220	445,877
Increase (decrease) in user taxes and energy surcharges	(15,854)	(69,897)
Net Cash Provided by Operating Activities	\$ 21,322,272	\$ 908,621

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

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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.

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.

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.

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. In 2022, VCE entered a three (3) year contract with The Energy Authority for the electrical power purchased contract and completely transitioned to The Energy Authority by the end of 2023. As of December 31, 2023, \$677,754 was accrued as payable to SMUD, comprised of \$494,296 in accrued electricity costs and \$183,458 in accrued contractual services. As of December 31, 2022, \$5,131,217 was accrued as payable to SMUD, comprised of \$5,131,217 in accrued electricity costs and \$0 in accrued contractual services. As of December 31, 2023, \$3,880,145 was accrued as payable to VCE, comprised of \$3,813,945 in accrued electricity costs and \$66,200 in accrued contractual services and 0 accrued payable as of December 31, 2022.

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 BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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, 2023 and 2022.

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Designated - local program reserves	\$ 840,000	\$ 224,500
Restricted	1,100,000	3,809,273
Unrestricted	34,342,641	11,376,761
Totals	<u>\$ 36,282,641</u>	<u>\$ 15,410,534</u>

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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, 2023</u>	<u>December 31, 2022</u>
Accounts receivable from customers	\$ 12,019,166	\$ 11,550,071
Allowance for uncollectible accounts	(1,419,184)	(464,984)
Accounts receivable, net	<u>\$ 10,599,982</u>	<u>\$ 11,085,087</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 year ended December 31, 2023 and 2022 were \$954,200 and \$846,600, respectively. Due to the COVID-19 pandemic, VCE could not to pursue collections due to state restrictions and expects to commence collections of remaining balances in 2023.

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 years ended December 31, 2023 and 2022 was \$3,434,034 and \$3,430,397, 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 River City Bank (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.

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LINE OF CREDIT AND TERM LOAN (CONTINUED)

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 \$0 and \$712,252 as of December 31, 2023 and 2022, respectively. The interest rate was 3.57% fixed for the loan term.

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 \$2,000,000 for letters of credit, with the total of both to not exceed \$7,000,000. The interest rate on the line of credit was 2.00% at the close of business on December 31, 2022.

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 was 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.

At the March 10, 2022 board meeting, the board approved an Amended and Restated Credit Agreement with RCB including the following amendments:

Line of Credit

- Cash Facility - \$2,000,000 increase in cash from \$5,000,000 to \$7,000,000
- Letter of Credit Facility - \$4,000,000 increase from \$7,000,000 to \$11,000,000
- Maturity: March 1, 2024
- Interest Rate: 2.00% (unchanged)

Term Loan

- Maturity: March 1, 2024
- Interest Rate: Fixed 3.57% (unchanged)

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.

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LINE OF CREDIT AND TERM LOAN (CONTINUED)

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 December 31, 2022				
River City Bank - Loan	1,153,026	-	(440,774)	712,252
Total	\$ 1,153,026	\$ -	\$ (440,774)	\$ 712,252
Amounts due within one year				(530,968)
Amounts due after one year				\$ 181,284
Year Ended December 31, 2023				
River City Bank - Loan	712,252	-	(712,252)	-
Total	\$ 712,252	\$ -	\$ (712,252)	\$ -
Amounts due within one year				-
Amounts due after one year				\$ -

At the February 10, 2022 Board meeting, the Board authorized VCE to agree to a short term line of credit with the County of Yolo in the amount of \$5,000,000. VCE withdrew \$3,000,000 from the line of credit and were paid in full as December 31, 2022. Interest and fees paid in year 2022 were \$25,000.

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, 2023, 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 years ended December 31, 2023 and 2022, VCE contributed \$76,681 and \$64,716, 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 2024. Rental expense under this lease were \$26,376 and \$19,200 for the year ending December 31, 2023 and 2022, respectively. The total for future minimum lease payments are shown below:

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6. OPERATING LEASE (CONTINUED)

Year	Payments
2024	\$ 17,057
2025	17,569
2026	18,096
2027	18,638
Total	\$ 71,360

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 year ending December 31, 2023 and 2022 totaled \$4,132 and \$25,160, respectively. The total services billed from the Member Agencies to VCE for the years ending December 31, 2023 and 2022 totaled \$31,061 and \$54,432, respectively.

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.

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8. RISK MANAGEMENT (CONTINUED)

limit of \$1,000 per occurrence. For the year ended December 31, 2023 and 2022, VCE contributed \$36,470 and \$14,668 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, 2022
Total Assets	\$ 26,957,573
Deferred Outflows of Resources	\$ 297,375
Total Liabilities	\$ 24,505,895
Deferred Inflows of Resources	\$ 1,157,359
Net Position	\$ 1,591,694
Total Revenues	\$ 17,407,452
Total Expenses	\$ 19,416,024
Change in Net Position	\$ (2,008,572)

The June 30, 2022 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, 2023, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed estimated to be \$1.5 million. The agreement and non-cancelable commitments to SMUD ended on December 31, 2023.

10. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its period ended December 31, 2023 through May 3, 2024 the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.