



VALLEY CLEAN ENERGY

**VALLEY CLEAN ENERGY ALLIANCE
FINANCIAL STATEMENTS**

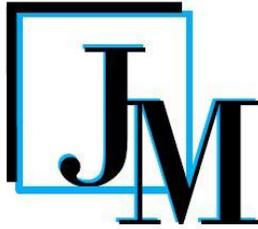
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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 Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Valley Clean Energy Alliance (VCE), as of and for the period ended June 30, 2020, and the related notes to the financial statements, which collectively comprise VCE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valley Clean Energy Alliance as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

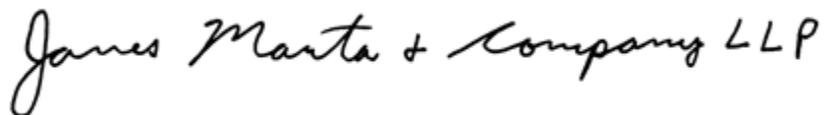
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VCE's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
September 15, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the periods ended June 30, 2020 and June 30, 2019. 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 eight elected officials representing each of the following local governments: the County of Yolo and the cities of Davis, Woodland and Winters. VCE provides electric service to retail customers as a Community Choice Aggregation Program 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 January 2020, VCE started phasing in approximately 7,000 Net Energy Metering (NEM) customers through 2020. In January 2021, VCE will begin phasing in approximately 2,900 customers from its new Winters jurisdiction.

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.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

- 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 summary of VCE’s assets, liabilities, and net position as of June 30:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 22,407,057	\$ 16,372,294
Noncurrent assets	<u>2,445,520</u>	<u>1,855,745</u>
Total assets	<u>\$ 24,852,577</u>	<u>\$ 18,228,039</u>
Current liabilities	\$ 6,914,208	\$ 9,505,607
Noncurrent liabilities	<u>1,350,684</u>	<u>1,500,000</u>
Total liabilities	<u>\$ 8,264,892</u>	<u>\$ 11,005,607</u>
Net position		
Restricted	\$ 2,482,418	\$ 86,463
Unrestricted (deficit)	<u>14,105,267</u>	<u>7,135,969</u>
Total net position	<u>\$ 16,587,685</u>	<u>\$ 7,222,432</u>

Assets

Current assets ended 2020 at approximately \$22.4 million, an increase of approximately \$6.0 million as compared to 2019. A significant contributor to the overall increase in current assets was an increase in cash of approximately \$6.6 million. Net accounts receivable increased \$1.0 million, offset by reductions in accrued revenue of approximately \$1.3 million and REC inventory of approximately \$0.2 million in 2020. 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 \$0.6 million in 2020 due fully to an increase of approximately \$0.6 million in restricted cash for power purchase reserves.

Liabilities

Current liabilities comprised primarily of accrued cost of electricity, accounts payable, other accrued liabilities, security deposits, and current portion of long-term debt. Current liabilities decreased by \$2.6 million to \$6.9 million in 2020. The most significant contributor to the overall decrease in current liabilities was a decrease in the revolving line of credit due to converting the outstanding balance to a term loan, which reduced current debt by \$2.0 million for the line of credit, offset by an increase of \$0.4 million representing the current portion of that term loan. Other significant decreases occurred in other accrued liabilities, accrued cost of electricity and due to member agencies, offset by an increase in security deposits for energy supplies. The overall decrease in current liabilities was due to the line of credit conversion coupled with efforts to pay down debt to member agencies and SMUD.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Non-current liabilities decreased \$0.1 million in 2020. This was comprised of two offsetting items. There was a reduction of \$1.5 million due to paying off all member agency pre-launch loans, offset by \$1.4 million of long-term debt added due to the conversion of the revolving line of credit to a term loan.

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

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 55,248,868	\$ 51,035,167
Interest income	<u>102,954</u>	<u>37,943</u>
Total income	<u>\$ 55,245,423</u>	<u>\$ 51,073,110</u>
Operating expenses	\$ 45,887,956	\$ 42,224,269
Interest and related expenses	<u>98,613</u>	<u>202,557</u>
Total expenses	<u>45,986,572</u>	<u>42,426,826</u>
Change in net position	<u>\$ 9,365,253</u>	<u>\$ 8,646,284</u>

Operating Revenues

In fiscal year 2020, VCE's operating revenues grew by \$4.2 million over its initial full year of operations in fiscal year 2019, reaching \$55.2 million. This increase was primarily as a result of the NEM customers phasing in starting in January 2020, as well as slight increases to generation rates. All of VCE's operating revenue is from the sale of electricity to its customer base, which mostly consists of residential, commercial, industrial and agricultural customers.

Operating Expenses

In fiscal year 2020, VCE's operating expenses grew by \$3.7 million over its initial full year of operations in fiscal year 2019. This increase was primarily due to a \$3.0 million increase in cost of electricity, driven by increased load. 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 consist of contract services, staff compensation and other general administrative expenses.

ECONOMIC OUTLOOK

As a CCA embarking on only its third year of operations, VCE will be focusing 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. Countervailing factors due to several regulatory and market factors, including rising Power Charge Indifference Adjustment (PCIA) costs, rising market costs to procure resource adequacy supplies, and impacts associated with COVID, are anticipated to present VCE with significant budgetary pressures over the next two fiscal years.

VALLEY CLEAN ENERGY ALLIANCE
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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 Director of Finance and Internal Operations, 604 2nd Street, Davis, CA 95616.

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF NET POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash in banks	\$ 13,470,486	\$ 6,914,296
Accounts receivable, net of allowance	5,960,211	4,952,577
Accrued revenue	2,973,195	4,295,713
Prepaid expenses	625	-
Inventory - Renewable Energy Credits	-	207,168
Other current assets and deposits	2,540	2,540
Total Current Assets	<u>22,407,057</u>	<u>16,372,294</u>
Restricted assets:		
Debt service reserve fund	1,100,000	1,100,000
Power purchase reserve fund	1,245,520	655,745
Total Restricted assets	<u>2,345,520</u>	<u>1,755,745</u>
Noncurrent Assets		
Other noncurrent assets and deposits	100,000	100,000
Total Noncurrent Assets	<u>100,000</u>	<u>100,000</u>
TOTAL ASSETS	<u>\$ 24,852,577</u>	<u>\$ 18,228,039</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 642,400	\$ 670,305
Accrued cost of electricity	4,651,697	5,058,656
Accrued payroll	11,804	3,789
Interest payable	4,435	112,312
Due to member agencies	116,466	410,309
Other accrued liabilities	1,092,084	1,273,626
Line of credit	395,322	1,976,610
Total Current Liabilities	<u>6,914,208</u>	<u>9,505,607</u>
Noncurrent Liabilities		
Line of credit	1,350,684	-
Loans from member agencies	-	1,500,000
Total Noncurrent Liabilities	<u>1,350,684</u>	<u>1,500,000</u>
TOTAL LIABILITIES	<u>\$ 8,264,892</u>	<u>\$ 11,005,607</u>
NET POSITION		
Net position		
Restricted - local program reserves	\$ 136,898	\$ 86,463
Restricted	2,345,520	-
Unrestricted	14,105,267	7,135,969
TOTAL NET POSITION	<u>\$ 16,587,685</u>	<u>\$ 7,222,432</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 YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUE		
Electricity sales, net	\$ 55,248,868	\$ 51,035,167
TOTAL OPERATING REVENUES	55,248,868	51,035,167
OPERATING EXPENSES		
Cost of electricity	41,538,258	38,539,605
Contractors	2,854,222	2,309,962
Staff compensation	1,059,829	981,805
General and administrative	435,647	392,897
TOTAL OPERATING EXPENSES	45,887,956	42,224,269
TOTAL OPERATING INCOME (LOSS)	9,360,912	8,810,898
NONOPERATING REVENUES (EXPENSES)		
Interest income	102,954	37,943
Interest and related expenses	(98,613)	(202,557)
TOTAL NONOPERATING REVENUES (EXPENSES)	4,341	(164,614)
CHANGE IN NET POSITION	9,365,253	8,646,284
Net position at beginning of period	7,222,432	(1,423,852)
Net position at end of period	\$ 16,587,685	\$ 7,222,432

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 55,566,575	\$ 44,728,189
Payments for security deposits with energy suppliers	-	500,000
Payments to purchase electricity	(41,798,319)	(35,773,468)
Payments for contract services, general, and administration	(3,736,336)	-
Payments for staff compensation	(1,051,815)	(2,238,396)
Other cash payments	-	(872,425)
Net Cash Provided (Used) by Operating Activities	<u>8,980,105</u>	<u>6,343,900</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loans from member agencies	246,006	-
Draw of line of credit	-	4,376,610
Principal payments of debt	(1,976,610)	(4,000,000)
Interest and related expense	(206,490)	(151,801)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(1,937,094)</u>	<u>224,809</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	102,954	37,944
Net Cash Provided (Used) by Investing Activities	<u>102,954</u>	<u>37,944</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,145,965	6,606,653
Cash and cash equivalents at beginning of period	8,670,041	2,063,388
Cash and cash equivalents at ending of period	<u>\$ 15,816,006</u>	<u>\$ 8,670,041</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 9,360,912	\$ 8,810,898
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in net accounts receivable	(1,007,634)	(4,946,956)
(Increase) decrease in net accrued revenue	1,322,518	(1,471,173)
(Increase) decrease in prepaid expense	(625)	-
(Increase) decrease in inventory - renewable energy credits	207,168	229,419
(Increase) decrease in other assets and deposits	-	500,000
Increase (decrease) in accounts payable	(27,905)	532,830
Increase (decrease) in accrued payroll	8,014	2,165
Increase (decrease) in due to member agencies	(293,843)	(124,330)
Increase (decrease) in accrued cost of electricity	(467,230)	2,384,717
Increase (decrease) in other accrued liabilities	(124,094)	426,330
Increase (decrease) in user taxes and energy surcharges	2,824	-
Net Cash Provided by Operating Activities	<u>\$ 8,980,105</u>	<u>\$ 6,343,900</u>

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

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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.

OPERATING AND NON-OPERATING REVENUE

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

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 June 30, 2020, \$4,913,638 was accrued as payable to SMUD, comprised of \$4,591,427 in accrued electricity costs and \$322,211 in accrued contractual services. As of June 30, 2019, \$6,143,314 was accrued as payable to SMUD, comprised of \$5,058,656 in accrued electricity costs and \$1,084,658 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. As of June 30, 2020 and 2019, \$- and \$207,168, respectively, of these certificates were included in inventory as they had yet to be utilized at year end.

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.

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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>June 30, 2020</u>	<u>June 30, 2019</u>
Accounts receivable from customers	\$ 7,005,619	\$ 5,426,377
Allowance for uncollectible accounts	(1,045,408)	(473,800)
Accounts receivable, net	<u>\$ 5,960,211</u>	<u>\$ 4,952,577</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 years ended June 30, 2020 and 2019 were \$571,608 and \$473,800, respectively. Due to the ongoing pandemic, VCE has elected not to pursue collections, at this time, for old outstanding balances 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 periods ended June 30, 2020 and 2019 was \$2,973,195 and \$4,295,713, respectively.

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

4. DEBT

LOANS PAYABLE

As part of the formation of VCE, the agency borrowed \$500,000 from Yolo County, City of Davis and City of Woodland. During the fiscal year ended June 30, 2020, the member loans were paid early and in full. As of June 30, 2020 and 2019, the outstanding loans totaled \$- and \$1,500,000. The cooperative agreement provides for interest to be accrued monthly on the outstanding balance at the average yield of the member agency. The accrued interest on the Member Agencies loans as of June 30, 2020 and 2019 totaled \$- and \$98,595.

LINE OF CREDIT

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. As of June 30, 2020 and 2019, \$0 and \$1,976,610 of the line of credit had been drawn, leaving \$7,000,000 and \$9,023,390 still available, respectively.

At the October 10, 2019 Board meeting the Board authorized VCE to convert the \$1,976,610 Agreement balance to an amortizing 5-year term loan. VCE converted the Agreement to the loan and has paid the loan down to \$1,746,006 as of June 30, 2020.

During September, 2020, VCE has agreed in principle to one-year renewals to September 1, 2021, for both the Agreement and the term loan. The Agreement limit will be 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 5-year term loan has been shortened to a maturity date of September 1, 2021, with the outstanding balance due at that time unless another renewal is agreed upon.

VALLEY CLEAN ENERGY ALLIANCE
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

4. DEBT (CONTINUED)

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>
Period Ended June 30, 2019				
River City Bank - Line of Credit	\$ 1,600,000	\$ 4,376,610	\$ (4,000,000)	\$ 1,976,610
Member Agencies	1,500,000	-	-	1,500,000
Total	<u>\$ 3,100,000</u>	<u>\$ 4,376,610</u>	<u>\$ (4,000,000)</u>	<u>\$ 3,476,610</u>
Amounts due within one year				<u>(1,976,610)</u>
Amounts due after one year				<u>\$ 1,500,000</u>
Year Ended June 30, 2020				
River City Bank - Line of Credit	\$ 1,976,610	\$ -	\$ (1,976,610)	\$ -
River City Bank - Loan	-	1,746,006	-	1,746,006
Member Agencies	1,500,000	-	(1,500,000)	-
Total	<u>\$ 3,476,610</u>	<u>\$ 1,746,006</u>	<u>\$ (3,476,610)</u>	<u>\$ 1,746,006</u>
Amounts due within one year				<u>(395,322)</u>
Amounts due after one year				<u>\$ 1,350,684</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 June 30, 2020, VCE had 1 plan participant. 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 year ended June 30, 2020 and 2019, VCE contributed \$7,687 and \$4,969, respectively. The Plans' provisions and contribution requirements as they apply to VCE are established and may be amended by the Board of Directors.

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6. OPERATING LEASE

In 2018, VCE entered into a nine-month lease for its office space with the City of Davis expiring January 2019. VCE renewed the lease for an additional 12-months expiring January 2021. Rental expense under this lease was \$17,381 and \$17,081 for the period ending June 30, 2020 and 2019, respectively. The total for future minimum lease payments is \$8,700 for fiscal year ended June 30, 2020.

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 June 30, 2020 and 2019 totaled \$116,466 and \$410,309, respectively. In March 2019, VCE began repaying the member agencies for the current year expenditures and repay the outstanding balance at June 30, 2018 over 12 months. The cooperative agreements provide for interest to be accrued on any outstanding balances at an average yield. The balance was paid off during the year ended June 30, 2020. The accrued interest on the member agencies outstanding balance at June 30, 2019 totaled \$6,831.

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, 2020 and 2019, VCE contributed \$5,008 and \$5,324 for coverage, respectively. Audited financial statements are available from YCPARMIA their website www.ycparmia.org.

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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 June 30, 2020, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed estimated to be \$6.7 million.

10. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2020 through September 15, 2020, the date the financial statements were issued. Management is not aware of any subsequent events other than the issuance of refunding bonds described below that would require recognition or disclosure in the accompanying financial statements.