VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 12

TO: Valley Clean Energy Alliance Board of Directors

FROM: George Vaughn, Finance and Operations Director, VCEA
Mitch Sears, Interim General Manager, VCEA

SUBJECT: Receive and approve audited June 30, 2020 financial statements presented by James Marta & Company

DATE: October 8, 2020

RECOMMENDATIONS:

1. Accept and approve the Audited Financial Statements for the period of July 1, 2019 to June 30, 2020;
2. Accept the Communication with Governance Letter; and
3. Accept the Internal Control Letter

BACKGROUND & DISCUSSION:

The attached financial statements were audited by VCE's Independent Auditor, James Marta & Company. The Financial Statements include the following reports:

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

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

- Governance letter
- Internal Control Letter

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

AUDITOR'S FINDINGS

During the course of the audit, the auditor's found no material concerns over the financial statements or internal controls. Specifically:

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

Attachments:

1) Audited Financial Statements for the period of July 1, 2019 to June 30, 2020
2) Communication with Governance Letter
3) Internal Control Letter

VALLEY CLEAN ENERGY ALLIANCE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

VALLEY CLEAN ENERGY ALLIANCE

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JUNE 30, 2020 AND 2019

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.

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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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the periods ended 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.

- 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:

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

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 currents 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.

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:

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

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.

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

	2020	2019
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	22,407,057	16,372,294
Restricted assets:		
Debt service reserve fund	1,100,000	1,100,000
Power purchase reserve fund	1,245,520	655,745
Total Restricted assets	2,345,520	1,755,745
Noncurrent Assets		
Other noncurrent assets and deposits	100,000	100,000
Total Noncurrent Assets	100,000	100,000
TOTAL ASSETS	$ 24,852,577	$ 18,228,039
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 lilbilities	1,092,084	1,273,626
Line of credit	395,322	1,976,610
Total Current Liabilities	6,914,208	9,505,607
Noncurrent Liabilities		
Line of credit	1,350,684	-
Loans from member agencies	-	1,500,000
Total Noncurrent Liabilities	1,350,684	1,500,000
TOTAL LIABILITIES	$ 8,264,892	$ 11,005,607
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	$ 16,587,685	$ 7,222,432

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF REVENES, 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

	2020	2019
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 adminstration	(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	8,980,105	6,343,900
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	(1,937,094)	224,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	102,954	37,944
Net Cash Provided (Used) by Investing Activities	102,954	37,944
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	$ 15,816,006	$ 8,670,041
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	$ 8,980,105	$ 6,343,900

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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.

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.

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:

	June 30, 2020	June 30, 2019
Accounts receivable from customers	$ 7,005,619	$ 5,426,377
Allowance for uncollectible accounts	(1,045,408)	(473,800)
Accounts receivable, net	$ 5,960,211	$ 4,952,577

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.

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.

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:

	Beginning	Addition	Payments	Ending
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	$ 3,100,000	$ 4,376,610	$ (4,000,000)	$ 3,476,610
Amounts due within one year				(1,976,610)
Amounts due after one year				$ 1,500,000
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	$ 3,476,610	$ 1,746,006	$ (3,476,610)	$ 1,746,006
Amounts due within one year				(395,322)
Amounts due after one year				$ 1,350,684

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.

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.

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.

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
Valley Clean Energy Alliance
Davis, California

We have audited the financial statements of Valley Clean Energy Alliance as of and for the year ended June 30, 2020, and have issued our report thereon dated September 15, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 29, 2018 our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal controls and other matters noted during our audit in a separate letter to you dated September 15, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

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

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

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

Significant Accounting Estimates

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

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

Management's estimate of the accrued revenue is based on actual revenues earned but not yet billed for June 2020. We evaluated the key factors and assumptions used to develop the estimate of accrued revenue and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. We did not identify any uncorrected misstatements as a result of our audit procedures.

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September 15, 2020.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

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

James Marta & Company LLP

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

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

GASB Statement No. 83, Certain Asset Retirement Obligations
Effective for the fiscal year ending June 30, 2021

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

GASB Statement No. 84, Fiduciary Activities
Effective for the fiscal year ending June 30, 2021

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

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

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

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements
Effective for the fiscal year ending June 30, 2021

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately

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

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

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

GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61
Effective for the fiscal year ending June 30, 2021

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

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

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

We do not expect GASB 91 to have any significant impact to the Plan at this time.

GASB Statement No. 92, Omnibus 2020
Effective dates vary

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

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

Certain provisions of GASB 92 may have a financial statement impact to the Plan. The Plan is currently assessing the financial statement impact of GASB 92.

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

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

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

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

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

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

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

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance
Effective immediately

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of the preceding statements have been updated to reflect the impact of the issuance of GASB 95.

Certain provisions of GASB 92, which is affected by the issuance of GASB 95, may have a financial statement impact to the Plan. The Plan is currently assessing the financial statement impact of both statements.

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

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

Adjusting Journal Entries

Adjusting Journal Entries JE # 1			
To Record PY Journal Entry not recorded by client			
26310-0000	RETAINED EARNINGS - UNRESERVED	106,400	
30125-0000	NEM CREDITS - C&I	20,480	
30120-0000	COMMERCIAL & INDUSTRIAL SALES		126,880
Total		**126,880**	**126,880**

Adjusting Journal Entries JE # 2			
PBC - To record missing deposit and revenue from 6/1/2020 RCB deposit			
13120-0000	CASH - LOCKBOX	136,242	
30110-0000	RESIDENTIAL SALES		49,320
30120-0000	COMMERCIAL & INDUSTRIAL SALES		86,521
30130-0000	STREET LIGHTING SALES		401
Total		**136,242**	**136,242**

Adjusting Journal Entries JE # 3			
PBC - To record interest income for ICS Money Market bank rec			
13150-0000	CASH - ICS MM	5,494	
31110-0000	INTEREST REVENUES		5,494
Total		**5,494**	**5,494**

Adjusting Journal Entries JE # 4			
PBC - To record DTE payment against accrued electricity rather than expense			
23040-0000	ACCRUED COST OF ELECTRICITY	290,407	
41510-0000	POWER PURCHASES		290,407
Total		**290,407**	**290,407**

Adjusting Journal Entries JE # 5			
PBC - To reclass overpayment to City of Davis as a receivable			
13710-0000	BILLED REVENUES	37,756	
21210-0000	DTOG - CITY OF DAVIS		37,756
Total		**37,756**	**37,756**

MANAGEMENT REPRESENTATION LETTER

September 15, 2020

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

This representation letter is provided in connection with your audit of the Statement of Net Position and the Statement of Revenues, Expenditures and Changes in Net Position and the statement of cash flows of Valley Clean Energy Alliance as of June 30, 2020 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of Valley Clean Energy Alliance in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 15, 2020:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated June 29, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.

- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have reviewed and approved the adjusting and reclassifying journal entries reflected in the audit statements and Attachment 1.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

VALLEY
CLEAN ENERGY

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Valley Clean Energy Alliance has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Valley Clean Energy Alliance is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
  - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).

VALLEY
CLEAN ENERGY

- Valley Clean Energy Alliance has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Mitch Sears, Interim General Manager

George Vaughn, Director of Finance and Internal Operations

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Independent Auditor's Report

Valley Clean Energy Alliance
Davis, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Clean Energy Alliance as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Valley Clean Energy Alliance's basic financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

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

James Marta & Company LLP

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