

VALLEY CLEAN ENERGY ALLIANCE**Staff Report – Item 13**

TO: Board of Directors

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

SUBJECT: Receive and approve audited December 31, 2022 financial statements presented by James Marta & Company

DATE: April 13, 2023

RECOMMENDATIONS

1. Accept and approve the Draft Audited Financial Statements for the period of January 1, 2022, to December 31, 2022;
2. Accept the Draft Communication with Governance Letter; and
3. Accept the Draft Internal Control Letter

BACKGROUND & DISCUSSION

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

The Financial Statements include the following reports:

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

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

- Governance letter
- Internal Control Letter

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

AUDITOR'S FINDINGS

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

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

Attachments:

1. Audited Financial Statements for the period of January, 2022 to December 31, 2022
2. Communication with Governance Letter
3. Internal Control Letter



VALLEY CLEAN ENERGY

**VALLEY CLEAN ENERGY ALLIANCE
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2022 AND
SIX MONTHS ENDED DECEMBER 31, 2021**

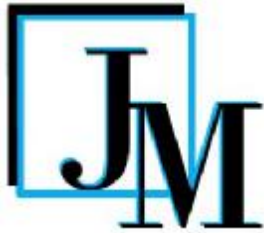
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VALLEY CLEAN ENERGY ALLIANCE

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Clean Energy Alliance
Davis, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valley Clean Energy Alliance (VCE), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the periods then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Valley Clean Energy Alliance as of the year ended December 31, 2022 and the six months ended December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VCE's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE** on our consideration of the VCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VCE's internal control over financial reporting and compliance.

DRAFT

James Marta & Company LLP

Certified Public Accountants

Sacramento, California

DATE

MANAGEMENT DISCUSSION AND ANALYSIS

VALLEY CLEAN ENERGY ALLIANCE

MANAGEMENTS DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND SIX MONTHS ENDED JUNE 30, 2021

The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the periods ended December 31, 2022 and December 31, 2021. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

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

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

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

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

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

Financial Reporting

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

Contents of this Report

This report is divided into the following sections:

- Management's Discussion and Analysis, which provides an overview of operations.
- The Basic Financial Statements, which offer information on VCE's financial results.

VALLEY CLEAN ENERGY ALLIANCE

MANAGEMENTS DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND SIX MONTHS ENDED JUNE 30, 2021

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	December 31, 2022	December 31, 2021	% change from 2021 to 2022	June 30, 2021	% change from June 30, 2021 to December 31, 2021
Current assets	\$ 20,172,977	\$ 14,853,514	36%	\$ 21,175,913	-30%
Noncurrent assets	3,961,586	3,561,158	11%	3,099,608	15%
Total Assets	24,134,563	18,414,672	31%	24,275,521	-24%
Current liabilities	8,542,745	8,728,436	-2%	11,531,607	-24%
Noncurrent liabilities	181,284	-	0%	-	0%
Total Liabilities	8,724,029	8,728,436	0%	11,531,607	-24%
Net Position					
Designated – Local Programs	224,500	224,500	0%	224,500	0%
Restricted	3,809,273	3,561,158	7%	3,099,608	15%
Unrestricted	11,376,761	5,900,578	93%	9,419,806	-37%
Total Net Position	\$ 15,410,534	\$ 9,686,236	59%	\$ 12,743,914	-24%

Assets

Current assets ended December 31, 2022, at approximately 20.2 million, an increase of approximately \$5.3 million compared to December 31, 2021. The primary contributor to the overall increase in current assets was an increase in accounts receivable and cash resulting from rate increases and the rebuilding of cash reserves. The VCE Board adopted a cost-based rate policy and automatic rate adjustment policy to continue to preserve and build cash reserves in preparation for obtaining our initial investment grade credit rating.

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

VALLEY CLEAN ENERGY ALLIANCE

MANAGEMENTS DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND SIX MONTHS ENDED JUNE 30, 2021

Overall, non-current assets increased approximately \$400 K in December 31, 2022 due to an increase of in restricted cash for power purchase reserves.

Liabilities

Current liabilities at December 31, 2022, were comprised primarily of the accrued cost of electricity, accounts payable, other accrued liabilities, security deposits, and the current portion of long-term debt. Current liabilities decreased by \$ 187K for the period ended December 31, 2022 due to extending our term loan agreement with River City Bank with a maturity in 2024.

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

Non-current liabilities increased \$181K in the year ended December 31, 2022 related to the term loan described above in current liabilities.

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

	December 31, 2022 (Twelve Months)	December 31, 2021 (Six Months)	% change from 2021 to 2022	June 30, 2021	% change from June 30, 2021 to December 31, 2021
Operating revenues	\$ 86,661,734	\$ 29,357,623	195%	\$ 54,656,880	-46%
Interest income	46,501	8,731	433%	50,285	-83%
Total Income	86,708,235	29,366,354	195%	54,707,165	-46%
Operating Expenses	80,897,469	32,401,487	150%	58,494,704	-45%
Interest and related expenses	86,468	22,545	284%	56,232	-60%
Total Expenses	80,983,937	32,424,032	150%	58,550,936	-45%
Change in Net Position	\$ 5,724,298	\$ (3,057,678)	287%	\$ (3,843,771)	-20%

Operating Revenues

In the period ended December 31, 2021, VCE's operating revenues were approximately \$4.4M below budgeted amount. The 2022 Budget incorporated revenues associated with extreme temperatures and drought conditions that did not fully materialize in the actuals for 2022. VCE's operating revenue is from the sale of electricity to its customer base.

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

VALLEY CLEAN ENERGY ALLIANCE

MANAGEMENTS DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND SIX MONTHS ENDED JUNE 30, 2021

Operating Expenses

In the period ended December 31, 2022, VCE's operating expenses were 11% over the budgeted operations. This increase was primarily due to a \$7.4 million increase in the cost of electricity, driven by the increased energy power costs **resulting from** warmer weather than forecast during the winter months, heat storms in June and September, and natural gas prices driving short-term power market increases. VCE procures energy from various sources and focuses on purchasing at competitive prices and maintaining a balanced renewable power portfolio. The remaining operating expenses consist of contract services, staff compensation, and other general administrative expenses.

In the period ended December 31, 2021, VCE's operating expenses were 8% over the budgeted operations. This increase was primarily due to a \$2.7 million increase in the cost of electricity, driven by the increased load noted above.

ECONOMIC OUTLOOK

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

VCE's Board adopted a rate policy in November 2021 to set customer rates to recover operating costs and build reserve funds and an automatic rate adjustment policy to address environmental and regulatory changes within a budget year. VCE has also adopted a base green product to maintain its competitiveness with PG&E by offering a least-cost option to its customers. VCE has recovered from COVID, began rebuilding cash reserves, and maintained its credit lines for liquidity in 2023. Longer-term, VCE continues to transition additional long-term fixed-price renewable PPA's that are scheduled to come online in 2023 and 2024. VCE customer rates, including PCIA costs, have reduced and are currently forecasted to stabilize for 2024.

REQUESTS FOR INFORMATION

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

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets		
Unrestricted Cash	\$ 3,850,610	\$ 3,671,384
Accounts receivable, net of allowance	11,085,087	7,406,469
Accrued revenue	3,430,397	1,768,193
Prepaid expenses	-	9,192
Other current assets and deposits	1,806,883	1,998,276
Total Current Assets	20,172,977	14,853,514
Restricted assets:		
Cash in - debt service reserve fund	1,100,000	1,100,000
Cash in - power purchase reserve fund	2,709,273	2,461,158
Total Restricted assets	3,809,273	3,561,158
Noncurrent Assets		
Other noncurrent assets and deposits	152,313	-
Total Noncurrent Assets	152,313	-
TOTAL ASSETS	\$ 24,134,563	\$ 18,414,672
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 399,529	\$ 445,042
Accrued cost of electricity	4,657,891	4,580,941
Accrued payroll	116,285	63,909
Interest payable	2,248	2,786
Due to member agencies	25,160	117,945
Other accrued liabilities	2,810,664	2,364,787
Line of credit	530,968	1,153,026
Total Current Liabilities	8,542,745	8,728,436
Noncurrent Liabilities		
Line of credit	181,284	-
Total Noncurrent Liabilities	181,284	-
TOTAL LIABILITIES	8,724,029	8,728,436
NET POSITION		
Net position		
Designated - local program reserves	224,500	224,500
Restricted	3,809,273	3,561,158
Unrestricted	11,376,761	5,900,578
TOTAL NET POSITION	\$ 15,410,534	\$ 9,686,236

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 YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021**

	2022 (Twelve Months)	2021 (Six Months)
OPERATING REVENUE		
Electricity sales, net	\$ 85,322,760	\$ 29,357,623
Other revenue	1,338,974	-
TOTAL OPERATING REVENUES	86,661,734	29,357,623
OPERATING EXPENSES		
Cost of electricity	75,130,283	30,138,826
Contractors	2,556,894	1,383,829
Staff compensation	1,282,519	537,689
Program expenses	1,168,019	-
General and administrative	759,754	341,143
TOTAL OPERATING EXPENSES	80,897,469	32,401,487
TOTAL OPERATING INCOME (LOSS)	5,764,265	(3,043,864)
NONOPERATING REVENUES (EXPENSES)		
Interest income	46,501	8,731
Interest and related expenses	(86,468)	(22,545)
TOTAL NONOPERATING REVENUES (EXPENSES)	(39,967)	(13,814)
CHANGE IN NET POSITION	5,724,298	(3,057,678)
Net position at beginning of period	9,686,236	12,743,914
Net position at end of period	\$ 15,410,534	\$ 9,686,236

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021**

	2022	2021
	(Twelve Months)	(Six Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 79,912,041	\$ 31,149,236
Payments for security deposits with energy suppliers	(152,313)	-
Payments to purchase electricity	(74,983,435)	(32,255,458)
Payments for contract services, program expenses, general, and administration	(4,167,896)	(2,276,073)
Payments for staff compensation	(1,230,143)	(517,485)
Other cash payments	1,530,367	(11,393)
Net Cash Provided (Used) by Operating Activities	908,621	(3,911,173)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments of debt	(440,774)	(197,661)
Interest and related expense	(87,007)	(23,019)
Net Cash Provided (Used) by Non-Capital Financing Activities	(527,781)	(220,680)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	46,501	8,731
Net Cash Provided (Used) by Investing Activities	46,501	8,731
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	427,341	(4,123,122)
Cash and cash equivalents at beginning of period	7,232,542	11,355,664
Cash and cash equivalents at ending of period	\$ 7,659,883	\$ 7,232,542
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 5,764,265	\$ (3,043,864)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in net accounts receivable	(3,678,618)	576,071
(Increase) decrease in net accrued revenue	(1,662,204)	1,167,098
(Increase) decrease in prepaid expense	9,192	5,951
(Increase) decrease in other assets and deposits	39,080	(11,393)
Increase (decrease) in accounts payable	(45,513)	45,276
Increase (decrease) in accrued payroll	52,376	20,204
Increase (decrease) in due to member agencies	(92,785)	(5,461)
Increase (decrease) in accrued cost of electricity	146,848	(2,116,632)
Increase (decrease) in other accrued liabilities	445,877	(596,867)
Increase (decrease) in user taxes and energy surcharges	(69,897)	48,444
Net Cash Provided by Operating Activities	\$ 908,621	\$ (3,911,173)

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

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

CHANGE IN FISCAL YEAR END

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

BASIS OF ACCOUNTING

VCE’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

VCE’s operations are accounted for as a governmental enterprise fund, and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – net investment in capital assets, restricted, and unrestricted.

CASH AND CASH EQUIVALENTS

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

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS

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

OPERATING AND NON-OPERATING REVENUE

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

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

In 2017, VCE entered into a five (5) year contract with the Sacramento Municipal Utility District (SMUD) to provide technical and financial analysis; data management and call center services; wholesale energy services; and operational staff services. As part of the contract, SMUD provides power portfolio purchase services to and on behalf of VCE. Electricity costs include the cost of energy and ancillary services arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from VCE's participation in the California Independent System Operator's centralized market. The cost of electricity and ancillary services are recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2022, \$5,131,217 was accrued as payable to SMUD, comprised of \$5,131,217 in accrued electricity costs and \$0 in accrued contractual services. As of December 31, 2021, \$4,356,854 was accrued as payable to SMUD, comprised of \$4,028,559 in accrued electricity costs and \$328,295 in accrued contractual services

RENEWABLE ENERGY CREDITS

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

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STAFFING COSTS

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

INCOME TAXES

VCE is a joint powers authority under the provision of the California Government Code, and is not subject to federal or state income or franchise taxes.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATION

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

NET POSITION

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

The following are the components of VCE's Net Position at December 31, 2022 and 2021.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Designated - local program reserves	\$ 224,500	\$ 224,500
Restricted	3,809,273	3,561,158
Unrestricted	11,376,761	5,900,578
Totals	<u>\$ 15,410,534</u>	<u>\$ 9,686,236</u>

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021

2. CASH AND CASH EQUIVALENTS

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

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable were as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Accounts receivable from customers	\$ 11,550,071	\$ 9,342,777
Allowance for uncollectible accounts	(464,984)	(1,936,308)
Accounts receivable, net	<u>\$ 11,085,087</u>	<u>\$ 7,406,469</u>

The majority of account collections occur within the first few months following customer invoicing. VCE estimates that a portion of the billed accounts will not be collected. VCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenues in the Statement of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for the year ended December 31, 2022 and six months ended 2021 were \$846,600 and \$353,400, respectively. Due to the COVID-19 pandemic, VCE could not to pursue collections due to state restrictions and expects to commence collections of remaining balances in 2023.

Accrued revenue presented in the Statements of Net Position represents revenue from customer electricity usage that has not been billed at the end of the period. Accrued revenue recognized for the period ended December 31, 2022 and 2021 was \$3,430,397 and \$1,768,193, respectively.

4. DEBT

LINE OF CREDIT AND TERM LOAN

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

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED DECEMBER 31, 2021

LINE OF CREDIT AND TERM LOAN (CONTINUED)

At the October 10, 2019 Board meeting the Board authorized VCE to convert an existing \$1,976,610 Credit Agreement balance to an amortizing 5-year term loan. VCE converted the Agreement to the loan and has paid the loan down to \$712,252 and \$1,153,026 as of December 31, 2022 and 2021, respectively.

In September 2020, VCE had agreed in principle to one-year renewals to September 1, 2021, for both the Agreement and the term loan. The Agreement limit was reduced from \$11,000,000 to a line of credit which allows up to \$5,000,000 for cash advances and up to \$2,000,000 for letters of credit, with the total of both to not exceed \$7,000,000. The interest rate on the line of credit was 2.00% at the close of business on December 31, 2022.

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

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

Line of Credit

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

Term Loan

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

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

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

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021**

LINE OF CREDIT AND TERM LOAN (CONTINUED)

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

	<u>Beginning</u>	<u>Addition</u>	<u>Payments</u>	<u>Ending</u>
Six Months Ended December 31, 2021				
River City Bank - Loan	1,350,687	-	(197,661)	1,153,026
Total	<u>\$ 1,350,687</u>	<u>\$ -</u>	<u>\$ (197,661)</u>	<u>\$ 1,153,026</u>
Amounts due within one year				<u>(1,153,026)</u>
Amounts due after one year				<u>\$ -</u>
Year Ended December 31, 2022				
River City Bank - Loan	1,153,026	-	(440,774)	712,252
Total	<u>\$ 1,153,026</u>	<u>\$ -</u>	<u>\$ (440,774)</u>	<u>\$ 712,252</u>
Amounts due within one year				<u>(530,968)</u>
Amounts due after one year				<u>\$ 181,284</u>

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

5. DEFINED CONTRIBUTION RETIREMENT PLAN

VCE provides retirement benefits to eligible employees through a 401(a) discretionary defined contribution plan and 457(b) deferred compensation plan (Plans). The Plans are administered by International City Management Association Retirement Corporation (ICMA-RC). At December 31, 2022, VCE had 4 plan participants. VCE contributes 7% of covered payroll and up to an additional 3% of covered payroll as a match to employee tax deferred contributions (into the 457(b) deferred compensation plan) into the 401(a) discretionary defined contribution plan.

For the year ended December 31, 2022 and six months ended December 31, 2021, VCE contributed \$64,716 and \$30,072, respectively. The Plans' provisions and contribution requirements as they apply to VCE are established and may be amended by the Board of Directors.

6. OPERATING LEASE

In 2018, VCE entered into a nine-month lease for its office space with the City of Davis. The most recent lease agreement renewal with the City covers the twelve months ending January 2023. Rental expense under this lease was \$19,200 and \$7,951 for the year ending December 31, 2022 and six months ending December 31, 2021, respectively. The total for future minimum lease payments are shown below:

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021**

6. OPERATING LEASE (CONTINUED)

<u>Year</u>	<u>Payments</u>
2023	\$ 16,560
2024	17,057
2025	17,569
2026	18,096
2027	18,638

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

7. RELATED PARTY TRANSACTIONS

VCE entered into a cooperative agreement with each respective member agency to provide management, legal, accounting and administrative services. The services billed from the Member Agencies to VCE outstanding for the year ending December 31, 2022 and six months ending December 31, 2021 totaled \$25,160 and \$117,945, respectively. The cooperative agreements provide for interest to be accrued on any outstanding balances at an average yield.

8. RISK MANAGEMENT

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

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

VCE is a member of the Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA) which provides coverage for general and auto liability and workers' compensation. Once VCE's deductible is met, YCPARMIA becomes responsible for payment of all claims up to the limit. In addition, the California Joint Powers Risk Management Authority (CJPRMA) provide coverage for amounts in excess of YCPARMIA's limits. YCPARMIA provides workers' compensation insurance coverage up to statutory limits, above VCE's self-insurance limit of \$1,000 per occurrence, and general and auto liability coverage of \$40,000,000, above VCE's self-insurance

VALLEY CLEAN ENERGY ALLIANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022 AND THE SIX MONTHS ENDED
DECEMBER 31, 2021

8. RISK MANAGEMENT (CONTINUED)

limit of \$1,000 per occurrence. For the year ended December 31, 2022 and six months ended December 31, 2021, VCE contributed \$14,668 and \$9,206 for coverage, respectively. Audited financial statements are available from YCPARMIA their website www.ycparmia.org. Condensed information for YCPARMIA for the most recent available year end is as follows:

	YCPARMIA June 30, 2021
Total Assets	\$ 25,629,982
Deferred Outflows of Resources	\$ 198,662
Total Liabilities	\$ 21,797,446
Deferred Inflows of Resources	\$ 430,929
Net Position	\$ 3,600,269
Total Revenues	\$ 14,444,472
Total Expenses	\$ 14,327,899
Change in Net Position	\$ 116,573

The June 30, 2021 were the most recent audited financial statements available at the time of the preparation of this report.

9. COMMITMENTS AND CONTINGENCIES

On October 25, 2017, VCE entered into an agreement with SMUD to provide on-going professional services, including, but not limited to: wholesale energy services, customer and data services, billing administration and reporting. As of December 31, 2022, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed estimated to be \$1.5 million.

10. SUBSEQUENT EVENTS

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



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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 December 31, 2022 and the six months ended December 31, 2021, and have issued our report thereon dated **DATE**. 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 October 4, 2022 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 **DATE**.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing 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.

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. We evaluated the key factors and assumptions used to develop the estimate of doubtful accounts and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the accrued revenue is based on actual revenues earned but not yet billed for December 2022. 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements identified 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. We have provided a listing of the misstatements identified by us as a result of our audit procedures and corrected by management which were material, either individually or in the aggregate, to the financial statements taken as a whole. There were no corrected misstatements identified as a result of our audit procedures.

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 **DATE**.

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.

James Marta & Company LLP
Certified Public Accountants

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.

DRAFT

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

DATE

As of June 30, 2022

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. 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.

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*

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.

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.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32

Effective dates vary

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit

(OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.



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

Independent Auditor's Report

Board of Directors
Valley Clean Energy Alliance

We have audited, in accordance with the 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 December 31, 2022 and the six months ended December 31, 2021, 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 **DATE**.

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) as a basis for designing 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 the 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 should not be used for any other purpose.

DRAFT

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

DATE

Status of Prior Year Findings

2021-01 Closing Entries

Observation

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

Recommendation

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

Management Response

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

Status: Not an issue during the current year audit

ATTACHMENT II: ADJUSTING JOURNAL ENTRIES

Adjusting Journal Entries

Adjusting Journal Entries JE # 1			
Auditor entry to agree Equity to PY audit for AJEs not posted by client and for rounding variance.			
13710-0000	BILLED REVENUES	178,329	
22210-0000	ACCOUNTS PAYABLE	84,195	
45370-0000	BANKING FEES	1	
26310-0000	RETAINED EARNINGS - UNRESERVED		84,195
26310-0000	RETAINED EARNINGS - UNRESERVED		178,329
26310-0000	RETAINED EARNINGS - UNRESERVED		1
Total		262,525	262,525
Adjusting Journal Entries JE # 2			
PBC entry to correct Prepaids and Accrued Cost of Electricity balances at year-end.			
23040-0000	ACCRUED COST OF ELECTRICITY	870,000	
41510-0000	POWER PURCHASES	6,038	
14520-0000	RESERVE ADEQUACY		876,038
Total		876,038	876,038
Adjusting Journal Entries JE # 3			
Auditor entry to agree Billed Revenues to AR Aging.			
13710-0000	BILLED REVENUES	260,934	
30120-0000	COMMERCIAL & INDUSTRIAL SALES		260,934
Total		260,934	260,934
Adjusting Journal Entries JE # 4			
Auditor entry to adjust NEM receivables and payables to Aging report.			
30110-0000	RESIDENTIAL SALES	104,658	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	156,988	
13725-0000	NEM RECEIVABLE		162,609
23020-0000	NEM CREDITS		99,037
Total		261,646	261,646
Adjusting Journal Entries JE # 7			
PBC entry to correct Lockbox and ICS cash accouts.			
13120-0000	CASH - LOCKBOX	300,000	
30110-0000	RESIDENTIAL SALES	191,176	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	127,450	
13120-0000	CASH - LOCKBOX		318,626
13150-0000	CASH - ICS MM		300,000
Total		618,626	618,626