

# VALLEY CLEAN ENERGY ALLIANCE

## Staff Report – Item 15

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**TO:** Valley Clean Energy Alliance Board of Directors

**FROM:** Lisa Limcaco, Finance and Operations Director, VCEA  
Chad Rinde, Asst. Chief Financial Officer, Yolo County  
Mitch Sears, Interim General Manager, VCEA

**SUBJECT:** Receive and approve audited June 30, 2018 financial statements presented by James Marta & Company

**DATE:** October 18, 2018

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### RECOMMENDATIONS:

- Accept and approve the Audited Financial Statements for the period of January 1, 2017 (Inception) to June 30, 2018.
- Accept the Communication with Governance Letter
- Accept the Internal Control Letter

### BACKGROUND & DISCUSSION:

The attached financial statements were audited by 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

### Attachments:

- 1) Audited Financial Statements for the period of January 1, 2017 (Inception) to June 30, 2018
- 2) Communication with Governance Letter
- 3) Internal Control Letter



# **VALLEY CLEAN ENERGY**

**VALLEY CLEAN ENERGY ALLIANCE  
FINANCIAL STATEMENTS**

FOR THE PERIOD OF JANUARY 1, 2017 (INCEPTION) TO JUNE 30, 2018

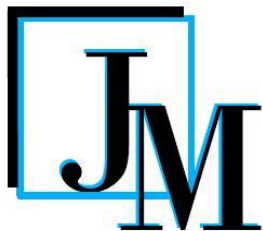
**VALLEY CLEAN ENERGY ALLIANCE**

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

*Accounting, Auditing, Consulting, and Tax*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Valley Clean Energy Alliance  
Davis, California

**Report on the Financial Statements**

We have audited the accompanying Statement of Net Position of Valley Clean Energy Alliance (BASIC) as of June 30, 2018, and the related Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows for the 18 months then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valley Clean Energy Alliance as of June 30, 2018, 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.

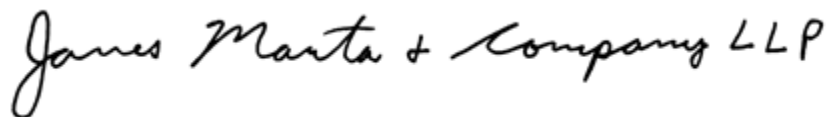
## **Other Matters**

### *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 October 11, 2018 on our consideration of 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 VCE's internal control over financial reporting and compliance.



James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 11, 2018

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the period January 1, 2017 (inception) to June 30, 2018. 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 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 2019, VCE will phase in approximately 7,000 Net Energy Metering (NEM) customers through 2019.

**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.

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

VCE launched June 1, 2018 and the financial statements reflect the first month of power operations and pre-launch expenditures since inception.

The following table is a summary of VCE's assets, liabilities, and net position as of June 30, 2018:

Current assets	\$ 4,232,676
Noncurrent assets	<u>1,700,000</u>
Total assets	<u>5,932,676</u>
Current liabilities	4,256,528
Noncurrent liabilities	<u>3,100,000</u>
Total liabilities	<u>7,356,528</u>
Net position	
Unrestricted (deficit)	<u>(1,423,852)</u>
Total net position	<u>\$(1,423,852)</u>

**Assets**

Current assets comprised primarily cash and accounts receivable net of allowance. Accounts receivable, net includes billed and unbilled revenue totaling \$2,830,161. Unbilled revenue represents revenue earned but not yet billed to the customers. Noncurrent assets primarily consist of restricted cash used for debt collateral and various deposits for regulatory and other operating purposes.

**Liabilities**

Current liabilities comprised primarily of accrued cost of electricity, due to member agencies and other accrued liabilities. Accrued electricity costs of \$2,673,938 represent electricity delivered to VCE but not yet paid to the supplier. Due to member agencies totaling \$534,639 represents various management, legal, accounting and administrative services provided by the respective member agencies to VCE since inception. Other accrued liabilities of \$837,294 represents services provided by Sacramento Municipal Utility District under a five-year contract with VCE. SMUD provides technical and financial analysis; data management and call center services; wholesales energy services; and operating staff services.

As part of the formation of VCE and to fund pre-launch expenses, the agency borrowed \$500,000 from each of the member agencies. In June 2018, VCE obtained an \$11 million revolving line of credit from River City Bank for working capital to fund power purchases during seasonal differences in cash flow. See the notes to the financial statements for details on these loans.

**VALLEY CLEAN ENERGY ALLIANCE**  
**MANAGEMENTS DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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The following table is a summary of VCE's results of operations for the period January 1, 2017 (inception) to June 30, 2018:

Operating revenues	\$ 2,820,188
Interest income	<u>16,403</u>
Total income	<u>2,836,591</u>
Operating expenses	4,198,887
Interest and related expenses	<u>61,556</u>
Total expenses	<u>4,260,443</u>
Change in net position	<u>\$(1,423,852)</u>

### **Operating Revenues**

As VCE launched in June 2018, revenues for June does not constitute an entire full month of revenues as customers rolled onto VCE as their billing cycle ended with PG&E in June. 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**

The operating expenses consists mainly of energy purchases needed to provide for retail customer use. VCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. The remaining operating expenses consists of contract services related to the startup and implementation of VCE.

### **ECONOMIC OUTLOOK**

As a newly launched Community Choice Aggregation (CCA), VCE will be focusing on limiting customer opt outs by keeping rates competitive, increasing brand recognition and providing a superior customer experience. VCE will start 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.

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



VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF NET POSITION

JUNE 30, 2018

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**ASSETS**

Current assets	
Cash with fiscal agent	\$ 963,388
Accounts receivable, net of allowance	2,830,161
Inventory - Renewable Energy Credits	436,587
Other current assets and deposits	2,540
Total Current Assets	<u>4,232,676</u>
Noncurrent Assets	
Restricted cash	1,100,000
Other noncurrent assets and deposits	600,000
Total Noncurrent Assets	<u>1,700,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,932,676</u></u>

**LIABILITIES**

Current Liabilities	
Accounts payable	\$ 137,475
Accrued payroll	1,624
Interest payable	61,556
Due to member agencies	534,639
Accrued cost of electricity	2,673,938
Other accrued liabilities	837,294
User taxes and energy surcharges	10,002
Total Current Liabilities	<u>4,256,528</u>
Noncurrent Liabilities	
Line of credit	1,600,000
Loans from member agencies	1,500,000
Total Noncurrent Liabilities	<u>3,100,000</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 7,356,528</u></u>

**NET POSITION**

Net position	
Unrestricted	\$ (1,423,852)
<b>TOTAL NET POSITION</b>	<u><u>\$ (1,423,852)</u></u>

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

**VALLEY CLEAN ENERGY ALLIANCE**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**FOR THE EIGHTEEN MONTH PERIOD ENDING JUNE 30, 2018**

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<b>OPERATING REVENUE</b>	
Electricity sales, net	\$ 2,820,188
<b>TOTAL OPERATING REVENUES</b>	<u>2,820,188</u>
<b>OPERATING EXPENSES</b>	
Cost of electricity	2,237,352
Contract services	
Contractors	1,313,526
Member agencies	534,639
Staff compensation	17,922
General and administrative	41,939
Other expenses	53,509
<b>TOTAL OPERATING EXPENSES</b>	<u>4,198,887</u>
<b>TOTAL OPERATING INCOME (LOSS)</b>	<u>(1,378,699)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	16,403
Interest and related expenses	(61,556)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(45,153)</u>
<b>CHANGE IN NET POSITION</b>	(1,423,852)
Net position at beginning of period	-
Net position at end of period	<u>\$ (1,423,852)</u>

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

VALLEY CLEAN ENERGY ALLIANCE

STATEMENT OF CASH FLOWS

FOR THE EIGHTEEN MONTH PERIOD ENDING JUNE 30, 2018

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from electricity sales	\$ 29
Payments for security deposits with energy suppliers	(600,000)
Payments to purchase electricity	(1)
Payments for contract services, general, and administration	(434,205)
Payments for staff compensation	(16,298)
Other cash payments	(2,540)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(1,053,015)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Loans from member agencies	1,500,000
Draw of line of credit	1,600,000
Transfer to restricted cash	(1,100,000)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<u>2,000,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	16,403
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>16,403</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	963,388
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at ending of period	<u>\$ 963,388</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (1,378,699)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in net accounts receivable	(2,830,161)
(Increase) decrease in inventory - renewable energy credits	(436,587)
(Increase) decrease in other assets and deposits	(602,540)
Increase (decrease) in accounts payable	137,475
Increase (decrease) in accrued payroll	1,624
Increase (decrease) in due to member agencies	534,639
Increase (decrease) in accrued cost of electricity	2,673,938
Increase (decrease) in other accrued liabilities	837,294
Increase (decrease) in user taxes and energy surcharges	10,002
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (1,053,015)</u>

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

**VALLEY CLEAN ENERGY ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Valley Clean Energy Alliance (VCE) is a California joint powers authority created on January 1, 2017 and its voting members consist of the following local governments: the County of Yolo and the cities of Davis and Woodland (collectively, the “Member Agencies”). VCE is governed by a six-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 will be 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. Amounts restricted for debt service are not considered cash and cash equivalents. These restricted balances are presented separately in the Statement of Net Position.

# VALLEY CLEAN ENERGY ALLIANCE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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 June 30, 2018, \$837,294 was accrued as payable to SMUD.

### 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, 2018, \$436,587 of these certificates were included in inventory as they had yet to be utilized at year end.

### STAFFING COSTS

VCE is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. VCE provides compensated time off, and the related liability is recorded in these financial statements

### INCOME TAXES

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

**VALLEY CLEAN ENERGY ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**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.

**2. CASH AND CASH EQUIVALENTS**

VCE maintains its cash in a non-interest-bearing demand and term 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. DEPOSITS**

Deposits outstanding as of June 30, 2018 consisted of the following:

Deposit	Less Than 12 Months	More Than 12 Months
Rental deposit	\$ 2,540	\$ -
CAISO deposit	-	500,000
CPUC bond deposit	-	100,000
Total deposits	\$ 2,540	\$ 600,000

**4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows:

Unbilled receivables	\$2,852,990
Accounts receivable from customers	5,671
Allowance for uncollectible accounts	<u>( 28,500)</u>
Accounts receivable, net	<u>\$2,830,161</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. Below is a description of the different receivable types for VCE:

- Unbilled receivables are revenue earned but not yet to be billed to customers
- Accounts receivable are for revenues billed but not yet received from customer

**VALLEY CLEAN ENERGY ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**5. DEBT**

**LOANS PAYABLE**

As part of the formation of VCE, the agency borrowed \$500,000 from Yolo County, the City of Davis and the City of Woodland (the Member Agencies). The member agency loans are subordinate to the RCB line of credit. Each loan is governed by a cooperative agreement between the respective member agency and VCE. As of June 30, 2018, the outstanding loans totaled \$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 average yield is the Local Agency Investment Fund (LAIF) rate plus 1%. The LAIF rate at June 30, 2018 was 1.90%. The accrued interest on the Member Agencies loans as of June 30, 2018 totaled \$43,575.

**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 expires on May 15, 2019 with an option to extend the line for another six months. 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, 2018, \$1.6 million of the line of credit had been drawn, leaving \$9.4 million still available.

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.

**6. OPERATING LEASE**

VCE entered into a nine-month lease for its office space with the City of Davis expiring January 2019. Rental expense under this lease was \$3,220 for the period January 1, 2017 to June 30, 2018. The total for future minimum lease payments is \$7,607 for fiscal year ended June 30, 2019.

**VALLEY CLEAN ENERGY ALLIANCE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**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 for the period from January 1, 2017 to June 30, 2018 totaled \$534,639. The repayments to the member agencies are deferred by the cooperative agreements until after the VCEA is revenue positive. The cooperative agreements provide for interest to be accrued on any outstanding balances at an average yield. The accrued interest on the member agencies outstanding balance at June 30, 2018 totaled \$9,115.

**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 from January 1, 2017 to June 30, 2018, VCE contributed \$1,667 for coverage. Audited financial statements are available from YCPARMIA their website [www.ycparmia.org](http://www.ycparmia.org).



**VALLEY CLEAN ENERGY ALLIANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**9. COMMITMENTS AND CONTINGENCIES**

On October 25, 2017, VCE entered into an agreement with SMUD to provide professional services, including, but not limited to: providing an implementation plan, customer information system, billing administration and reporting. As of June 30, 2018, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed of \$6.6 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, 2018 through October 11, 2018, 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.



## **James Marta & Company LLP**

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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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 18 months ended June 30, 2018, and have issued our report thereon dated October 11, 2018. 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 October 11, 2018.

### **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.

## **Qualitative Aspects of the Entity's Significant Accounting Practices<sup>1</sup>**

### *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. They have adopted the initial selection of accounting policies on January 1, 2017 and no changes in significant accounting policies or their application during 2018. 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.

### *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 estimate of accounts receivable is based on actual revenues earned but not yet billed for June 2018. We evaluated the key factors and assumptions used to develop the estimate of accounts receivable 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.

#### **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 October 11, 2018.

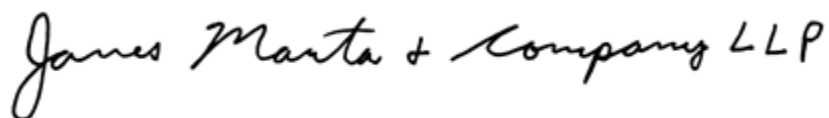
#### **Management's Consultations with Other Accountants**

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.<sup>2</sup>



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James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 11, 2018



**Board of Directors**

October 11, 2018

Angel Barajas  
*Woodland City Council*

Dan Carson  
*Davis City Council*

Duane Chamberlain  
*Yolo County Board of Supervisors*

Lucas Frerichs  
VCE Chair  
*Davis City Council*

Don Saylor  
*Yolo County Board of Supervisors*

Tom Stallard  
VCE Vice Chair  
*Woodland City Council*

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, 2018 and for the eighteen months 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 October 11, 2018

**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.



## VALLEY CLEAN ENERGY

- 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, non-spendable 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.





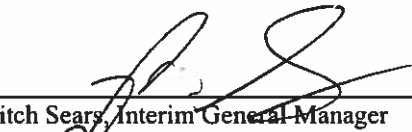
## VALLEY CLEAN ENERGY

- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 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

  
\_\_\_\_\_  
Lisa Limcaco, Director of Finance and Internal Operations





# VALLEY CLEAN ENERGY

## Adjusting Journal Entries

### Adjusting Journal Entries JE # 2

PBC AJE to adjust accrual balances at year end

14400-0000	INVENTORY - RENEWABLE ENERGY C	75,379	
23040-0000	ACCRUED COST OF ELECTRICITY	258,258	
14400-0000	INVENTORY - RENEWABLE ENERGY C		258,258
41510-0000	COST OF ELECTRICITY		75,379
<b>Total</b>		<b>333,637</b>	<b>333,637</b>

### Adjusting Journal Entries JE # 3

PBC AJE to record an Allowance for uncollectable accounts for the month.

44200-0000	Uncollectable Accounts	28,500	
13800-0000	Allowance for Uncollectable Accounts		28,500
<b>Total</b>		<b>28,500</b>	<b>28,500</b>

### Adjusting Journal Entries JE # 4

PBC AJE to record Cal CCA membership dues for FY 17/18

45230-0000	CalCCA Dues	35,000	
22210-0000	ACCOUNTS PAYABLE		35,000
<b>Total</b>		<b>35,000</b>	<b>35,000</b>

### Adjusting Journal Entries JE # 5

PBC AJE to reverse two accrual of issuance fees

22210-0000	ACCOUNTS PAYABLE	30,200	
46310-0000	OTHER OPERATING EXPENSES		30,200
<b>Total</b>		<b>30,200</b>	<b>30,200</b>

### Adjusting Journal Entries JE # 6

PBC AJE to record Member Interest

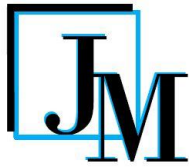
48120-0000	INTEREST ON MEMBER LOANS	9,721	
48120-0000	INTEREST ON MEMBER LOANS	16,122	
48120-0000	INTEREST ON MEMBER LOANS	11,330	
22620-0000	INT PAY - CITY OF DAVIS		16,122
22630-0000	INT PAY - YOLO COUNTY		9,721
22640-0000	INT PAY - WOODLAND		11,330
<b>Total</b>		<b>37,173</b>	<b>37,173</b>

## Reclassifying Journal Entries

### Reclassifying Journal Entries JE # 1

PBC To reclass interest earnings miscoded as equity

26310-0000	RETAINED EARNINGS - UNRESERVED	2,936	
31110-0000	INTEREST REVENUES		2,936
<b>Total</b>		<b>2,936</b>	<b>2,936</b>



## James Marta & Company LLP

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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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*

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 eighteen month period ended June 30, 2018, 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 October 11, 2018.

### *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.

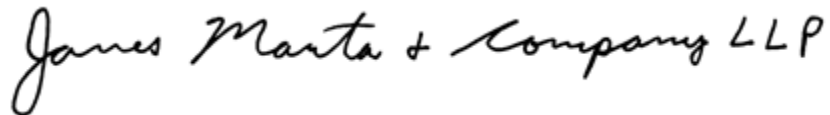
***James Marta & Company LLP***  
***Certified Public Accountants***

***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.

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

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
October 11, 2018