

**VALLEY CLEAN ENERGY ALLIANCE****Staff Report – Item 8**

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**TO:** Board of Directors

**FROM:** Edward Burnham, Finance and Operations Director

**SUBJECT:** Receive and approve audited December 31, 2023 financial statements.

**DATE:** June 13, 2024

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**RECOMMENDATIONS**

1. Accept and approve the Audited Financial Statements for the period of January 1, 2023, to December 31, 2023;
2. Accept the Communication with Governance Letter; and
3. Accept the Internal Control Letter

**BACKGROUND & DISCUSSION**

At the VCE board meeting on April 11, 2024, VCE's independent auditor, James Marta & Company, presented the draft audited financial statements. James Marta and Company have finalized the audit and issued the attached financial statements as presented in April with no changes.

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 Professional accounting 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 auditors 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 1, 2023 to December 31, 2023
2. Communication with Governance Letter
3. Internal Control Letter



# **VALLEY CLEAN ENERGY**

**VALLEY CLEAN ENERGY ALLIANCE  
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2023 AND 2022**

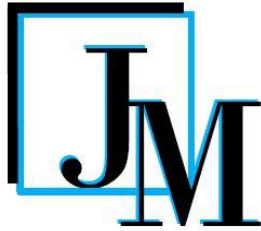
**VALLEY CLEAN ENERGY ALLIANCE**

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

*Accounting, Auditing, Consulting, and Tax*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Valley Clean Energy Alliance  
Davis, California

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of Valley Clean Energy Alliance (VCE), which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of VCE as of the year ended December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

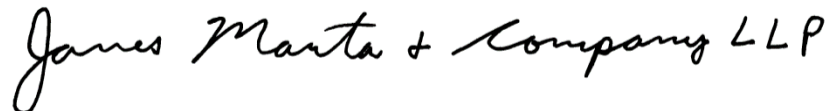
In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2024, on our consideration of the VCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VCE's internal control over financial reporting and compliance.

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

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
May 3, 2024

## **MANAGEMENT DISCUSSION AND ANALYSIS**



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

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The Management's Discussion and Analysis provides an overview of Valley Clean Energy Alliance's (VCE) financial activities for the years ended December 31, 2023 and December 31, 2022. The information presented here should be considered in conjunction with the audited financial statements.

**BACKGROUND**

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

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

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

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

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

**Financial Reporting**

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

**Contents of this Report**

This report is divided into the following sections:

- Management's Discussion and Analysis, which provides an overview of operations.

# VALLEY CLEAN ENERGY ALLIANCE

## MANAGEMENTS DISCUSSION AND ANALYSIS

### FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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

### FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

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

### Assets

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

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

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

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**Liabilities**

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

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

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

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

**Operating Revenues**

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

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

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**Operating Expenses**

In the year ended December 31, 2023, VCE's operating expenses were 7% lower than budgeted operations. The decrease was primarily due to a \$3. million decrease in the cost of electricity, driven by the decreased average forward market power prices from the high 2022/23 winter costs due to an abnormally wet winter and increased hydro production. VCE procures energy from various sources and focuses on purchasing at competitive prices and maintaining a balanced renewable power portfolio. The remaining operating expenses consist of contract services, staff compensation, and other general administrative expenses.

**ECONOMIC OUTLOOK**

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

VCE's Board adopted a rate policy in November 2021 to set customer rates to recover operating costs and build reserve funds and an automatic rate adjustment policy to address environmental and regulatory changes within a budget year. VCE has also adopted a base green product to maintain its competitiveness with PG&E by offering a least-cost option to its customers. VCE has recovered from COVID, continues to build cash reserves, and maintained its credit lines for liquidity in 2023. Longer-term, a majority of VCE's long-term fixed-price renewable PPA's that began delivery in 2023. VCE customer rates, including PCIA costs, have been reduced to near zero in 2023. As forecasted average forward market energy prices decrease, PCIA costs are forecasted to increase for 2025. Current customer rates are forecasted to be stabilized due to offsetting resource adequacy (RA) and renewable energy credit (REC) costs remain high.

**REQUESTS FOR INFORMATION**

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

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

**VALLEY CLEAN ENERGY ALLIANCE**

**STATEMENT OF NET POSITION**

**AS OF DECEMBER 31, 2023 AND 2022**

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

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

**VALLEY CLEAN ENERGY ALLIANCE**

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

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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

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

# VALLEY CLEAN ENERGY ALLIANCE

## STATEMENT OF CASH FLOWS

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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

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

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

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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, Woodland and Winters (collectively, the “Member Agencies”). VCE is governed by an eight-member Board of Directors whose membership is composed of two elected officials representing each of the Member Agencies.

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

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

**BASIS OF ACCOUNTING**

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

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

**CASH AND CASH EQUIVALENTS**

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

**DEPOSITS**

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



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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**OPERATING AND NON-OPERATING REVENUE**

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

**REVENUE RECOGNITION**

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

**ELECTRICAL POWER PURCHASED**

In 2017, VCE entered into a five (5) year contract with the Sacramento Municipal Utility District (SMUD) to provide technical and financial analysis; data management and call center services; wholesale energy services; and operational staff services. As part of the contract, SMUD provides power portfolio purchase services to and on behalf of VCE. Electricity costs include the cost of energy and ancillary services arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from VCE's participation in the California Independent System Operator's centralized market. The cost of electricity and ancillary services are recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position. In 2022, VCE entered a three (3) year contract with The Energy Authority for the electrical power purchased contract and completely transitioned to The Energy Authority by the end of 2023. As of December 31, 2023, \$677,754 was accrued as payable to SMUD, comprised of \$494,296 in accrued electricity costs and \$183,458 in accrued contractual services. As of December 31, 2022, \$5,131,217 was accrued as payable to SMUD, comprised of \$5,131,217 in accrued electricity costs and \$0 in accrued contractual services. As of December 31, 2023, \$3,880,145 was accrued as payable to VCE, comprised of \$3,813,945 in accrued electricity costs and \$66,200 in accrued contractual services and 0 accrued payable as of December 31, 2022.

**RENEWABLE ENERGY CREDITS**

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

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**STAFFING COSTS**

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

**INCOME TAXES**

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

**ESTIMATES**

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

**RECLASSIFICATION**

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

**NET POSITION**

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

The following are the components of VCE's Net Position at December 31, 2023 and 2022.

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

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

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**2. CASH AND CASH EQUIVALENTS**

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

**3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE**

Accounts receivable were as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Accounts receivable from customers	\$ 12,019,166	\$ 11,550,071
Allowance for uncollectible accounts	(1,419,184)	(464,984)
Accounts receivable, net	<u>\$ 10,599,982</u>	<u>\$ 11,085,087</u>

The majority of account collections occur within the first few months following customer invoicing. VCE estimates that a portion of the billed accounts will not be collected. VCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenues in the Statement of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for the year ended December 31, 2023 and 2022 were \$954,200 and \$846,600, respectively. Due to the COVID-19 pandemic, VCE could not to pursue collections due to state restrictions and expects to commence collections of remaining balances in 2023.

Accrued revenue presented in the Statements of Net Position represents revenue from customer electricity usage that has not been billed at the end of the period. Accrued revenue recognized for the years ended December 31, 2023 and 2022 was \$3,434,034 and \$3,430,397, respectively.

**4. DEBT**

**LINE OF CREDIT AND TERM LOAN**

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

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

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**LINE OF CREDIT AND TERM LOAN (CONTINUED)**

At the October 10, 2019 Board meeting the Board authorized VCE to convert an existing \$1,976,610 Credit Agreement balance to an amortizing 5-year term loan. VCE converted the Agreement to the loan and has paid the loan down to \$0 and \$712,252 as of December 31, 2023 and 2022, respectively. The interest rate was 3.57% fixed for the loan term.

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

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

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

Line of Credit

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

Term Loan

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

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

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

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

**LINE OF CREDIT AND TERM LOAN (CONTINUED)**

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

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

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

**5. DEFINED CONTRIBUTION RETIREMENT PLAN**

VCE provides retirement benefits to eligible employees through a 401(a) discretionary defined contribution plan and 457(b) deferred compensation plan (Plans). The Plans are administered by International City Management Association Retirement Corporation (ICMA-RC). At December 31, 2023, VCE had 4 plan participants. VCE contributes 7% of covered payroll and up to an additional 3% of covered payroll as a match to employee tax deferred contributions (into the 457(b) deferred compensation plan) into the 401(a) discretionary defined contribution plan.

For the years ended December 31, 2023 and 2022, VCE contributed \$76,681 and \$64,716, respectively. The Plans' provisions and contribution requirements as they apply to VCE are established and may be amended by the Board of Directors.

**6. OPERATING LEASE**

In 2018, VCE entered into a nine-month lease for its office space with the City of Davis. The most recent lease agreement renewal with the City covers the twelve months ending January 2024. Rental expense under this lease were \$26,376 and \$19,200 for the year ending December 31, 2023 and 2022, respectively. The total for future minimum lease payments are shown below:

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

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**6. OPERATING LEASE (CONTINUED)**

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

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

**7. RELATED PARTY TRANSACTIONS**

VCE entered into a cooperative agreement with each respective member agency to provide management, legal, accounting and administrative services. The services billed from the Member Agencies to VCE outstanding for the year ending December 31, 2023 and 2022 totaled \$4,132 and \$25,160, respectively. The total services billed from the Member Agencies to VCE for the years ending December 31, 2023 and 2022 totaled \$31,061 and \$54,432, respectively.

**8. RISK MANAGEMENT**

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

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

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

**VALLEY CLEAN ENERGY ALLIANCE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**8. RISK MANAGEMENT (CONTINUED)**

limit of \$1,000 per occurrence. For the year ended December 31, 2023 and 2022, VCE contributed \$36,470 and \$14,668 for coverage, respectively. Audited financial statements are available from YCPARMIA their website [www.ycparmia.org](http://www.ycparmia.org). Condensed information for YCPARMIA for the most recent available year end is as follows:

	YCPARMIA June 30, 2022
Total Assets	\$ 26,957,573
Deferred Outflows of Resources	\$ 297,375
Total Liabilities	\$ 24,505,895
Deferred Inflows of Resources	\$ 1,157,359
Net Position	\$ 1,591,694
Total Revenues	\$ 17,407,452
Total Expenses	\$ 19,416,024
Change in Net Position	\$ (2,008,572)

The June 30, 2022 were the most recent audited financial statements available at the time of the preparation of this report.

**9. COMMITMENTS AND CONTINGENCIES**

On October 25, 2017, VCE entered into an agreement with SMUD to provide on-going professional services, including, but not limited to: wholesale energy services, customer and data services, billing administration and reporting. As of December 31, 2023, VCE had outstanding non-cancelable commitments to SMUD for professional services to be performed estimated to be \$1.5 million. The agreement and non-cancelable commitments to SMUD ended on December 31, 2023.

**10. SUBSEQUENT EVENTS**

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



**James Marta & Company LLP**

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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**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 years ended December 31, 2023 and 2022, and have issued our report thereon dated May 3, 2024. 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 May 3, 2024.

**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 2023. 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 was a PJE in the prior year audit that management posted that we had to post in the current year in attachment B.

### **Disagreements with Management**

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

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated May 3, 2024. (Attachment C)

### **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***

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

*James Marta & Company LLP*

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
May 3, 2024

As of December 31, 2023

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](http://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. 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.

**Adjusting Journal Entries**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE # 2</b>			
PBC - to record the expense relating to the penalties.			
41510-0000	POWER PURCHASES	491,678	
23040-0000	ACCRUED COST OF ELECTRICITY		491,678
<b>Total</b>		<b>491,678</b>	<b>491,678</b>
<b>Adjusting Journal Entries JE # 4</b>			
PBC - To adjust AR balance and tie out to AR Aging.			
13725-0000	NEM RECEIVABLE	331,500	
23020-0000	NEM CREDITS	58,348	
30110-0000	RESIDENTIAL SALES	23,224	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	15,483	
13710-0000	BILLED REVENUES		38,707
30115-0000	NEM CREDITS - RESIDENTIAL		198,900
30115-0000	NEM CREDITS - RESIDENTIAL		35,009
30125-0000	NEM CREDITS - C&I		132,600
30125-0000	NEM CREDITS - C&I		23,339
<b>Total</b>		<b>428,555</b>	<b>428,555</b>

**Reclassifying Journal Entries**

Account	Description	Debit	Credit
<b>Reclassifying Journal Entries JE # 3</b>			
PBC - to reclass the cash balance to program reserve.			
12310-0000	Cash - Local Program Reserve	840,000	
13110-0000	CASH - CHECKING		840,000
<b>Total</b>		<b>840,000</b>	<b>840,000</b>



**MANAGEMENT REPRESENTATION LETTER**

May 3, 2024

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 for the periods ended December 31, 2023 and 2022, 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 May 3, 2024:

**Financial Statements**

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated October 4, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

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

**Information Provided**

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



- 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 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.



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Edward Burnham, Director of Finance & Internal Operations

**Attachment 1**

**Adjusting Journal Entries**

Account	Description	Debit	Credit
<b>Adjusting Journal Entries JE #2</b>			
PBC - to record the expense relating to the penalties			
41510-0000	POWER PURCHASES	491,678	
23040-0000	ACCRUED COST OF ELECTRICITY		491,678
<b>Total</b>		<b>491,678</b>	<b>491,678</b>
<b>Adjusting Journal Entries JE #4</b>			
PBC - To adjust AR balance and tie out to AR Aging			
13725-0000	NEM RECEIVABLE	331,500	
23020-0000	NEM CREDITS	58,348	
30110-0000	RESIDENTIAL SALES	23,224	
30120-0000	COMMERCIAL & INDUSTRIAL SALES	15,483	
13710-0000	BILLED REVENUES		38,707
30115-0000	NEM CREDITS - RESIDENTIAL		198,900
30115-0000	NEM CREDITS - RESIDENTIAL		35,009
30125-0000	NEM CREDITS - C&I		132,600
30125-0000	NEM CREDITS - C&I		23,339
<b>Total</b>		<b>428,555</b>	<b>428,555</b>

**Reclassifying Journal Entries**

Account	Description	Debit	Credit
<b>Reclassifying Journal Entries JE #3</b>			
PBC - to reclass the cash balance to program reserve.			
12310-0000	Cash - Local Program Reserve	840,000	
13110-0000	CASH - CHECKING		840,000
<b>Total</b>		<b>840,000</b>	<b>840,000</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*

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 years ended December 31, 2023 and 2022, 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 May 3, 2024.

**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.

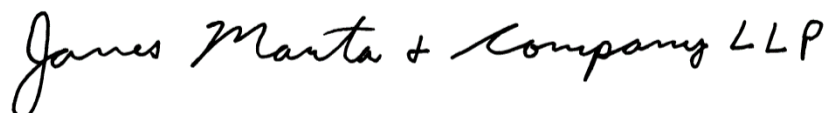
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given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

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

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
May 3, 2024