



FINANCIAL STATEMENTS

Years Ended:

 **September 30, 2018**

 **September 30, 2017**

With Report of Independent Auditors

**SILICON VALLEY CLEAN ENERGY AUTHORITY
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

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Independent Auditor's Report

To the Board of Directors
Silicon Valley Clean Energy Authority
Sunnyvale, California

Report on the Financial Statements

We have audited the accompanying financial statements of Silicon Valley Clean Energy Authority (SVCE), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise SVCE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SVCE as of September 30, 2018 and 2017 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.

Pisenti & Brinku LLP

Santa Rosa, California
February 7, 2019

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

The Management's Discussion and Analysis provides an overview of Silicon Valley Clean Energy Authority's (SVCE) financial activities as of and for the years ended September 30, 2018 and 2017. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of SVCE 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.

SVCE was created as a California Joint Powers Authority (JPA) on March 31, 2016. SVCE was established to provide electric power at competitive costs as well as to provide other benefits within Santa Clara County, including reducing energy related greenhouse gas emissions, securing energy supply and price stability, and providing energy efficiencies and local economic benefits. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction, SVCE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. SVCE is responsible for the acquisition of electric power for its service area. SVCE serves the unincorporated areas of Santa Clara County and the cities and towns of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Saratoga, and Sunnyvale.

In April 2017, SVCE began providing service to its first 66,000 customer accounts as part of its initial enrollment phase. SVCE completed its customer enrollment in July 2017 and as of September 30, 2018, SVCE serves approximately 274,000 customer accounts.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

Financial Reporting

SVCE presents its financial statements in accordance with generally accepted accounting principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this report

This report is divided into the following sections:

- Management discussion and analysis, which provides an overview of operations.
- The basic financial statements, which offer information on SVCE's financial status:
 - The *Statements of Net Position* includes all of SVCE's assets, liabilities, and net position using the accrual basis of accounting. The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of SVCE's revenue and expenses for the years shown.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as financing and investing activities.
 - Notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

FINANCIAL HIGHLIGHTS

The following table is a summary of SVCE's assets, liabilities, and net position as of September 30:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|------------------------------------|----------------------|----------------------|-----------------------|
| Current assets | \$ 108,758,726 | \$ 61,416,239 | \$ 1,897,092 |
| Noncurrent assets | | | |
| Capital assets, net | 184,319 | 167,506 | - |
| Other noncurrent assets | <u>6,192,560</u> | <u>128,560</u> | <u>28,560</u> |
| Total noncurrent assets | <u>6,376,879</u> | <u>296,066</u> | <u>28,560</u> |
| Total assets | <u>115,135,605</u> | <u>61,712,305</u> | <u>1,925,652</u> |
| Current liabilities | 36,700,885 | 30,666,808 | 306,016 |
| Noncurrent liabilities | <u>-</u> | <u>2,730,000</u> | <u>2,730,000</u> |
| Total liabilities | <u>36,700,885</u> | <u>33,396,808</u> | <u>3,036,016</u> |
| Net position | | | |
| Investment in capital assets | 184,319 | 167,506 | - |
| Restricted for security collateral | 2,000,000 | 4,400,000 | |
| Unrestricted (deficit) | <u>76,250,401</u> | <u>23,747,991</u> | <u>(1,110,364)</u> |
| Total net position | <u>\$ 78,434,720</u> | <u>\$ 28,315,497</u> | <u>\$ (1,110,364)</u> |

Current Assets

2018 compared to 2017 Current assets reached \$108,759,000 by the end of 2018 and are mostly comprised of the following: \$56,963,000 in cash and cash equivalents, \$23,661,000 in accounts receivable, \$16,931,000 in accrued revenue, \$9,117,000 in deposits and prepaids, and \$2,000,000 in restricted cash. The overall increase in current assets over the prior year was expected, as fiscal year 2017 was the first year of operations.

Deposits reported in the current asset section primarily consist of cash collateral required by energy suppliers and the scheduling authority on the State's transmission grid.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

Capital Assets

As of September 2018, capital assets were \$184,000, net of accumulated depreciation, primarily reflecting the acquisition of furniture and equipment accompanying SVCE's establishing its administrative office during the year. SVCE does not own assets used for electric generation or distribution.

Other Noncurrent Assets

Other noncurrent assets reached \$6,193,000 in 2018 and primarily consists of various deposits for energy supply, regulatory and other operating purposes.

Current Liabilities

2018 compared to 2017 Current liabilities at the end of 2018 consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by SVCE. Other components include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities. At the end of the period ended September 30, 2017, besides the previous mentioned liabilities, SVCE had an outstanding loan with River City Bank for \$2,900,000. This debt was retired in December 2017.

Noncurrent Liabilities

2018 compared to 2017 As part of the formation of SVCE, member agencies loaned SVCE \$2,730,000 for costs during the implementation period and for working capital until payments were collected from customers. The loan was outstanding as of September 30, 2017 and was repaid in January 2018.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

The following table is a summary of SVCE's results of operations.

| | October 1, 2017 - September 30, 2018 | October 1, 2016 - September 30, 2017 | March 31, 2016 - September 30, 2016 |
|------------------------------|---|---|---|
| Operating revenues | \$ 249,948,112 | \$ 93,940,264 | \$ - |
| Interest income | 153,840 | 1,078 | - |
| Total income | 250,101,952 | 93,941,342 | - |
| Operating expenses | 199,967,063 | 64,366,230 | 329,011 |
| Interest and related expense | 15,666 | 149,251 | - |
| Total expenses | 199,982,729 | 64,515,481 | 329,011 |
| Change in net position | <u>\$ 50,119,223</u> | <u>\$ 29,425,861</u> | <u>\$ (329,011)</u> |

Operating Revenues

2018 compared to 2017 SVCE's major customer enrollment was completed in July 2017, resulting in fiscal year 2018 being the first year with a full customer base. This is the main driver of the sharp increase in revenues from the prior year. In addition, SVCE began serving the City of Milpitas in June 2018 which resulted in an additional approximately 25,000 customers. SVCE's gross margin for 2018 and 2017 was approximately 24% and 37%, respectively, as operating revenues exceeded the cost of electricity by \$60,042,000 and \$34,638,000. SVCE's operating revenue is from the sale of electricity to energy consumers within its jurisdiction, consisting mostly of residential, commercial, industrial and agricultural customers.

Operating Expenses

2018 compared to 2017 Operating expenses increased \$135,601,000 during 2018 primarily due to significantly increased energy purchases to provide for the increased SVCE customer base. Energy costs greatly exceed all other operating expenses, accounting for approximately 95% of total operating expenses. SVCE procures energy from a variety of sources to maintain a balanced renewable power portfolio.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

ECONOMIC OUTLOOK

Silicon Valley Clean Energy serves approximately 97% of all eligible customers in Santa Clara County, and that rate of participation is expected to remain stable for 2019.

The work of our first year of operations was to provide all our customers with carbon-free electricity. Clean electricity from SVCE's carbon-free sources has contributed to a dramatic 21% reduction in area-wide carbon emissions from energy use compared to 2015 levels. We are also investing in new renewable energy projects. In 2018 SVCE entered into three long-term power agreements, partnering with our neighboring Community Choice Energy agency, Monterey Bay Community Power, for the joint-procurements. The three projects combined are expected to create 1,440 jobs during construction.

- The 200 MW Duran Mesa Wind project, developed by Pattern Development, will be built in New Mexico and is a 15-year agreement, expected to reach commercial operation in late-2020. The project's location will complement California's abundant supply of mid-day solar energy, delivering clean wind power during hours of peak demand in the early evening.
- The RE Slate 1 project, developed by Recurrent, will be built in Kings County and is a 15-year agreement which includes 150 MW of solar capacity and 45 MW/180 MWh of storage
- The BigBeau Solar project, developed by EDF Renewables North America, will be built in Kern County and is a 20-year agreement which includes 128 MW of solar capacity and 40 MW/160 MWh of storage.

At the end of 2018, the Board of Directors approved a decarbonization roadmap that expands SVCE's scope from providing clean electricity to influencing emission reductions from buildings and transportation. The first tranche of programs for development and launch in 2019 include:

- Mobility – EV charging infrastructure and EV fast charging pilot depots.
- Energy Efficiency & Grid Integration – Support “virtual power plants” made up of cloud-based aggregations of customer-sited resources to support grid integration and monetize value from connected, controllable loads.
- Education and Outreach – Develop a customer resource center and partner with local organizations in under-reached customer segments.
- Innovation – Engage with key strategic partners to participate in the local innovation ecosystem and provide small grants to support innovation through pilot projects with external partners.

Senate Bill 237 was passed in 2018 and increased the cap for direct access participation. SVCE could be impacted by the expansion of direct access due to the large commercial and industrial load in the territory. The impact would not materialize until 2020 but SVCE is currently developing strategies to ensure long-term success of the agency. Financial reserves policies and energy risk management policies are also in place to manage this risk.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

ECONOMIC OUTLOOK (continued)

SVCE will continue to provide stable and competitive electric rates whenever possible and has identified unpredictable and unreasonably high PG&E customer exit fees as a key barrier to this goal. A CPUC decision was presented in the fall of 2018 that provided some clarity but resulted in an unfavorable input to the rate setting process. SVCE has prioritized regulatory work with respect to the second phase of the PCIA process as well as implemented a proactive approach on other regulatory and legislative issues. Additionally, SVCE’s healthy cash reserves have placed us in a stable position to manage this risk.

SVCE has a strong focus on continuing to build credit capacity through increased cash reserves, engaging lines of credit for increased liquidity, and entering into favorable energy purchase commitments with the intent of securing an investment grade credit rating in 2020-2021. This will help create a stable environment for SVCE and its ratepayers.

REQUEST FOR INFORMATION

This financial report is designed to provide SVCE’s customers and creditors with a general overview of the organization’s finances and to demonstrate SVCE’s accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 333 W. El Camino Real, Suite 290, Sunnyvale, CA 94087.

Respectfully submitted,

Girish Balachandran, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 56,963,340 | \$ 16,843,597 |
| Accounts receivable, net of allowance | 23,661,147 | 21,420,350 |
| Energy settlements receivable | - | 266,328 |
| Accrued revenue | 16,931,361 | 14,976,322 |
| Other receivables | 86,261 | 200,000 |
| Prepaid expenses | 1,123,847 | 71,842 |
| Deposits with energy suppliers | 7,992,770 | 3,237,800 |
| Restricted cash | 2,000,000 | 4,400,000 |
| Total current assets | 108,758,726 | 61,416,239 |
| Noncurrent assets | | |
| Capital assets, net of depreciation | 184,319 | 167,506 |
| Deposits with energy suppliers | 6,192,560 | 128,560 |
| Total noncurrent assets | 6,376,879 | 296,066 |
| Total assets | 115,135,605 | 61,712,305 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 720,538 | 850,222 |
| Accrued cost of electricity | 34,183,673 | 25,988,111 |
| Accrued interest payable | - | 7,226 |
| Accrued payroll and benefits | 191,289 | 85,023 |
| Other accrued liabilities | - | 20,900 |
| User taxes and energy surcharges due to other governments | 1,020,385 | 815,326 |
| Notes payable to bank | - | 2,900,000 |
| Supplier security deposits | 585,000 | - |
| Total current liabilities | 36,700,885 | 30,666,808 |
| Noncurrent liabilities | | |
| Loans payable to JPA members | - | 2,730,000 |
| Total noncurrent liabilities | - | 2,730,000 |
| Total liabilities | 36,700,885 | 33,396,808 |
| NET POSITION | | |
| Investment in capital assets | 184,319 | 167,506 |
| Restricted for security collateral | 2,000,000 | 4,400,000 |
| Unrestricted | 76,250,401 | 23,747,991 |
| Total net position | \$ 78,434,720 | \$ 28,315,497 |

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

**SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

| | 2018 | 2017 |
|---|----------------|---------------|
| OPERATING REVENUES | | |
| Electricity sales, net | \$ 249,204,377 | \$ 93,650,174 |
| GreenPrime electricity premium | 730,235 | 290,090 |
| Other income | 13,500 | - |
| Total operating revenues | 249,948,112 | 93,940,264 |
| OPERATING EXPENSES | | |
| Cost of electricity | 189,905,958 | 59,302,601 |
| Staff compensation and benefits | 2,626,639 | 1,511,113 |
| Data management | 3,431,478 | 1,038,131 |
| Service fees - PG&E | 1,161,129 | 280,922 |
| Consultants and other professional fees | 892,267 | 627,283 |
| Legal | 357,719 | 348,905 |
| Communications and noticing | 617,516 | 804,538 |
| General and administration | 934,728 | 429,655 |
| Depreciation | 39,629 | 23,082 |
| Total operating expenses | 199,967,063 | 64,366,230 |
| Operating income (loss) | 49,981,049 | 29,574,034 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 153,840 | 1,078 |
| Interest and related expense | (15,666) | (76,033) |
| Financing costs | - | (73,218) |
| Total nonoperating revenues (expenses) | 138,174 | (148,173) |
| CHANGE IN NET POSITION | 50,119,223 | 29,425,861 |
| Net position at beginning of period | 28,315,497 | (1,110,364) |
| Net position at end of period | \$ 78,434,720 | \$ 28,315,497 |

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|----------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Electricity sales | \$ 245,936,491 | \$ 57,704,107 |
| Other income | 13,500 | - |
| Supplier security deposit received | 1,185,000 | - |
| Tax and surcharges from customers | 5,160,891 | 1,347,868 |
| Energy settlements received | 8,917,455 | 14,770,083 |
| Deposits and collateral received | 2,200,300 | - |
| Cost to purchase electricity | (173,406,464) | (48,350,900) |
| Staff compensation and benefits | (2,436,100) | (1,445,854) |
| Professional services, data management and service fees | (6,723,415) | (2,576,055) |
| General and administration | (954,645) | (414,978) |
| Energy settlements paid | (18,044,959) | - |
| Deposits and collateral paid | (13,019,270) | - |
| Security deposits returned to suppliers | (600,000) | - |
| Tax and surcharge payments to other governments | (4,953,547) | (893,056) |
| Net cash provided (used) by operating activities | 43,275,237 | 20,141,215 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Note proceeds from bank | - | 4,400,000 |
| Loan proceeds from JPA members | - | 165,591 |
| Deposits and collateral paid | - | (3,837,800) |
| Principal payments on note | (2,900,000) | (1,500,000) |
| Principal payments on JPA member loans | (2,730,000) | - |
| Deposits and collateral received | - | 500,000 |
| Interest and related expense payments | (22,892) | (68,807) |
| Finance costs paid | - | (73,218) |
| Net cash provided (used) by non-capital financing activities | (5,652,892) | (414,234) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital assets acquisitions | (56,442) | (190,588) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income received | 153,840 | 1,078 |
| Net change in cash and cash equivalents | 37,719,743 | 19,537,471 |
| Cash and cash equivalents at beginning of year | 21,243,597 | 1,706,126 |
| Cash and cash equivalents at end of period | \$ 58,963,340 | \$ 21,243,597 |
| Reconciliation to the Statement of Net Position | | |
| Cash and cash equivalents (unrestricted) | \$ 56,963,340 | \$ 16,843,597 |
| Restricted cash | 2,000,000 | 4,400,000 |
| Cash and cash equivalents | \$ 58,963,340 | \$ 21,243,597 |

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

**SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Operating income (loss) | \$ 49,981,049 | \$ 29,574,034 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | |
| Depreciation expense | 39,629 | 23,082 |
| Revenue reduced for uncollectible accounts | 1,255,952 | 472,062 |
| (Increase) decrease in accounts receivable | (3,496,749) | (21,892,412) |
| (Increase) decrease in energy settlements receivable | 266,328 | (266,328) |
| (Increase) decrease in other receivables | 113,739 | (200,000) |
| (Increase) decrease in accrued revenue | (1,955,039) | (14,976,322) |
| (Increase) decrease in prepaid expenses | (1,052,005) | (46,467) |
| (Increase) decrease in current deposits | (10,818,970) | - |
| Increase (decrease) in accounts payable | (129,684) | 695,267 |
| Increase (decrease) in accrued payroll and related | 106,266 | 74,534 |
| Increase (decrease) in accrued cost of electricity | 8,195,562 | 25,988,111 |
| Increase (decrease) in accrued liabilities | (20,900) | (119,672) |
| Increase (decrease) taxes and surcharges due to other governments | 205,059 | 815,326 |
| Increase (decrease) in supplier security deposits | 585,000 | - |
| Net cash provided (used) by operating activities | <u>\$ 43,275,237</u> | <u>\$ 20,141,215</u> |

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Silicon Valley Clean Energy Authority (SVCE) is a joint powers authority created on March 31, 2016. As of September 30, 2018, parties to its Joint Powers Agreement consist of the following local governments:

| | |
|--|---------------|
| Unincorporated areas of Santa Clara County | Milpitas |
| Campbell | Monte Sereno |
| Cupertino | Morgan Hill |
| Gilroy | Mountain View |
| Los Altos | Saratoga |
| Los Altos Hills | Sunnyvale |
| Los Gatos | |

SVCE is separate from and derives no financial support from its members. SVCE is governed by a Board of Directors whose membership is composed of elected officials representing one or more of the parties.

SVCE was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of SVCE is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

SVCE began its energy delivery operations in April 2017. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

BASIS OF ACCOUNTING

SVCE'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.

SVCE'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 two categories – investment in capital assets and unrestricted.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Cash Flows, SVCE has defined cash and cash equivalents to include cash on hand and demand deposits. Amounts restricted for security collateral are not considered cash and cash equivalents. These restricted balances are presented separately in the Statement of Net Position. Restricted cash is included as cash and cash equivalents in the Statement of Cash Flows.

DEPOSITS WITH ENERGY SUPPLIERS

Various energy contracts entered into by SVCE require SVCE to provide a supplier with a security deposit. These deposits are generally held for the term of the contract. Deposits with energy suppliers are classified as current or noncurrent assets depending on the length of the time the deposits will be held. While these energy contract related deposits make up the majority of this item, other components of deposits include those for regulatory and other operating purposes.

CAPITAL ASSETS AND DEPRECIATION

SVCE's policy is to capitalize furniture and equipment valued over \$1,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment, five years for automobiles and seven years for furniture and leasehold improvements.

SUPPLIER SECURITY DEPOSITS

Certain energy contracts entered into by SVCE require the supplier to provide SVCE with security deposits. Similar to collateral, this will be held by SVCE in the event the energy supplier's generation facility is not operational within a contractually defined timeframe. If the facility is operational in time, then SVCE will return the deposit.

OPERATING AND NON-OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. The vast majority of operating revenue is derived from these sales. Interest income is considered non-operating revenue.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased through several energy suppliers. The cost of power and related delivery costs has been recognized as “cost of electricity” in the Statements of Revenues, Expenses and Changes in Net Position.

SVCE purchases Renewable Energy Certificates (REC) to comply with external mandates and self-imposed benchmarks. SVCE procures RECs with the intent to retire them and does not engage in the activity of building a surplus of RECs. An expense is recognized at the point that the cost of the REC is due and payable to the supplier.

STAFFING COSTS

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

INCOME TAXES

SVCE is a joint powers authority under the provision of the California Government Code. As such it 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.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

2. CASH AND CASH EQUIVALENTS

SVCE maintains its cash in interest and non-interest-bearing accounts. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. SVCE has no deposit or investment policy that addressed a specific type of risk that would impose additional restrictions beyond this code. Accordingly, the amount of risk is not disclosed. Risk is monitored on an ongoing basis.

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable were as follows:

| | September 30, 2018 | September 30, 2017 |
|--------------------------------------|-----------------------|-----------------------|
| Accounts receivable from customers | \$ 25,389,161 | \$ 21,892,412 |
| Allowance for uncollectible accounts | (1,728,014) | (472,062) |
| Net accounts receivable | \$ 23,661,147 | \$ 21,420,350 |

The majority of account collections occur within the first few months following customer invoicing. SVCE continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. Although collection success generally decreases with the age of the receivable, SVCE continues to have success collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years. SVCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for the years ended September 30, 2018 and 2017 were \$1,256,000 and \$472,000, respectively.

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.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
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4. ENERGY SETTLEMENTS RECEIVABLE

SVCE receives generation scheduling and other services from a scheduling coordinator registered with the California Independent System Operator (CAISO). Energy settlements due from the scheduling coordinator were \$0 and \$266,000 as of September 30, 2018 and 2017, respectively.

5. CAPITAL ASSETS

Changes in capital assets were as follows:

| | <u>Furniture & Equipment</u> | <u>Accumulated Depreciation</u> | <u>Net</u> |
|--------------------------------|--------------------------------------|-------------------------------------|-------------------|
| Balances at September 30, 2016 | \$ - | \$ - | \$ - |
| Additions | 190,588 | (23,082) | 167,506 |
| Balances at September 30, 2017 | 190,588 | (23,082) | 167,506 |
| Additions | 56,442 | (39,629) | 16,813 |
| Balances at September 30, 2018 | <u>\$ 247,030</u> | <u>\$ (62,711)</u> | <u>\$ 184,319</u> |

6. DEBT

Notes payable to River City Bank

In December 2016, SVCE entered into an agreement with River City Bank to borrow up to \$18,000,000 in the form of a Revolving Credit Promissory Note and \$2,000,000 in the form of a Non-Revolving Promissory Note. The intended use of funds drawn was to provide cash to pay for energy purchases and operating expenses which were due before revenue was collected from customers. The notes were secured by cash deposit of \$1,900,000 as well as guarantees by the County of Santa Clara and the cities of Gilroy, Mountain View and Sunnyvale. Principal could be drawn as needed and interest accrued on the outstanding balance and was payable each month and computed at the one-month LIBOR rate plus an additional 1.25% for the Non-Revolving portion and an additional 1.75% for the Revolving portion. SVCE drew upon both the Revolving and the Non-Revolving lines during fiscal year ended September 30, 2017. All of the funds drawn on the Non-Revolving line were repaid within the year. The outstanding balance on the Revolving line matured in December 2017 and was repaid in full at that time.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. DEBT (continued)

Loans payable to JPA members

As part of SVCE’s formation agreement, all the members were required to provide initial funding to SVCE to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement required that SVCE repay the members within four years after formation without interest. These loans total \$2,730,000 and are reported as noncurrent liabilities on the Statements of Net Position. No principal payments were made through the year ended September 30, 2017. In January 2018, SVCE repaid the loans.

Below is a summary of loans by members as of September 30, 2017:

| | |
|-------------------------------------|---------------------|
| Campbell | \$ 100,000 |
| Cupertino | 520,000 |
| Gilroy | 100,000 |
| Los Altos | 100,000 |
| Los Altos Hills | 25,000 |
| Los Gatos | 100,000 |
| Monte Sereno | 25,000 |
| Morgan Hill | 100,000 |
| Mountain View | 520,000 |
| Santa Clara County (Unincorporated) | 520,000 |
| Saratoga | 100,000 |
| Sunnyvale | 520,000 |
| Total | <u>\$ 2,730,000</u> |

**SILICON VALLEY CLEAN ENERGY AUTHORITY
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6. DEBT (continued)

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

| | <u>Beginning</u> | <u>Additions</u> | <u>Payments</u> | <u>Ending</u> |
|-------------------------------|--------------------|--------------------|----------------------|--------------------|
| Year ended September 30, 2016 | | | | |
| JPA Member loans | \$2,730,000 | \$ - | \$ - | \$ 2,730,000 |
| Amounts due within one year | | | | <u>-</u> |
| Amounts due after one year | | | | <u>\$2,730,000</u> |
| Year ended September 30, 2017 | | | | |
| Bank note (revolving) | \$ - | \$2,900,000 | \$ - | \$ 2,900,000 |
| Bank note (non-revolving) | - | 1,500,000 | (1,500,000) | - |
| JPA Member loans | <u>2,730,000</u> | <u>-</u> | <u>-</u> | <u>2,730,000</u> |
| Total | <u>\$2,730,000</u> | <u>\$4,400,000</u> | <u>\$(1,500,000)</u> | 5,630,000 |
| Amounts due within one year | | | | <u>(2,900,000)</u> |
| Amounts due after one year | | | | <u>\$2,730,000</u> |
| Year ended September 30, 2018 | | | | |
| Bank note (revolving) | \$2,900,000 | \$ - | \$(2,900,000) | \$ - |
| JPA Member loans | <u>2,730,000</u> | <u>-</u> | <u>(2,730,000)</u> | <u>-</u> |
| Total | <u>\$5,630,000</u> | <u>\$ -</u> | <u>\$(5,630,000)</u> | <u>-</u> |
| Amounts due within one year | | | | <u>-</u> |
| Amounts due after one year | | | | <u>\$ -</u> |

**SILICON VALLEY CLEAN ENERGY AUTHORITY
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7. DEFINED CONTRIBUTION RETIREMENT PLAN

SVCE provides retirement benefits through the Silicon Valley Clean Energy Authority Public Agency Retirement System Defined Contribution Plan. The Plan is a defined contribution 401(a) Retirement Plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by the Public Agency Retirement System (PARS). At September 30, 2018 and 2017, SVCE had 16 and 13 plan participants, respectively. SVCE is required to contribute up to 10% of covered payroll as a match to employee contributions. SVCE contributed approximately \$197,000 and \$104,000 during the years ended September 30, 2018 and 2017, respectively. Plan provisions and contribution requirements as they apply to SVCE are established and may be amended by the Board of Directors.

8. RISK MANAGEMENT

SVCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. SVCE purchases liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions was \$2,000,000 with a \$1,000 deductible. Coverage for owned automobiles was \$1,000,000.

9. PURCHASE COMMITMENTS

In the ordinary course of business, SVCE enters into various power purchase agreements in order to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind and hydro-electric facilities.

SVCE enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

The following table is the approximated obligations on existing energy and renewable contracts as of September 30, 2018.

| Year Ended September 30, | |
|--------------------------|-----------------------|
| 2019 | \$ 193,100,000 |
| 2020 | 144,600,000 |
| 2021 | 91,400,000 |
| 2022 | 41,000,000 |
| 2023 | 33,000,000 |
| 2024-2041 | <u>379,700,000</u> |
| Total | <u>\$ 882,800,000</u> |

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

9. PURCHASE COMMITMENTS (continued)

As of September 30, 2018, SVCE had outstanding non-cancelable commitments to service providers for services yet to be performed of approximately \$5.1 million through March 2020.

10. OPERATING LEASE

During 2017, SVCE entered a 63-month non-cancelable lease for its office premises. The lease commencement date was November 1, 2016. Rental expense under this lease was \$320,000 and \$211,000 for the years ended September 30, 2018 and 2017, respectively.

Future minimum lease payments under the lease are as follows:

| Year ended September 30, | |
|--------------------------|---------------------|
| 2019 | \$ 319,904 |
| 2020 | 329,504 |
| 2021 | 339,392 |
| 2022 | <u>114,240</u> |
| Total | <u>\$ 1,103,040</u> |

11. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after June 30, 2018:

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
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12. SUBSEQUENT EVENTS

In September 2018, new legislation that was passed in the California legislature that expands direct access for commercial customers throughout the State. It is unknown what the impact of this will be on SVCE or how much commercial load might be eligible under this direct access expansion.

On October 11, 2018, the California Public Utilities Commission (CPUC) passed an Alternative Proposed Decision (APD) regarding the calculation of the Power Charge Indifference Adjustment (PCIA). The decision will increase the PCIA for all of SVCE's customers. SVCE is evaluating the specific changes that will be required to SVCE's rates as a result of this decision.

PG&E provides transmission and distribution services to SVCE customers and serves as billing agent for SVCE. PG&E is responsible to collect payments on behalf of SVCE. In January 2019, PG&E announced its intention to file for Chapter 11 bankruptcy protection. SVCE expects the utility will continue to operate in a business-as-usual fashion and the SVCE's revenues collected by PG&E will continue to flow through to SVCE with no material interruption.