Overview of Audit Committee Role

Amrit Singh
Audit Committee
February 28, 2025

SILICON VALLEY
CLEAN ENERGY

Welcome

2025 Audit Committee Members

Alt. Dir. Sergio Lopez,
City of Campbell

Dir. George Tyson
Los Altos Hills

Harjot Sangha
City of Gilroy

Dir. Bryan Mekechuk,
City of Monte Sereno

Overview of Finance & Accounting

- SVCE’s Primary Inhouse Finance Functions
  - Budgeting and Financial Forecasting
  - Rate Setting
  - Financial Analysis and Reporting
  - Investment Management
  - Reserve and Liquidity Management
  - Purchasing (other than energy procurement) and Vendor Management
  - Energy and Enterprise Risk Management
- Accounting Services Provided by Maher Accountancy
  - Maher Accountancy performs core accounting functions with oversight from SVCE
    - Accounts Payable and Accounts Receivable
    - General Ledger Management
    - Financial Statements
    - Liaison between SVCE and Independent Auditor

Purpose of the Committee

- Primarily to oversee the external auditors' audit of SVCE's financial statements
- The auditors are working on behalf of the Board to review management's work
- The auditor will present a letter identifying any material weaknesses and deficiencies to the Board
- The Board receives the audit
  - Per SVCE's financial policy the official financial report must be issued no later than 6 months following fiscal year-end

Completion of Financial Audit – Today's Meeting

- Discuss with the auditor:
  - Any material risks and weaknesses detected in internal controls
  - Any restrictions placed on the auditor's scope of the activities or access to requested information
  - Any recommendations made by the independent auditor
- Review the audited financials
- Assess the performance and independence of the auditor
- Recommend the Board accept the results of audit findings

IT Audits

Security Assessment

- Completed in December 2024
- Focused on potential future threats, including ransomware, phishing, and other cybersecurity issues. Additional focus on human behavior / security, in addition to technical countermeasures
- Next Occurrence – Full Assessment in Q4 - 2025.

IT Audit

- Performed Annually since 2017, but incorporated into Security Assessment during 2022
- Voluntary Audit focusing on existing systems, infrastructure, current practices, including IT controls, policies, and outside penetrations / hacking.
- Next Occurrence– Feb/March 2025 (part of AMI Audit)

CPUC Mandated Audit of Customer Meter Data

- CPUC Decision 12-08-045
- Annual Privacy update every year, full audit every 3 years
- Focus on AMI specific IT controls related to the acquisition, storage and processing of AMI (customer meter) related data
- Next Occurrence – Annual Update due April 2025, Full audit due April 2025

Timing of Meetings

- Meets no fewer than twice annually

- Next financial audit kickoff meeting in September 2025
    1. Retain or appoint an independent auditor
    2. Review with the auditor the scope and planning of the audit prior to its commencement

Thank you! / Questions?

KOSMATKA DONNELLY & CO., LLP

Silicon Valley Clean Energy Authority

Report to the Audit Committee

February 28, 2025

Introduction

- Kellin Gilbert, CPA
  - Audit Partner
  - 17 years in public accounting and performing audits of government entities
  - Currently working with several CCA's throughout California
- Alauna Rico
  - Engagement Senior Associate
  - 4 years in public accounting and 2 years in performing audits of governments (CCA's)

Transition to Kosmatka Donnelly & Co., LLP

- As of January 2025, Pisenti & Brinker LLP has joined practices with Kosmatka Donnelly & Co., LLP (dba, KDP Certified Public Accountants, LLP). The former Pisenti & Brinker LLP Partners are now Partners of KDP. Unveiling of a unified name anticipated in the summer of 2025.

- By combining resources with the strategic merger, we can make even greater investments in technology as well as our greatest assets, our people and clients.

- No changes to staffing, costs or timing of the services we provide to SVCE.

Next Steps as Kosmatka Donnelly & Co., LLP

- There is a signed contract and amendment in place between Pisenti & Brinker LLP and Silicon Valley Clean Energy Authority through the contract term September 2027 – audit period date September 30, 2026.

- Kosmatka Donnelly & Co., LLP (formerly Pisenti & Brinker LLP) will carry out the services for the remaining term of the contract.

- There will be no changes to the original contract or amendment other than the name of the company.

- The current audit partner, Kellin Gilbert, will continue to be the audit partner for the remainder of the contract.

Results of current year audit:

- The audit is complete. We reported:
    - Unmodified opinion – Based on our audit, the financial statements are materially accurate.

Audit of the year ended September 30, 2024 Financial Statements

Relative Roles & Responsibilities

- **Management** is responsible for preparing the Financial Statements and establishing a system of internal control.

- **Auditor** is responsible for auditing the Financial Statements
  - Considering risks of material misstatement in the Financial Statements
  - Considering internal controls relevant to the Financial Statements
  - Performing tests of year-end balances based on risk assessment
  - Evaluating adequacy of disclosures

Risk Assessment for the year ended September 30, 2024 Financial Statements

Our audit is a risk-based audit. Risk assessment procedures include:

- Gain understanding of the entity’s operating characteristics, practices, and procedures.
- Compare to our knowledge of similar entities, industry and professional guidance.
- Review procedures and controls surrounding significant transaction cycles and business processes.

P&B + kdp

Audit Procedures

Significant areas of focus

- Revenue recognition
  - Accounts receivable and accrued revenue
    - Test a sample of customer billings
    - Relate total cash received during the year to revenue
    - Review revenue recognition through year-end and method for determining (accrued revenue)
- Cash
  - Confirmations sent to financial institutions

Audit Procedures

Significant areas of focus

- Accrued Cost of Electricity
  - Review subsequent bills from electricity providers and cash payments
- Other Liabilities
  - Reviewed contracts and other support to determine completeness of amounts recorded
- Financial Statement Note Disclosures – Complete and without bias

Required Board Communications

- There were no new material accounting policies adopted by Silicon Valley Clean Energy Authority throughout the period audited.
- We did not identify any significant or unusual transactions or applications of accounting principles where a lack of authoritative guidance exists.
- We did not propose any adjustments to the financial statements.
- There were no reportable deficiencies or material weaknesses in internal controls identified.

Required Board Communications (continued)

- There have been no disagreements with management concerning the scope of our audit, the application of accounting principles, or the basis for management’s judgments on any significant matters.
- We have not encountered any difficulties in dealing with management during the performance of our audit.

Questions?

Kellin Gilbert: 707-577-1511

KOSMATKA DONNELLY & CO., LLP

Overview of Accounting Rate Stabilization Fund Under GASB 62

Amrit Singh
Audit Committee
February 28, 2025

SILICON VALLEY
CLEAN ENERGY

Purpose

Overview of Staff's Recommendation that the Board establish a Rate Stabilization Fund under GASB 62

Main Areas of Discussion

1. Accounting Rule – GASB 62
2. Other CCA's Using Rate Stabilization Fund
3. Financial Statement Illustration
4. Impact on Reader's of Financial Statement
5. Comparison of Reserves and Rate Stabilization Fund
6. Criteria for Directing and Recognizing Revenues to and from the Rate Stabilization Fund

Direct Earmarked Funds to a Rate Stabilization Fund

GASB 62 Enables Creation of a Rate Stabilization Fund*

- Defer Revenues to Future Period
  - Enables SVCE's Board to establish the fund to defer revenue recognition to future periods
- Impacts the Net Position in the Financial Statements
  - Lowers net position for the year revenues are deferred and increases it for the future year when revenues are recognized
  - Revenues for the applicable fiscal year are reduced, and a corresponding liability is created in the Statement of Net Position (balance sheet)
- Can record after the end of the fiscal year and can start with FY 2024-2025

**The Governmental Accounting Standards Board (GASB) is the organization that determines and updates generally accepted accounting principles (GAAP) for government entities.*

Other CCAs Are Using GASB 62

CCA	Fund Amount ($ Million)
Clean Power Alliance (CPA)	135
Ava Community Energy (East Bay)	79.2
Marin Clean Energy (MCE)	70
Peninsula Clean Energy (PCE)	68

Sonoma Clean Power (SCP) and Orange County Power Authority (OCPA) plan to contribute to a rate stabilization fund.

Financial Statement Impact

MARIN CLEAN ENERGY

STATEMENTS OF REVINUIS, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED MARCH 31, 2024 AND 2023

	2024	2023
OPERATING REVENUES		
Ilcctrkity safes, net	$ 770,344,682	$ 633.836,160
Rale stabilization	(40,000,000)	(19,000.0001)1
Grunt revenue	11,360,450	10,532,421
liquidated damages	26,074,259	7,219,945
Total operating revenues	767,779,391	636,588,526
OPERATING EXPENSES		
Cost of electricity	571,404,901	559,107,368
Contract services	21,157,869	19.389,252
Stall'compensation	20,936,409	17,193,096
Other operating expenses	9,002,600	6.935,136
Depreciation and amortisation	955,278	996,241
Total operating expenses	623,457,057	603,621,093
Operating income	144,322,334	32,967,433
NONOPERATING REVENUES (EXPENSES)		
Grunt revenue	-	4,226,302
Interest and investment returns	15,420,160	4,007,603
Finance costs	(228,825)	(236,468)
Nonoperating revenues (expenses), net	15,191,335	7,997,437
CHANGE IN NET POSITION	159,513,669	40,964,870
Net position at beginning of year	244,171,846	203,206,976
Nel position at end of year	$ 403,685,515	$ 244,171,846

MARIN CLEAN ENERGY

STATEMENTS OF NET POSITION

MARCH 31, 2024 AND 2023

	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents - lairvstnctcd	S 101.027.404	$ 73.348.263
Accounts receivable, net ol'aloxvancc	61.447.640	66,401.473
Accrued revenue	31.912.468	31.180.447
Other receivables	5,822.709	1.985.508
Prepaid expenses	972.203	651.310
Restricted cash	40.322.101	33.782.947
Investments	115.763.550	68.841.532
DcposMs	14.108.352	10.924.834
Total current assets	371.376.427	287.116.314
Noncurrent assets		
Cash and cash equivalents - unrcstnclcd	70.000.000	30.000.000
Investments	149.588.819	45,538.694
CapMal assets, net of deprecation and amortizauon	863.432	1.818,709
DcposMs	203.498	203.499
Total noncurrcnt assets	220,655.749	77.560.902
Total assets	592,032.176	364.677.216
LIABILITIES		
Current kibihtics		
Accrued cost ofclectricty	67.950.289	45.803.423
Accomts pavablc	4.552.442	4.071.832
Other accrued labthtcs	2,713.413	1.845,922
User taxes and energy surcharges due to other governments	1.288.372	3.112.581
Securly deposits - energy suppers	983.400	578.400
Lease habiiocs	536.644	773.620
Advances from grantors	40.322.101	33.782.947
Total current kibihlics	118.346.661	89.968.725
Noncurrvnt kibibues		
Lease habtlurs	-	536.645
Total habites	118,346,661	90.505.370
DEFERRED INHXM'S OF RESOURCES		
Operating Reserve Fund	70,000.000	30.000.000
NET POSITION		
Net posuon		
Net investment n capital assets	326.788	508.444
Univsineled	403.358.727	243.663.402
Total net position	$ 403.685,515	$ 244.171.846

Potential Impact on Readers of Financial Statement

Readers	Pros	Cons	Staff's Overall Assessment
Public	Net position statement reflects unspent but earmarked funds.	Shows unspent funds as liabilities but the Board can redirect to other uses in the future.	Positive
Credit Rating Agencies (S&P and Moody's)	Demonstrates greater Board commitment to separately set aside funds to promote rate stability.	Potential confusion that these liabilities reduce financial liquidity. CCAs, staff consulted with have not experienced this.	Positive
Counterparties (Energy Suppliers, Financial Institutions)	More stable yearly financial statement of Revenues and Expenses (Income Statement).	Potential confusion that these liabilities reduce financial liquidity.	Positive

Reserves and Rate Stabilization Fund

- Reserves (Internally tracked balance; Non-GAAP)
  - Board adopts Reserve targets in the Financial Reserves Policy
  - Reserve targets are designed to withstand plausible risk events
    - Board reviews the reserves policy each year along with the operating budget
    - Staff recommends reserve targets based on risk analyses following the agency's Enterprise Risk Management process
    - Not impacted by the creation of a Rate Stabilization Fund
- Rate Stabilization Fund (GAAP)
  - Can use this GAAP accounting to defer revenues on the financial statements and recognize them later when expenditures occur that correspond to the Board's direction on the utilization of those revenues

Criteria for Deferring & Recognizing Revenues

- At the end of the fiscal year, staff working with SVCE's Accountant may defer Revenues such that total deferred revenues do not exceed the balance of earmarked funds and the GAAP addition to net position does not fall below 2% of the revenues.
    - Unspent or unutilized Program Dollars, along with funds set aside to purchase an SVCE office building, was about $100 million at the beginning of the fiscal year 2024-25.
- If the addition to the GAAP net position falls below 2% of the revenues for any fiscal year and/or to adjust the Rate Stabilization balance to the outstanding balance of all earmarked budgeted funds, revenues may be recognized from the rate stabilization fund.

Thank you! / Feedback / Questions?