



FINANCIAL STATEMENTS

For the Periods:

- Year ended September 30, 2017
- Three-month period ended September 30, 2016
- Three-month period ended June 30, 2016

With Report of Independent Auditors

SILICON VALLEY CLEAN ENERGY AUTHORITY
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

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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 year ended September 30, 2017, the three month period ended September 30, 2016, and the three month period ended June 30, 2016, 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, 2017, September 30, 2016, and June 30, 2016, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

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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.

Perenti & Brinkman LLP

Santa Rosa, California
February 6, 2018

SILICON VALLEY CLEAN ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Silicon Valley Clean Energy Authority's (SVCE) financial activities as of and for the year ended September 30, 2017, three months ended September 30, 2016, and from March 31, 2016 (inception) to June 30, 2016. 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, Monte Sereno, Morgan Hill, Mountain View, Saratoga, and Sunnyvale.

Prior to the creation of Silicon Valley Clean Energy Authority as a JPA, the City of Sunnyvale managed the financial and administrative activities related to the formation of this community choice aggregation program. Pursuant to the JPA, SVCE received initial funding from member agencies of the JPA to provide funding for costs to initiate the entity and its programs incurred prior to formation and until SVCE was able to procure additional financing.

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, 2017, SVCE serves approximately 238,000 customer accounts.

SILICON VALLEY CLEAN ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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 reflects SVCE activities that are funded through the sale of energy to its customers and 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* include all of SVCE's assets, liabilities, and net position using the accrual basis of accounting and include 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 periods presented.
-
- 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.

SVCE's JPA originally established a fiscal year ending June 30. In September 2016, SVCE amended the fiscal year-end to September 30. Accordingly, the financial statements present the following accounting periods:

- March 31, 2016 (inception) through June 30, 2016
- July 1, 2016 through September 30, 2016
- October 1, 2016 through September 30, 2017

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS

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

	September 30, 2017	September 30, 2016	June 30, 2016
Current assets	\$ 61,416,239	\$ 1,897,092	\$ 2,151,172
Noncurrent assets			
Capital assets, net	167,506	-	-
Other noncurrent assets	128,560	28,560	-
Total noncurrent assets	296,066	28,560	-
Total assets	61,712,305	1,925,652	2,151,172
Current liabilities	30,666,808	306,016	202,525
Noncurrent liabilities	2,730,000	2,730,000	2,730,000
Total liabilities	33,396,808	3,036,016	2,932,525
Net position			
Net investment in capital assets	167,506	-	-
Unrestricted (deficit)	28,147,991	(1,110,364)	(781,353)
Total net position	\$ 28,315,497	\$ (1,110,364)	\$ (781,353)

Current Assets

2017 compared to 2016 Current assets reached \$61,416,000 by the end of 2017 and are mostly comprised of the following: \$16,844,000 in cash and cash equivalents, \$21,420,000 in accounts receivable, \$14,976,000 in accrued revenue, \$3,238,000 in deposits, and \$4,400,000 in restricted cash. SVCE did not start providing electricity to customers until April 2017, so at the end of fiscal year ended September 30, 2016 current assets consisted primarily of cash. Since service to customers began, SVCE has operated at a surplus which has resulted in the growth of all categories of current assets. There were two phases of customer enrollments during the fiscal year, with the final occurring in July 2017. Accrued revenue differs from accounts receivable in that it is the result of electricity use by SVCE customers before invoicing to those customers has occurred.

Deposits primarily consist of cash collateral related to energy scheduling on the State's transmission grid.

SILICON VALLEY CLEAN ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of September 2017, capital assets were \$168,000, net of accumulated depreciation, primarily reflecting the acquisition of furniture and equipment accompanying SVCE's establishing its administrative offices during the year. SVCE does not own assets used for electric generation or distribution.

Other Noncurrent Assets

Other noncurrent assets reached \$129,000 in 2017 and primarily consists of various deposits for regulatory and other operating purposes.

Current Liabilities

2017 compared to 2016 Current liabilities at the end of 2017 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, short-term portion of bank note payable and various other accrued liabilities. At the end of the period ended September 30, 2016, the majority of the current liabilities consists of accounts payable unrelated to electricity procurement.

Noncurrent Liabilities

2017 compared to 2016 As part of the formation of SVCE, member agencies provided initial funding totaling \$2,730,000 for costs during the implementation period and for working capital until payments were collected from customers. The initial funding is to be repaid to the members within four years of SVCE's formation.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

	October 1, 2016 - September 30, 2017	July 1, 2016 - September 30, 2016	March 31, 2016 - June 30, 2016
Operating revenues	\$ 93,940,264	\$ -	\$ -
Interest income	1,078	-	-
Total income	93,941,342	-	-
Operating expenses	64,366,230	329,011	781,353
Interest and related expense	149,251	-	-
Total expenses	64,515,481	329,011	781,353
Change in net position	<u>\$ 29,425,861</u>	<u>\$ (329,011)</u>	<u>\$ (781,353)</u>

Operating Revenues

SVCE's customer base grew in two phases throughout fiscal year 2017, with its first approximately 66,000 customers enrolled in April 2017 and another 172,000 enrolled in July 2017. SVCE's gross margin for 2017 was approximately 37%, as operating revenues exceeded the cost of electricity by \$34,638,000. All of 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

2017 compared to 2016 Expenses incurred during fiscal years ended June 30, 2016 and September 30, 2016 were the result of the start-up and implementation of SVCE. No expenses during those periods were related to energy purchases. The increase in operating expenses from fiscal year 2016 to 2017 is largely as the result of energy purchases needed to provide for retail customer use. These power supply costs greatly exceed all other operating expenses. SVCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. Expenses for staff compensation, consulting, and other general and administrative expenses increased in 2017 as the organization grew to support its operations.

SILICON VALLEY CLEAN ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

Silicon Valley Clean Energy serves 97% of all eligible customers in Santa Clara County, and that rate of participation is expected to remain stable into the future. SVCE also filed an implementation plan with the California Public Utilities Commission (CPUC) for expansion into the City of Milpitas. The addition of the City of Milpitas results in a 20% increase in generation load to serve and approximately 25,000 customer accounts. SVCE plans to launch the expansion in May 2018.

SVCE will begin developing programs that focus on the reduction of greenhouse gas emissions. Program investments will focus on:

- **Electrification programs**, which will focus on fuel switching from fossil fuels to clean electricity, and reducing carbon emissions from segments other than electricity production, such as transportation and gas heating;
- **Demand management programs**, which will help our customers use clean electricity when availability is the highest and prices are lowest, and reduce the need to use fossil fuels to support steep daily production ramps in the late afternoon and early evening hours;
- **Foundational programs**, which will represent ongoing programs that SVCE's customer care team will provide to advance clean electricity use and carbon reduction in our member communities, as well as education and awareness for all customers.

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. As a result, SVCE has prioritized regulatory work on customer exit fees. A CPUC proceeding on the topic should provide clarity by summer 2018.

SVCE has a strong focus on building credit capacity through building cash reserves and entering into favorable energy purchase commitments with the intent of securing a strong credit rating in 2020. This will help create a stable environment for SVCE and its ratepayers.

SVCE will partner with Monterey Bay Community Power for a Request for Offer (RFO) in long-term power purchase agreements in 2018. The joint procurement process will allow SVCE to receive bids from larger projects and take advantage of economies of scale. SVCE will also encourage solar projects to include storage to enhance reliability of the grid. SVCE will continue to diversify its power portfolio with projects based on location, technology, term length and size to mitigate risk and align with SVCE's risk management policy and procurement goals.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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,

Don Eckert, Interim Chief Executive Officer

BASIC FINANCIAL STATEMENTS

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

	September 30, 2017	September 30, 2016	June 30, 2016
ASSETS			
Current assets			
Cash and cash equivalents	\$ 16,843,597	\$ 1,706,126	\$ 1,985,581
Accounts receivable, net of allowance	21,420,350	-	-
Energy settlements receivable	266,328	-	-
Accrued revenue	14,976,322	-	-
Other receivables	200,000	165,591	165,591
Prepaid expenses	71,842	25,375	-
Deposits	3,237,800	-	-
Restricted cash	4,400,000	-	-
Total current assets	61,416,239	1,897,092	2,151,172
Noncurrent assets			
Capital assets, net of depreciation	167,506	-	-
Deposits	128,560	28,560	-
Total noncurrent assets	296,066	28,560	-
Total assets	61,712,305	1,925,652	2,151,172
LIABILITIES			
Current liabilities			
Accounts payable	850,222	154,955	-
Accrued cost of electricity	25,988,111	-	-
Accrued interest payable	7,226	-	-
Accrued payroll and benefits	85,023	10,489	11,828
Other accrued liabilities	20,900	140,572	190,697
Taxes and surcharges due to other governments	815,326	-	-
Note payable to bank	2,900,000	-	-
Total current liabilities	30,666,808	306,016	202,525
Noncurrent liabilities			
Loans payable to JPA members	2,730,000	2,730,000	2,730,000
Total liabilities	33,396,808	3,036,016	2,932,525
NET POSITION			
Net investment in capital assets	167,506	-	-
Unrestricted (deficit)	28,147,991	(1,110,364)	(781,353)
Total net position	\$ 28,315,497	\$ (1,110,364)	\$ (781,353)

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
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

	<u>October 1, 2016 - September 30, 2017</u>	<u>July 1, 2016 - September 30, 2016</u>	<u>March 31, 2016 - June 30, 2016</u>
OPERATING REVENUES			
Electricity sales, net	\$ 93,650,174	-	-
GreenPrime electricity premium	290,090	-	-
Total operating revenues	<u>93,940,264</u>	<u>-</u>	<u>-</u>
OPERATING EXPENSES			
Cost of electricity	59,302,601	-	-
Staff compensation and benefits	1,511,113	\$ 76,110	\$ 33,003
Data management	1,038,131	-	-
Service fees - PG&E	280,922	-	-
Consultants and other professional fees	627,283	195,553	620,029
Legal	348,905	30,443	82,751
Communications and noticing	804,538	26,054	43,981
General and administration	429,655	851	1,589
Depreciation	23,082	-	-
Total operating expenses	<u>64,366,230</u>	<u>329,011</u>	<u>781,353</u>
Operating income (loss)	<u>29,574,034</u>	<u>(329,011)</u>	<u>(781,353)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,078	-	-
Interest and related expense	(76,033)	-	-
Financing costs	(73,218)	-	-
Total nonoperating revenues (expenses)	<u>(148,173)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	29,425,861	(329,011)	(781,353)
Net position at beginning of period	<u>(1,110,364)</u>	<u>(781,353)</u>	<u>-</u>
Net position at end of period	<u>\$ 28,315,497</u>	<u>\$ (1,110,364)</u>	<u>\$ (781,353)</u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

	October 1, 2016 - September 30, 2017	July 1, 2016 - September 30, 2016	March 31, 2016 - June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from electricity sales	\$ 57,704,107	-	-
Tax and surcharge receipts from customers	1,347,868	-	-
Energy settlements received	14,770,083	-	-
Payments to purchase electricity	(48,350,900)	-	-
Payments for staff compensation and benefits	(1,445,854)	\$ (77,449)	\$ (20,957)
Payments for consultants and other professional fees	(1,435,231)	(110,186)	(24,777)
Payments for legal fees	(313,142)	(10,980)	(18,685)
Payments for communications and noticing	(827,682)	(26,054)	-
Payments for general and administration	(414,978)	(26,226)	-
Tax and surcharge payments to other governments	(893,056)	-	-
Net cash provided (used) by operating activities	<u>20,141,215</u>	<u>(250,895)</u>	<u>(64,419)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Note proceeds from bank	4,400,000	-	-
Loan proceeds from JPA members	165,591	-	2,050,000
Payments of deposits and collateral	(3,837,800)	(28,560)	-
Principal payments on note	(1,500,000)	-	-
Deposits and collateral received	500,000	-	-
Interest and related expense payments	(68,807)	-	-
Finance costs paid	(73,218)	-	-
Net cash provided (used) by non-capital financing activities	<u>(414,234)</u>	<u>(28,560)</u>	<u>2,050,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	<u>(190,588)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	<u>1,078</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	19,537,471	(279,455)	1,985,581
Cash and cash equivalents at beginning of year	1,706,126	1,985,581	-
Cash and cash equivalents at end of period	<u>\$ 21,243,597</u>	<u>\$ 1,706,126</u>	<u>\$1,985,581</u>

Noncash Non-Capital Financing Activities during the period ended June 30, 2016:

- Expenses of \$514,409 were financed directly from loan proceeds

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

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

	<u>October 1, 2016 - September 30, 2017</u>	<u>July 1, 2016 - September 30, 2016</u>	<u>March 31, 2016 - June 30, 2016</u>
Operating income (loss)	\$ 29,574,034	\$ (329,011)	\$ (781,353)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation expense	23,082	-	-
Revenue reduced for uncollectible accounts	472,062	-	-
Expenses paid directly from loan proceeds	-	-	514,409
(Increase) decrease in net accounts receivable	(21,892,412)	-	-
(Increase) decrease in energy settlements receivable	(266,328)	-	-
(Increase) decrease in accrued revenue	(14,976,322)	-	-
(Increase) decrease in other receivables	(200,000)	-	-
(Increase) decrease in prepaid expenses	(46,467)	(25,375)	-
Increase (decrease) in accounts payable	695,267	154,955	-
Increase (decrease) in accrued cost of electricity	25,988,111	-	-
Increase (decrease) in accrued payroll and benefits	74,534	(1,339)	11,828
Increase (decrease) in other accrued liabilities	(119,672)	(50,125)	190,697
Increase (decrease) taxes and surcharges liability	815,326	-	-
Net cash provided (used) by operating activities	<u>\$ 20,141,215</u>	<u>\$ (250,895)</u>	<u>\$ (64,419)</u>

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Silicon Valley Clean Energy Authority (SVCE) is a joint powers authority created on March 31, 2016 and its voting members consist of the County of Santa Clara, and the cities and towns of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, Mountain View, Saratoga, and Sunnyvale. At September 30, 2017, SVCE is governed by a twelve-member Board of Directors, one appointed by each of the members.

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.

FISCAL YEAR

SVCE's JPA originally established a fiscal year ending June 30. In September 2016, SVCE changed its fiscal year-end to September 30.

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Net Position, SVCE has defined cash and cash equivalents to include cash on hand and demand deposits. Amounts restricted for debt collateral and amounts restricted as part of a multi-party lockbox agreement are not considered cash and cash equivalents. These restricted balances are presented separately in the Statements of Net Position. Restricted cash is included as cash and cash equivalents on the Statements of Cash Flows.

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS

Deposits are classified as current or noncurrent assets depending on the length of the time the deposits will be held. The current portion of deposits consists of approximately \$3,238,000 held by SVCE's energy scheduling coordinator as required by the California Independent System Operator. Components of noncurrent 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.

OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. During the fiscal year ending September 30, 2017, this was SVCE's only source of operating revenue.

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 yet to be billed. Management estimates that a portion of the billed amounts will not be collected. Accordingly, an allowance 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. As part of the security agreement with its main suppliers, SVCE is required to maintain a cash balance of \$2,500,000 to ensure funds are available to purchase electrical power. This cash balance is presented as restricted cash in the Statements of Net Position.

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

SVCE purchases electrical power from numerous suppliers. Included in the cost of electricity are the cost of the energy, ancillary services, other CAISO charges, as well as load and generation credits. 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.

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. Cash and cash equivalents reported in the Statements of Cash Flows consist of the following:

	September 30, 2017	September 30, 2016	June 30, 2016
Cash - unrestricted	\$ 16,843,597	\$ 1,706,126	\$ 1,985,581
Cash - restricted for security agreement	2,500,000	-	-
Cash - restricted for debt collateral	1,900,000	-	-
Total	<u>\$ 21,243,597</u>	<u>\$ 1,706,126</u>	<u>\$ 1,985,581</u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable were as follows:

	September 30, 2017	September 30, 2016	June 30, 2016
Accounts receivable from customers	\$ 21,892,412	\$ -	\$ -
Allowance for uncollectible accounts	(472,062)	-	-
Net accounts receivable	<u>\$ 21,420,350</u>	<u>\$ -</u>	<u>\$ -</u>

The majority of account collections occur within the first few months following customer invoicing. SVCE continues collection efforts on delinquent accounts that exceed a minimum balance, otherwise the accounts are written off. For delinquent accounts that are not written off and are above a certain level, SVCE will close the account to minimize further loss. 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 2016-17 were \$472,000.

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.

4. ENERGY SETTLEMENTS RECEIVABLE

During fiscal 2016/17 SVCE entered into a contract to receive generation scheduling and other services from a registered, California Independent System Operator (CAISO) scheduling coordinator. Energy settlements due from the scheduling coordinator were \$266,000 as of September 30, 2017.

5. CAPITAL ASSETS

Changes in capital assets were as follows:

	Furniture & Equipment	Accumulated Depreciation	Net
Balances at September 30, 2016	-	-	-
Additions	\$ 190,588	\$ (23,082)	\$ 167,506
Balances at September 30, 2017	<u>\$ 190,588</u>	<u>\$ (23,082)</u>	<u>\$ 167,506</u>

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016**

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 is to provide cash to pay for energy purchases and operating expenses which are due before revenue is collected from customers. The notes are 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 can be drawn as needed and interest accrues on the outstanding balance and is 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.

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 Statement of Net Position. No principal payments have been made through the year ended September 30, 2017. In January 2018, SVCE repaid all of its loans from members.

Below is a summary of these loans by member:

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><u>\$ 2,730,000</u></u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016

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>
Period ended June 30, 2016				
JPA Member loans	\$ -	\$2,730,000	\$ -	\$2,730,000
Amounts due within one year				-
Amounts due after one year				<u>\$2,730,000</u>
Period ended September 30, 2016				
JPA Member loans	\$2,730,000	\$ -	\$ -	\$2,730,000
Amounts due within one year				-
Amounts due after one year				<u>\$2,730,000</u>
Period 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	2,730,000	-	-	2,730,000
Total	<u>\$2,730,000</u>	<u>\$4,400,000</u>	<u>\$(1,500,000)</u>	<u>\$5,630,000</u>
Amounts due within one year				(2,900,000)
Amounts due after one year				<u>\$2,730,000</u>

Future debt service requirements are as follows:

Year ended September 30,	
2018	\$2,900,000
2019	-
2020	2,730,000
Total	<u>\$5,630,000</u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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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, 2017, SVCE had 13 plan participants. SVCE is required to contribute up to 10% of covered payroll as a match to employee contributions. SVCE contributed approximately \$104,000 during the year ended September 30, 2017. 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. During the year ended September 30, 2017, SVCE purchased 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

SVCE had outstanding non-cancelable power purchase-related commitments of approximately \$471.5 million for energy that has not yet been provided under power purchase agreements that continue to December 2021.

The following table is the approximated obligations on existing energy and renewable contracts as of September 30, 2017.

Year Ended September 30,	
2018	\$ 162,550,000
2019	135,110,000
2020	110,930,000
2021	53,770,000
2022	9,160,000
	<u>\$ 471,520,000</u>

As of September 30, 2017, SVCE had outstanding non-cancelable commitments to service providers for services yet to be performed of approximately \$8.1 million through March 2020.

SILICON VALLEY CLEAN ENERGY AUTHORITY
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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 current lease was \$209,000 for the year ended September 30, 2017.

Future minimum lease payments under the lease are as follows:

Year ended September 30,		
2018	\$	310,588
2019		319,904
2020		329,504
2021		339,392
2022		114,240
Total	\$	<u>1,413,628</u>

11. SUBSEQUENT EVENTS

In November 2017, SVCE's Board of Directors authorized the expansion of services to the City of Milpitas with the start of service expected in 2018.

In December 2017, SVCE repaid in full its revolving note with River City Bank. In January 2018, SVCE repaid all of its loans from JPA members.