



Rob Rennie, Chair
Town of Los Gatos

Daniel Harney, Vice Chair
City of Gilroy

Liz Gibbons
City of Campbell

Rod Sinks
City of Cupertino

Jeannie Bruins
City of Los Altos

Courtenay C. Corrigan
Town of Los Altos Hills

Marsha Grilli
City of Milpitas

Burton Craig
City of Monte Sereno

Steve Tate
City of Morgan Hill

Margaret Abe-Koga
City of Mountain View

Dave Cortese
County of Santa Clara

Howard Miller
City of Saratoga

Nancy Smith
City of Sunnyvale

Silicon Valley Clean Energy Audit and Finance Committee Meeting

Wednesday, January 31, 2018
12:00 pm

Silicon Valley Clean Energy Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

The public may provide comments on any item not on the Agenda. Speakers are limited to 3 minutes each.

Consent Calendar

- 1) Approve Minutes from the November 8, 2017 Audit and Finance Committee Meeting

Regular Calendar

- 2) Financial Auditor Report from Pisenti & Brinker, LLP (Discussion)
- 3) Defer Selection of Chair/Vice Chair to Next Meeting (Action)
- 4) Future Fiscal Year Meeting Schedule (Discussion)
- 5) Audit and Finance Committee Composition (Discussion)
- 6) Review Fiscal Year-to-date Financials (Discussion)

Committee/Staff Remarks

Adjourn

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Suite 290
Sunnyvale, CA 94087



**Silicon Valley Clean Energy
Audit and Finance Committee Meeting**

Wednesday, November 8, 2017
12:00 pm

Silicon Valley Clean Energy Office
Conference Room
333 W El Camino Real, Suite 290
Sunnyvale, CA

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County of Santa Clara

Howard Miller
City of Saratoga

Jim Griffith
City of Sunnyvale

DRAFT MINUTES

Call to Order

Interim CEO Don Eckert called the meeting to order at 12:15 p.m.

Roll Call

Present:

Director Liz Gibbons, City of Campbell
Director Courtenay Corrigan, Town of Los Altos Hills (arrived at 12:43 p.m.)
Director Howard Miller, City of Saratoga
Director Burton Craig, City of Monte Sereno

Absent:

Director Dave Cortese, County of Santa Clara

Public Comment on Matters Not Listed on the Agenda

No speakers.

Interim CEO Eckert introduced Stephanie Gutowski, Administrative Analyst.

Regular Calendar

1) Approve Regular Meeting Time, Date, and Location for Audit and Finance Committee (Action)

Interim CEO Eckert introduced the item and responded to Committee questions. Following a brief discussion, Audit and Finance Committee members agreed to hold discussion on Items 1 and 2 until Director Corrigan arrived.

Without objection, the Committee considered Items 3, 4, and 5.

3) Recommend External Financial Auditor (Action)

Following Item 1, the Committee considered Item 3.

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Rob Rennie, Chair
Town of Los Gatos

Interim CEO Eckert introduced the item and responded to Committee questions; Committee members requested clarification on the reference on page 3 of the distributed proposal for Pisenti & Brinker, LLP to being a “governmental entity Audit Partner through our affiliation with RSM” to confirm that work would not be sub-contracted out, and requested figures for Sonoma Clean Power’s operating budget.

Daniel Harney, Vice Chair
City of Gilroy

Interim CEO Eckert noted his action item would be to get clarification that the work would not be subcontracted out, then work on a contract with Pisenti & Brinker, LLP to bring to the Board on November 29.

Liz Gibbons
City of Campbell

MOTION: Director Gibbons moved and Director Miller seconded the motion to accept staff recommendation for the outside auditor, answering the questions posed.

Rod Sinks
City of Cupertino

The motion carried unanimously with Directors Corrigan and Cortese absent.

Jeannie Bruins
City of Los Altos

4) Recommend Retirement of Member Agency Loan and Revolving Line of Credit (Action)

Courtenay C. Corrigan
Town of Los Altos Hills

Interim CEO Eckert presented the item and responded to Audit and Finance Committee questions. The Audit and Finance Committee discussed the Member Agency Loan and Revolving Line of Credit.

Burton Craig
City of Monte Sereno

Audit and Finance Committee members suggested addressing the items separately when presenting to the Board as opposed to one item.

Steve Tate
City of Morgan Hill

MOTION: Director Miller moved and Director Gibbons seconded the motion to move forward with a two motion staff report to the Board to retire the Member Agency Loan and Revolving Line of Credit.

Margaret Abe-Koga
City of Mountain View

The motion carried unanimously with Directors Corrigan and Cortese absent.

Dave Cortese
County of Santa Clara

5) Review of Fiscal Year 2016-17 Preliminary and Unaudited Financial Statements (Discussion)

Interim CEO Eckert presented a PowerPoint presentation and responded to Audit and Finance Committee questions.

Howard Miller
City of Saratoga

Committee members provided feedback on the presentation and suggested a white paper for Directors on key talking points for SVCE financials.

Jim Griffith
City of Sunnyvale

Following Item 5, the Board returned to discussion on Item 1.

1) Approve Regular Meeting Time, Date, and Location for Audit and Finance Committee (Action)

Audit and Finance Committee members discussed the composition of the group, the understanding that all members including alternates must be from the Board, and suggested eliminating the option for alternates. Board Clerk Andrea Pizano noted that the suggestion could be brought to the Board at the November meeting.

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Members discussed availability for the next Audit and Finance Committee meeting; Interim CEO Eckert noted the next meeting would be held at the SVCE office.



Rob Rennie, Chair
Town of Los Gatos

MOTION: Director Miller moved and Director Craig seconded the motion to schedule the next Audit and Finance Committee meeting to January 31, 2018 at noon.

The motion carried unanimously with Director Cortese absent.

Daniel Harney, Vice Chair
City of Gilroy

2) Select Audit and Finance Committee Chair and Vice Chair (Action)

As a result of discussion from previous items, members were in consensus to move the selection of the Chair and Vice Chair to the next meeting.

Liz Gibbons
City of Campbell

MOTION: Director Craig moved and Director Gibbons seconded the motion to delay the selection of a Chair and Vice Chair to the next scheduled Audit and Finance Committee meeting.

Rod Sinks
City of Cupertino

The motion carried unanimously with Director Cortese absent.

Jeannie Bruins
City of Los Altos

Committee/Staff Remarks

Courtenay C. Corrigan
Town of Los Altos Hills

Board Clerk Pizano restated the suggestion of committee makeup and alternates would be brought to the full Board for approval.

Burton Craig
City of Monte Sereno

Adjournment

Interim CEO Eckert adjourned the meeting at 1:30 p.m.

Steve Tate
City of Morgan Hill

Margaret Abe-Koga
City of Mountain View

Dave Cortese
County of Santa Clara

Howard Miller
City of Saratoga

Jim Griffith
City of Sunnyvale

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Staff Report – Item 2

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 2: Financial Auditor Report from Pimenti & Brinker, LLP

Date: 1/31/2018

BACKGROUND

In accordance with Financial Policy #1 (FP1), Accounting Policy, the annual audit of the financial statements has been completed and the draft report prepared by Pimenti & Brinker, LLP has been issued to the Agency. The auditors have rendered a clean opinion and *"found 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 ended in accordance with accounting principles generally accepted in the United States of America."*

Basic Financial Statements

The Statement of Net Position presents information about assets and liabilities with the difference between the two reported as net position. The change in net position over time is an indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reports how net position changed during the year and presents a comparison between operating and non-operating revenues, and operating and non-operating expenses. Operating revenues and expenses are related to the Agency's principal business of providing carbon-free electricity.

The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other sources and uses, such as financing and investing activities.

Notes to the Financial Statements

Various notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements. These are found immediately following the financial statements to which they refer.

ANALYSIS & DISCUSSION

The following represents some highlights as of September 30, 2017

- As of September 30, 2017, total assets were \$61.7 million, with \$61.4 million of current assets. Current assets are mostly comprised of \$16.8 million of cash and cash equivalents, \$21.4 million in accounts receivable, \$15.0 million in accrued revenue, \$3.2 million in deposits, and \$4.4 million in restricted cash. At the end of the fiscal year ended September 30, 2016, current assets primarily consisted of cash. Since operations began in April 2017, SVCE has operated at a surplus which has resulted in growth of all categories of current assets.
- As of September 30, 2017, total liabilities were \$33.4 million, with \$30.7 million of current liabilities. Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by SVCE. Other components include the short-term portion of the bank note payable,

Agenda Item: 2**Agenda Date: 1/31/2018**

accounts payable, and taxes and surcharges due to governments. At the end of fiscal year ended September 30, 2016, the majority of current liabilities consists of accounts payable unrelated to electricity procurement.

- As of September 30, 2017, total revenues were \$94.0 million primarily from the sale of carbon-free electricity. Operating revenues exceeded the cost of electricity by \$34.7 million resulting in a gross margin of 37% enabling the Agency to build its cash reserves.
- As of September 30, 2017, total expenses were \$64.5 million. The increase in operating expenses from fiscal year 2016 to 2017 is largely the result of energy purchases needed to provide for retail customer use. Expenses for staff compensation, consulting, and other general and administrative expenses increased in 2017 as the organization grew to support its operations.

BUDGETARY/FISCAL IMPACT

During Fiscal Year 2016-17, SVCE's total revenues exceeded total expenses, resulting in an increase to Net Position of \$29.4 million.

SVCE's Auditors, Pimenti & Brinker LLP, issued an unqualified ("clean") opinion on the Agency's financials for the year ended September 30, 2017, three-month period ended September 30, 2016, and the three-month period ended June 30, 2016.

ATTACHMENTS

1. Financial Statements for the period Year ended September 30, 2017, Three-month period ended September 30, 2016, Three-month period ended June 30, 2016, and the Report of Independent Auditors



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.

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.

Santa Rosa, California
XXXXXXX

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	\$ 29,425,861	\$ (329,011)	\$ (781,353)

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

DRAFT

BASIC FINANCIAL STATEMENTS

DRAFT

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	<u>61,416,239</u>	<u>1,897,092</u>	<u>2,151,172</u>
Noncurrent assets			
Capital assets, net of depreciation	167,506	-	-
Deposits	128,560	28,560	-
Total noncurrent assets	<u>296,066</u>	<u>28,560</u>	<u>-</u>
Total assets	<u><u>61,712,305</u></u>	<u><u>1,925,652</u></u>	<u><u>2,151,172</u></u>
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	<u>30,666,808</u>	<u>306,016</u>	<u>202,525</u>
Noncurrent liabilities			
Loans payable to JPA members	2,730,000	2,730,000	2,730,000
Total liabilities	<u>33,396,808</u>	<u>3,036,016</u>	<u>2,932,525</u>
NET POSITION			
Net investment in capital assets	167,506	-	-
Unrestricted (deficit)	28,147,991	(1,110,364)	(781,353)
Total net position	<u><u>\$ 28,315,497</u></u>	<u><u>\$ (1,110,364)</u></u>	<u><u>\$ (781,353)</u></u>

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

	October 1, 2016 - September 30, 2017	July 1, 2016 - September 30, 2016	March 31, 2016 - June 30, 2016
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

	<u>October 1, 2016 - September 30, 2017</u>	<u>July 1, 2016 - September 30, 2016</u>	<u>March 31, 2016 - June 30, 2016</u>
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	<u>1,706,126</u>	<u>1,985,581</u>	<u>-</u>
Cash and cash equivalents at end of period	<u><u>\$ 21,243,597</u></u>	<u><u>\$ 1,706,126</u></u>	<u><u>\$ 1,985,581</u></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>\$ 2,730,000</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	<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>	<u>\$5,630,000</u>
Amounts due within one year				<u>(2,900,000)</u>
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	<u>2,730,000</u>
Total	<u>\$5,630,000</u>

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

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
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED SEPTEMBER 30, 2017 AND 2016, AND JUNE 30, 2016**

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 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.



Staff Report – Item 3

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 3: Defer Selection of Chair/Vice Chair to Next Meeting

Date: 1/31/2018

RECOMMENDATION

Defer the selection of a Chair and Vice Chair of the Audit and Finance Committee to allow for any new members to provide input and participate in the process for appointment.

BACKGROUND

At the November 8, 2017 Audit and Finance Committee meeting, members agreed to postpone the selection of a Chair and Vice Chair to the next scheduled Audit and Finance Committee meeting.

ANALYSIS & DISCUSSION

Being that this meeting occurs before the February Board meeting where Committee Assignments for 2018 will be made, Staff recommends deferring the selection of a Chair/Vice Chair for this group to the next Audit and Finance Committee meeting. This will allow for any new members that join to provide input and participate in who will be serving as Chair and Vice Chair, as well as allow for any changes to the composition of the group.

CONCLUSION

Delaying the selection of the Chair and Vice Chair until the next scheduled Audit and Finance Committee meeting would be practical for accommodating any potential changes that might occur within the group.

**Staff Report – Item 4**

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 4: Future Fiscal Year Meeting Schedule

Date: 1/31/2018

BACKGROUND

It is recommended by the Government Finance Officers Association (GFOA) that the audit committee establish a timeline for essential meetings, yet be flexible and willing to meet more frequently as circumstances warrant or as issues arise.

The following is a recommended timeline for future Audit and Finance Committee meetings for Fiscal Year 2017-18:

- Early March 2018
 - Review Mid-Year Budget Adjustments
 - Investment strategies for operating surplus
 - Select Chair/Vice-Chair
 - Review Quarter 1 financial results
- June 2018
 - Review Quarter 2 financial results
 - Preview FY 2018-19 budget process and strategic plan
- August 2018
 - Review Quarter 3 financial results
 - Review Proposed FY 2018-19 Budget



Staff Report – Item 5

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 5: Audit and Finance Committee Composition

Date: 1/31/2018

BACKGROUND

At the June 14, 2017 Board of Directors meeting, the Board approved the motion to appoint five Board members to the Audit and Finance Committee with the option to select a committee alternate who could be a staff member of their respective communities. After further review, staff noted that Financial Policy #1 (FP1), Accounting Policy, states "*the audit committee, consistent with the Sarbanes Oxley Act, shall have Board member representation only.*" The policy only allows members of the Audit and Finance Committee to be members of the Agency's governing body. The current policy was based on the recommendation from the Government Finance Officers Association (GFOA).

At the November 8, 2017 Audit and Finance Committee meeting, committee members supported eliminating the option to have alternates on the Committee with the intention to maintain consistency of the members. The recommendation was brought to the Board at the December 13, 2017 Board of Directors meeting, where the Board approved the motion to eliminate the option for committee alternates to serve on the Audit and Finance Committee.

During discussion, the Board also proposed the possibility of removing the Sarbanes-Oxley Act provision from FP1 to allow member agency finance staff to serve on the Audit and Finance Committee. The Board gave direction to the Audit and Finance Committee to deliberate and determine whether the Committee would be better served by having a different committee structure and to return with a recommendation to the Board.

ANALYSIS & DISCUSSION

Option 1: No change to FP1

The current structure of the Audit and Finance Committee, as approved by the Board of Directors at the December 2017 meeting, is maintained. Members of the Audit and Finance Committee must be members of SVCE's Board of Directors.

Option 2: Amend FP1 to remove the Sarbanes-Oxley Act language

This option will not require members serving on the Audit and Finance Committee to be from SVCE's Board of Directors. A Board Director electing to serve on the Audit and Finance Committee could choose an alternate who is not from SVCE's governing body. Ideally, the alternate would possess a basic understanding of governmental financial reporting and auditing. This option will require action at the following Board of Directors meeting.

ATTACHMENTS

1. FP1 – Accounting Policy
2. GFOA Recommendations for State and Local Governments Audit Committee



FP1

Category: FINANCE

ACCOUNTING POLICY

I. PURPOSE

The purpose of this policy is to document the Authority's method of accounting, audit schedule and standards of internal controls.

II. POLICY

1. The Authority will establish accounting practices that conform to Generally Accepted Accounting Principles (GAAP) for governmental entities.
2. An independent firm of Certified Public Accountant (CPAs) shall perform an annual financial audit and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following fiscal year-end.
3. Audit contracts shall be competitively bid at least every five years, or sooner as desired by the Board. Staff will present the process and the results of its screening and selection process of the external auditor to the SVCE Board.
4. Quarterly, the Authority's Accounting Statements including a Balance Sheet, a Profit and Loss Statement and a Supplementary Schedule of Capital Projects shall be submitted to the SVCE Board of Directors.
5. Internal control procedures consistent with Section 404 of Sarbanes Oxley Act, shall be developed and routinely updated to ensure accurate financial reporting and an effective internal control structure over the assets of the Authority.



FP1

Category: FINANCE

6. The SVCE Board of Directors may form a five-member advisory committee to serve as the Finance and Audit Committee. The committee primarily will be engaged in an oversight function regarding the Authority's financial reporting processes and the effectiveness over internal controls. The audit committee, consistent with the Sarbanes Oxley Act, shall have Board member representation only. The external auditor shall report results directly to the Audit Committee.
7. A management letter, the by-product of an annual audit, shall be presented to the SVCE Board by the independent certified public accounting firm no later than 60 days from issuance of the Authority's CAFR. The Board shall have final approval over the audit.



Audit Committees

BEST PRACTICE

BACKGROUND:

Three main groups are responsible for the quality of financial reporting: the governing body,¹ financial management, and the independent auditors. Of these three, the governing body must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.² An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the governments financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.³

RECOMMENDATION:

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body⁴ of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible⁵ for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.⁶ Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;⁷
- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.⁸ The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;⁹

- All members of the audit committee should be members of the governing body. To ensure the committees independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;¹⁰
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a governments financial reporting processes, internal controls and independent auditors;¹¹
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committees charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.¹² The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls¹³;
- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities¹⁴; and
- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,¹⁵ and privately among committee members,¹⁶ and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Notes:

¹ For the purposes of this recommended practice, the term “ governing body” should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.

² *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Overview and Recommendations.

³ Securities and Exchange Commission (SEC) Regulation 33-8220, “ Background and Overview of the New Rule and Amendments.

⁴ For the purposes of this recommended practice, the term governing body should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.

⁵ Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

⁶ Sarbanes Oxley Act, Section 301.

⁷ *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 4.

⁸ *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be

kept in mind when considering the appropriate length of service for audit committee members.

⁹ Sarbanes-Oxley Act, Section 407.

¹⁰ In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by sunshine laws and similar open meetings legislation.

¹¹ SEC Regulation 330-8220, Background and Overview.

¹² Sarbanes Oxley Act, Section 301.

¹³ *Internal Control Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations (COSO, 2007), page 10.

¹⁴ Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

¹⁵ It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.

¹⁶ It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such an encounter in these limited circumstances.



Staff Report – Item 6

To: Silicon Valley Clean Energy Audit and Finance Committee

From: Donald Eckert, Interim CEO

Item 6: Review Fiscal Year-to-date Financials

Date: 1/31/2018

BACKGROUND

The Audit and Finance Committee will be updated quarterly on the financial condition of Silicon Valley Clean Energy (SVCE). However, staff will alert the Audit and Finance Committee of trends or issues as they arise.

ANALYSIS & DISCUSSION

The table below summarizes the financial performance compared to budget for the first two months of FY 2017-18:

SVCE				
Through 2 Months of FY 2017-18				
<i>\$ in Thousands</i>	<u>FYTD Actual</u>	<u>FYTD Budget</u>	<u>Variance</u>	
Energy Sales	38,046	42,659	(4,612)	-11%
Power Supply & Billing Services	28,810	32,474	3,664	11%
Gross Margin	9,236	10,184	(948)	-9%
Other Operating	656	1,079	423	39%
Programs	0	797	797	
Non-Operating & Capital	16	(3)	(19)	582%
Net	<u>\$8,565</u>	<u>\$8,311</u>	<u>\$253</u>	<u>3%</u>

The first two months are showing energy sales with an unfavorable variance compared to budget. A few reasons for the shortfall include:

- Financials do not include final meter data from California Independent System Operator (CAISO).
- Energy efficiency is possibly a driver but the impact is difficult to measure.
- Weather may have an impact but October was an unusually warm month and November was normal.
- Other Community Choice Aggregators (CCA) have experienced the same trend.

Partially offsetting the shortfall in revenues is a favorable variance in expenses including:

- Power Supply is favorable to budget due to excess power supply being sold to CAISO.
- Controllable costs are favorable to budget based on fiscal management and timing.

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CONCLUSION

Staff will monitor the shortfall in revenues. If the actual meter data does not materially reduce the unfavorable variance and the December preliminary energy sales are also unfavorable to budget, staff will re-forecast revenues during the mid-year budget process. Staff will also make the appropriate adjustments to expenses to best achieve the original budgeted operating surplus.