



Silicon Valley Clean Energy Authority

Financial Statements
Years Ended:

September 30, 2020
September 30, 2019

With Report of Independent Auditors



SILICON VALLEY CLEAN ENERGY AUTHORITY
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Silicon Valley Clean Energy Authority (SVCE), as of and for the years ended September 30, 2020 and 2019, 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, 2020 and 2019 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Santa Rosa, California

March 5, 2021

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

The Management's Discussion and Analysis provides an overview of Silicon Valley Clean Energy Authority's (SVCE) financial activities as of and for the years ended September 30, 2020 and 2019. 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 electricity it furnishes, incur indebtedness, and issue bonds or other obligations. SVCE is responsible for the acquisition of electric power for its service area. SVCE serves the unincorporated areas of Santa Clara County and the cities and towns of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Saratoga, and Sunnyvale.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Financial Reporting

SVCE presents its financial statements as an enterprise fund under the economic resources measurement focus and accrual basis of accounting, in accordance with generally accepted accounting principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this report

This report is divided into the following sections:

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

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS

The following table is a summary of SVCE's assets, liabilities, and net position and a discussion of significant changes for the years ending September 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 220,538,554	\$ 177,676,248	\$ 108,758,726
Noncurrent assets			
Capital assets, net	119,175	148,038	184,319
Other noncurrent assets	145,130	129,060	6,192,560
Total noncurrent assets	<u>264,305</u>	<u>277,098</u>	<u>6,376,879</u>
Total assets	<u>220,802,859</u>	<u>177,953,346</u>	<u>115,135,605</u>
Current liabilities	<u>39,659,471</u>	<u>34,958,389</u>	<u>36,700,885</u>
Net position			
Investment in capital assets	119,175	148,038	184,319
Restricted for security collateral	4,500,000	5,000,000	2,000,000
Unrestricted	<u>176,524,213</u>	<u>137,846,919</u>	<u>76,250,401</u>
Total net position	<u>\$ 181,143,388</u>	<u>\$ 142,994,957</u>	<u>\$ 78,434,720</u>

Current Assets

Current assets were approximately \$220,539,000 at the end of 2020 and are mostly comprised of cash, accounts receivable, and accrued revenue. 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. The total of current assets increased each year as a result of SVCE's operating surplus.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

Capital Assets

Capital assets were approximately \$119,000 at the end of 2020, net of accumulated depreciation, primarily consisting of furniture and electronic equipment for use in SVCE's administrative office. SVCE does not own assets used for electric generation or distribution.

Other Noncurrent Assets

Other noncurrent assets were approximately \$6,193,000 at the end of 2018 and primarily consisted of various deposits for energy supply, regulatory and other operating purposes. The majority of deposits classified as long term at the end of 2018 were returned ahead of schedule, resulting in a large decrease in that category for 2020 and 2019.

Current Liabilities

This category consists mostly of the cost of electricity delivered to customers that is not yet due to be paid by SVCE. Other components include taxes and surcharges due to other governments and various other accrued liabilities. The largest change in this category, for both years, relates to changes in accrued cost of electricity.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

The following table is a summary of SVCE's results of operations and a discussion of significant changes for the years ending September 30:

	2020	2019	2018
Operating revenues	\$ 303,643,720	\$ 292,473,135	\$ 249,948,112
Nonoperating revenues	1,729,841	1,230,787	153,840
Total income	305,373,561	293,703,922	250,101,952
Operating expenses	266,874,619	228,999,528	199,967,063
Nonoperating expenses	350,511	144,157	15,666
Total expenses	267,225,130	229,143,685	199,982,729
Change in net position	\$ 38,148,431	\$ 64,560,237	\$ 50,119,223

Operating Revenues

SVCE's operating revenues are derived from the sale of electricity to commercial and residential customers throughout its territory. SVCE's customer base was fairly stable each year, with approximately 280,000 customers enrolled. The increase in revenue is directly related to changes in billing rates and customer usage patterns. SVCE reports its revenue net of an allowance for uncollectible accounts. In 2020 SVCE received \$6,600,000 in revenue from damages as the result of the termination of one of its long-term energy supply contracts that failed to meet certain development milestones.

Nonoperating revenues, which primarily consists of investment income, increased each year as a result of rising cash and investment balances.

Operating Expenses

SVCE's largest operating expense is the purchase of electricity for retail customer use. 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, data management and other general and administrative expenses increased each year as the organization continued to grow to support its business demands.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

ECONOMIC OUTLOOK

Silicon Valley Clean Energy serves approximately 96% of all eligible customers in the service area, and that rate of participation is expected to remain stable in 2021.

The core mission is to provide all our customers with carbon-free electricity. Clean electricity from SVCE's carbon-free resources has contributed to a dramatic 24% reduction in area-wide carbon emissions from energy use compared to 2015 levels. SVCE is also supporting renewable energy technology by investing in new projects. In 2018, SVCE entered into three long-term power agreements, partnering with our neighboring Community Choice Aggregator agency, Central Coast Community Energy (3CE), formerly known as Monterey Bay Community Power, for the joint procurements. The three projects range from 15-year to 20-year agreements and will diversify the portfolio by including wind and solar plus storage, bring stability to future power supply costs and create 1,440 jobs during construction.

In 2019, SVCE engaged with 3CE for a joint solicitation for long-term renewable power supply resources resulting in the execution of five additional contracts including three solar plus storage and two geothermal resources. The geothermal energy resources not only diversify SVCE's power supply portfolio but with its baseload energy attributes, also supports SVCE's long-term vision of providing renewable energy to meet demand.

In April 2020, SVCE mutually terminated one of its long-term contracts executed in 2018 due to the project developer's inability to meet certain project development milestones.

In 2020, SVCE issued its third joint solicitation with 3CE for the procurement of additional long-term renewable power supply resources. As a result of the solicitation, six projects were shortlisted and to date SVCE has executed one long-term contract for a solar only resource. SVCE is currently in negotiations for the remaining five long-term power agreements that will include additional solar plus storage energy and wind resources. Those negotiations are expected to conclude in Spring/Summer 2021.

Senate Bill 237 was passed in 2018 and increased the cap for direct access participation for large commercial and industrial customer load. The impact will be minimal to SVCE with less than 2% of current load at risk. SVCE is being proactive in anticipation of potential direct access expansion. In 2019, the Board of Directors approved a Commercial Pricing Policy that allows SVCE to be innovative in customized contract offerings to customers that supports long-term customer retention.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

ECONOMIC OUTLOOK (continued)

SVCE will continue to provide stable and competitive electric rates whenever possible and has identified unpredictable PG&E customer exit fees as a key barrier to this goal. In January 2021, the customer exit fee increased on average by about 30 percent and to offset this increase SVCE lowered its generation rate, which will reduce revenues in 2021. SVCE has prioritized regulatory and legislative work with respect to the exit fee process and has implemented a proactive approach on other regulatory and legislative issues such as direct access, integrated resource planning, and grid reliability. Additionally, SVCE's commitment to building up healthy cash reserves have placed SVCE in a stable position to manage future regulatory and legislative risk including changes to the customer exit fees.

SVCE has a strong focus on continuing to build credit capacity through increased cash reserves, engaging lines of credit for increased liquidity, complying with the energy risk management policy and credit guidelines, and entering into favorable energy purchase commitments. SVCE received an investment grade credit rating in Summer 2020 from Moody's and an 'A' credit rating from S&P Global in January 2021.

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 330, Sunnyvale, CA 94087.

Respectfully submitted,

Girish Balachandran, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 159,924,735	\$ 119,048,306
Accounts receivable, net of allowance	31,458,312	30,276,814
Accrued revenue	17,517,224	19,572,100
Market settlements receivable	107,318	166,657
Other receivables	208,000	17,900
Prepaid expenses	2,590,546	1,333,915
Deposits	4,232,419	2,260,556
Restricted cash	4,500,000	5,000,000
Total current assets	<u>220,538,554</u>	<u>177,676,248</u>
Noncurrent assets		
Capital assets, net of depreciation	119,175	148,038
Deposits	145,130	129,060
Total noncurrent assets	<u>264,305</u>	<u>277,098</u>
Total assets	<u>220,802,859</u>	<u>177,953,346</u>
LIABILITIES		
Current liabilities		
Accrued cost of electricity	36,744,837	32,132,309
Accounts payable	1,333,121	946,047
Accrued staff compensation and benefits	415,732	355,192
Other accrued liabilities	10,000	257,530
User taxes and energy surcharges due to other governments	1,155,781	1,238,991
Supplier security deposits	-	28,320
Total current liabilities	<u>39,659,471</u>	<u>34,958,389</u>
NET POSITION		
Investment in capital assets	119,175	148,038
Restricted for security collateral	4,500,000	5,000,000
Unrestricted	176,524,213	137,846,919
Total net position	<u>\$ 181,143,388</u>	<u>\$ 142,994,957</u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Electricity sales, net	\$ 295,515,259	\$ 291,390,036
GreenPrime electricity premium	1,315,254	1,018,493
Liquidated damages	6,600,000	-
Other income	213,207	64,606
Total operating revenues	<u>303,643,720</u>	<u>292,473,135</u>
OPERATING EXPENSES		
Cost of electricity	251,525,916	217,237,705
Contract services	8,970,429	7,136,317
Staff compensation and benefits	4,603,241	3,399,752
General and administration	1,722,054	1,175,314
Depreciation	52,979	50,440
Total operating expenses	<u>266,874,619</u>	<u>228,999,528</u>
Operating income	<u>36,769,101</u>	<u>63,473,607</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,729,841	1,230,787
Financing costs	(350,511)	(144,157)
Nonoperating revenues (expenses), net	<u>1,379,330</u>	<u>1,086,630</u>
CHANGE IN NET POSITION	38,148,431	64,560,237
Net position at beginning of year	<u>142,994,957</u>	<u>78,434,720</u>
Net position at end of year	<u><u>\$ 181,143,388</u></u>	<u><u>\$ 142,994,957</u></u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 303,275,935	\$ 288,642,766
Receipts from liquidated damages	6,600,000	-
Other operating receipts	3,433,790	20,443,825
Payments to suppliers for electricity	(253,669,273)	(228,425,552)
Payments for other goods and services	(10,511,456)	(8,004,130)
Payments for staff compensation and benefits	(4,542,701)	(3,327,364)
Payments of taxes and surcharges to other governments	(5,640,255)	(5,272,035)
Net cash provided by operating activities	<u>38,946,040</u>	<u>64,057,510</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Finance costs paid	<u>(285,301)</u>	<u>(209,367)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(14,151)	(19,919)
Proceeds from disposition of assets	<u>-</u>	<u>25,955</u>
Net cash provided (used) by capital and related financing activities	(14,151)	6,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>1,729,841</u>	<u>1,230,787</u>
Net change in cash and cash equivalents	40,376,429	65,084,966
Cash and cash equivalents at beginning of year	<u>124,048,306</u>	<u>58,963,340</u>
Cash and cash equivalents at end of year	<u><u>\$ 164,424,735</u></u>	<u><u>\$ 124,048,306</u></u>
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 159,924,735	\$ 119,048,306
Restricted cash	<u>4,500,000</u>	<u>5,000,000</u>
Cash and cash equivalents	<u><u>\$ 164,424,735</u></u>	<u><u>\$ 124,048,306</u></u>

SILICON VALLEY CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2020</u>	<u>2019</u>
Operating income	\$ 36,769,101	\$ 63,473,607
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	52,979	29,290
Loss on disposal of capital assets	-	953
Revenue adjusted for uncollectible accounts	-	(228,011)
(Increase) decrease in:		
Accounts receivable	(1,181,498)	(6,387,653)
Market settlements receivable	59,339	(166,657)
Other receivables	(190,100)	68,361
Accrued revenue	2,054,876	(2,640,739)
Prepaid expenses	(1,321,841)	(144,859)
Current deposits	(1,987,933)	11,795,714
Increase (decrease) in:		
Accrued cost of electricity	4,612,528	(2,051,364)
Accounts payable	377,109	225,509
Accrued payroll and benefits	60,540	163,903
Other accrued liabilities	(247,530)	257,530
User taxes and energy surcharges due to other governments	(83,210)	218,606
Supplier security deposits	(28,320)	(556,680)
Net cash provided by operating activities	<u>\$ 38,946,040</u>	<u>\$ 64,057,510</u>

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Silicon Valley Clean Energy Authority (SVCE) is a joint powers authority created on March 31, 2016. As of September 30, 2020, parties to its Joint Powers Agreement consist of the following local governments:

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

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

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 and municipal suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company (PG&E).

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

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

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

When both restricted and unrestricted resources are available for use, it is SVCE's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Cash Flows, SVCE defines cash and cash equivalents to include cash on hand and demand deposits. SVCE has cash that is restricted under various security agreements. This is reported as restricted cash on the Statements of Net Position and the Statements of Cash Flows.

DEPOSITS

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

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. SVCE does not own any electric generation assets.

NET POSITION

Net position is presented in the following components:

Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. SVCE did not have any outstanding borrowings as of September 30, 2020 and 2019.

Restricted: This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net position that does not meet the definition of "investment in capital assets" or "restricted".

OPERATING AND NON-OPERATING REVENUE

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

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of electricity and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

ELECTRICAL POWER PURCHASED

During the normal course of business SVCE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from SVCE's participation in the California Independent System Operator's (CAISO) centralized market. The cost of electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

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

SVCE purchases capacity commitments from qualifying generators to comply with the California Energy Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to CAISO to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

**SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAFFING COSTS

SVCE pays employees bi-weekly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan as they come due. 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.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

SILICON VALLEY CLEAN ENERGY AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

2. CASH AND CASH EQUIVALENTS

SVCE maintains its cash in interest and non-interest-bearing accounts. SVCE's deposits are subject to California Government Code Section 16521 which requires banks to collateralize public funds in excess of the Federal Deposit Insurance Corporation limit of \$250,000 by 110%. SVCE monitors its risk exposure on an ongoing basis. SVCE's investment policy permits the investment of funds in depository accounts, certificates of deposit, and the California Local Agency Investment Funds (LAIF). On September 30, 2020 all of SVCE's cash and cash equivalents were held in depository accounts.

At the end of each year, SVCE had restricted cash that was held as collateral for its bank line of credit, as well as collateral held in accordance with certain security agreements with suppliers.

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts receivable were as follows at September 30:

	<u>2020</u>	<u>2019</u>
Accounts receivable from customers	\$ 32,958,312	\$ 31,776,814
Allowance for uncollectible accounts	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Net accounts receivable	<u><u>\$ 31,458,312</u></u>	<u><u>\$ 30,276,814</u></u>

The majority of account collections will occur within the first few months following customer invoicing. SVCE estimates that a portion of the billed accounts will not be collected. SVCE continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. Although collection success generally decreases with the age of the receivable, SVCE continues to be successful in collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years and is adjusted for write-offs.

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4. MARKET SETTLEMENTS RECEIVABLE

SVCE receives generation scheduling and other services from a scheduling coordinator registered with CAISO. Energy settlements due from the scheduling coordinator were approximately \$107,000 and \$167,000 as of September 30, 2020 and 2019, respectively.

5. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2020 and 2019 was as follows:

	Furniture & Equipment	Accumulated Depreciation	Total
Balances at September 30, 2018	\$ 247,030	\$ (62,711)	\$ 184,319
Additions	19,919	(50,440)	(30,521)
Dispositions	(16,335)	10,575	(5,760)
Balances at September 30, 2019	250,614	(102,576)	148,038
Additions	24,116	(52,979)	(28,863)
Balances at September 30, 2020	<u>\$ 274,730</u>	<u>\$ (155,555)</u>	<u>\$ 119,175</u>

6. DEBT

At September 30, 2020 and 2019, SVCE had a bank line of credit in the amount of \$35,000,000 to provide additional liquidity for operations as needed. The line of credit matures in October 2021.

As of September 30, 2020, SVCE had not drawn any cash proceeds on the line of credit. However, the line of credit was used to issue Letters of Credit to energy suppliers which totaled approximately \$5,700,000. These Letters of Credit reduce the available balance on the revolving line of credit.

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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, 2020 and 2019, SVCE had 25 and 23 plan participants, respectively. SVCE is required to contribute up to 10% of covered payroll as a match to required employee contributions. SVCE contributed approximately \$413,000 and \$254,000 during the years ended September 30, 2020 and 2019, respectively. Plan provisions and contribution requirements as they apply to SVCE are established and may be amended by the Board of Directors.

8. RISK MANAGEMENT

SVCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, SVCE purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. SVCE has general liability coverage of \$2,000,000 with a deductible of \$500.

SVCE maintains risk management policies, procedures and systems that help mitigate credit, liquidity, market, operating, regulatory and other risks that arise from participation in the California energy market.

Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, SVCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

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9. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

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

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

The following table represents the expected, undiscounted, contractual obligations outstanding as of September 30, 2020:

2021	\$ 225,000,000
2022	159,000,000
2023	127,000,000
2024	71,000,000
2025	70,000,000
2026-2043	<u>840,000,000</u>
Total	<u><u>\$ 1,492,000,000</u></u>

As of September 30, 2020, SVCE had non-cancelable contractual commitments to service providers through December 2024, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be \$13.3 million.

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10. OPERATING LEASE

In December 2019 SVCE amended its non-cancelable lease for its office premises, extending the lease through June 30, 2025.

Rental expense for SVCE's office space was \$394,000 and \$326,000 for the years ended September 30, 2020 and 2019, respectively.

As of September 30, 2020, future minimum lease payments under the lease are as follows:

2021	\$ 478,341
2022	492,693
2023	507,480
2024	522,705
2025	400,770
Total	<u>\$ 2,401,989</u>

11. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statement are effective for future fiscal years ending after September 30, 2020:

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management is analyzing its activity to determine the effect of the new guidance on its operating results and financial condition.

12. SUBSEQUENT EVENT

Covid-19

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of which the ongoing response to and impacts of COVID-19 will affect SVCE's operational and financial performance are unknown at this time and will be monitored by management. To date, SVCE has continued to provide electricity across its entire service territory without interruption.