



# SILICON VALLEY CLEAN ENERGY AUTHORITY

Financial Statements

Years Ended:

- September 30, 2019
- September 30, 2018

With Report of Independent Auditors



**SILICON VALLEY CLEAN ENERGY AUTHORITY  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018 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.

*Perenti & Brinku LLP*

Santa Rosa, California  
February 6, 2020

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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, 2019 and 2018. 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.

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, 2019, SVCE serves approximately 277,000 customer accounts.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**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* includes 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, 2019 AND 2018**

**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>2019</u>           | <u>2018</u>          | <u>2017</u>          |
|------------------------------------|-----------------------|----------------------|----------------------|
| Current assets                     | \$ 177,676,248        | \$ 108,758,726       | \$ 61,416,239        |
| Noncurrent assets                  |                       |                      |                      |
| Capital assets, net                | 148,038               | 184,319              | 167,506              |
| Other noncurrent assets            | <u>129,060</u>        | <u>6,192,560</u>     | <u>128,560</u>       |
| Total noncurrent assets            | <u>277,098</u>        | <u>6,376,879</u>     | <u>296,066</u>       |
| Total assets                       | <u>177,953,346</u>    | <u>115,135,605</u>   | <u>61,712,305</u>    |
| Current liabilities                | 34,958,389            | 36,700,885           | 30,666,808           |
| Noncurrent liabilities             | <u>-</u>              | <u>-</u>             | <u>2,730,000</u>     |
| Total liabilities                  | <u>34,958,389</u>     | <u>36,700,885</u>    | <u>33,396,808</u>    |
| Net position                       |                       |                      |                      |
| Investment in capital assets       | 148,038               | 184,319              | 167,506              |
| Restricted for security collateral | 5,000,000             | 2,000,000            | 4,400,000            |
| Unrestricted                       | <u>137,846,919</u>    | <u>76,250,401</u>    | <u>23,747,991</u>    |
| Total net position                 | <u>\$ 142,994,957</u> | <u>\$ 78,434,720</u> | <u>\$ 28,315,497</u> |

**Current Assets**

Current assets were approximately 177,676,000 at the end of 2019 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 during 2018-19 as a result of SVCE's operating surplus.

The overall increase in current assets comparing 2017-18 with 2016-17 was expected, as fiscal year 2016-17 was the first year of operation.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**Capital Assets**

Capital assets were approximately \$148,000 at the end of 2019, net of accumulated depreciation, primarily consisting of furniture and electronic equipment for use in SVCE's administrative office. This amount is reported net of depreciation. SVCE does not own assets used for electric generation or distribution.

**Other Noncurrent Assets**

Other noncurrent assets reached approximately \$6,193,000 in 2018 and primarily consists of various deposits for energy supply, regulatory and other operating purposes. The majority of deposits classified as long term at September 30, 2018, were returned ahead of schedule, resulting in the large drop in that category at September 30, 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.

**Noncurrent Liabilities**

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



**SILICON VALLEY CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

|                        | <u>2019</u>          | <u>2018</u>          | <u>2017</u>          |
|------------------------|----------------------|----------------------|----------------------|
| Operating revenues     | \$ 292,473,135       | \$ 249,948,112       | \$ 93,940,264        |
| Nonoperating revenues  | 1,230,787            | 153,840              | 1,078                |
| Total income           | <u>293,703,922</u>   | <u>250,101,952</u>   | <u>93,941,342</u>    |
| Operating expenses     | 228,999,528          | 199,967,063          | 64,366,230           |
| Nonoperating expenses  | 144,157              | 15,666               | 149,251              |
| Total expenses         | <u>229,143,685</u>   | <u>199,982,729</u>   | <u>64,515,481</u>    |
| Change in net position | <u>\$ 64,560,237</u> | <u>\$ 50,119,223</u> | <u>\$ 29,425,861</u> |

### **Operating Revenues**

SVCE's major customer enrollment was completed in July 2017, resulting in fiscal year 2018 being the first year with a full customer base which resulted in a sharp increase in revenues during 2017-18. SVCE began serving the City of Milpitas in June 2018 which resulted in approximately 25,000 additional customers. The addition of Milpitas as well as changes in customer rates were the main drivers of the revenue increase in 2018-19.

### **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 in 2018-19 as the organization continued to grow with business demands.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**ECONOMIC OUTLOOK**

Silicon Valley Clean Energy serves approximately 97% of all eligible customers in Santa Clara County, and that rate of participation is expected to remain stable in 2020.

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 21% 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, 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 again engaged with Monterey Bay Community Power for a joint-solicitation for long-term power supply. In January 2020, the Board approved SVCE's initial geothermal agreement with a 10-year term, located in Mono County, CA that includes technology to eliminate emissions. Geothermal energy not only diversifies SVCE's power supply portfolio but with its baseload energy attributes, supports SVCE's long-term vision of providing renewable energy to meet our demands on a 24x7 basis.

SVCE is currently in negotiations in five additional long-term power agreements that will include additional geothermal and solar plus storage energy. Those negotiations are expected to conclude in Spring/Summer 2020.

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 and will not materialize until 2021. However, SVCE is being proactive in anticipation of direct access expansion with a Board of Directors approved Commercial Pricing Policy in 2019 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, 2019 AND 2018**

**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. 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 the PG&E bankruptcy proceedings. Additionally, SVCE's commitment to building up healthy cash reserves have placed us in a stable position to manage future regulatory and legislative risk.

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 is expected to obtain an investment grade credit rating in Summer 2020. This will help create a stable environment for SVCE and its ratepayers.

**REQUEST FOR INFORMATION**

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

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

Respectfully submitted,

Girish Balachandran, Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

**SILICON VALLEY CLEAN ENERGY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2019 AND 2018**

|   | <b>2019</b>    | <b>2018</b>   |
|---|----------------|---------------|
| <b>ASSETS</b>   |                |               |
| Current assets  |                |               |
| Cash and cash equivalents                                 | \$ 119,048,306 | \$ 56,963,340 |
| Accounts receivable, net of allowance                     | 30,276,814     | 23,661,147    |
| Accrued revenue   | 19,572,100     | 16,931,361    |
| Market settlements receivable                             | 166,657        | -             |
| Other receivables   | 17,900         | 86,261        |
| Prepaid expenses  | 1,333,915      | 1,123,847     |
| Deposits  | 2,260,556      | 7,992,770     |
| Restricted cash   | 5,000,000      | 2,000,000     |
| Total current assets                                      | 177,676,248    | 108,758,726   |
| Noncurrent assets   |                |               |
| Capital assets, net of depreciation                       | 148,038        | 184,319       |
| Deposits  | 129,060        | 6,192,560     |
| Total noncurrent assets                                   | 277,098        | 6,376,879     |
| Total assets  | 177,953,346    | 115,135,605   |
| <b>LIABILITIES</b>  |                |               |
| Current liabilities                                       |                |               |
| Accounts payable  | 946,047        | 720,538       |
| Accrued cost of electricity                               | 32,132,309     | 34,183,673    |
| Accrued payroll and benefits                              | 355,192        | 191,289       |
| Other accrued liabilities                                 | 257,530        | -             |
| User taxes and energy surcharges due to other governments | 1,238,991      | 1,020,385     |
| Supplier security deposits                                | 28,320         | 585,000       |
| Total current liabilities                                 | 34,958,389     | 36,700,885    |
| <b>NET POSITION</b>                                       |                |               |
| Investment in capital assets                              | 148,038        | 184,319       |
| Restricted for security collateral                        | 5,000,000      | 2,000,000     |
| Unrestricted  | 137,846,919    | 76,250,401    |
| Total net position  | \$ 142,994,957 | \$ 78,434,720 |

**SILICON VALLEY CLEAN ENERGY AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|  | <b>2019</b>    | <b>2018</b>    |
|--|----------------|----------------|
| <b>OPERATING REVENUES</b>                    |                |                |
| Electricity sales, net                       | \$ 291,390,036 | \$ 249,204,377 |
| GreenPrime electricity premium               | 1,018,493      | 730,235        |
| Other income                                 | 64,606         | 13,500         |
| Total operating revenues                     | 292,473,135    | 249,948,112    |
| <b>OPERATING EXPENSES</b>                    |                |                |
| Cost of electricity                          | 217,237,705    | 189,905,958    |
| Contract services                            | 7,136,317      | 6,460,109      |
| Staff compensation and benefits              | 3,399,752      | 2,626,639      |
| General and administration                   | 1,175,314      | 934,728        |
| Depreciation                                 | 50,440         | 39,629         |
| Total operating expenses                     | 228,999,528    | 199,967,063    |
| Operating income                             | 63,473,607     | 49,981,049     |
| <b>NONOPERATING REVENUES (EXPENSES)</b>      |                |                |
| Interest income                              | 1,230,787      | 153,840        |
| Financing costs                              | (144,157)      | (15,666)       |
| Total nonoperating revenues, net of expenses | 1,086,630      | 138,174        |
| <b>CHANGE IN NET POSITION</b>                | 64,560,237     | 50,119,223     |
| Net position at beginning of year            | 78,434,720     | 28,315,497     |
| Net position at end of year                  | \$ 142,994,957 | \$ 78,434,720  |

**SILICON VALLEY CLEAN ENERGY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|   | <u>2019</u>           | <u>2018</u>          |
|---|-----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                       |                      |
| Receipts from customers   | \$ 288,642,766        | \$ 251,097,382       |
| Other operating receipts  | 20,443,825            | 12,316,255           |
| Payments to suppliers for electricity                           | (228,425,552)         | (205,070,693)        |
| Payments for other goods and services                           | (8,004,130)           | (7,678,060)          |
| Payments for staff compensation                                 | (3,327,364)           | (2,436,100)          |
| Tax and surcharge payments to other governments                 | (5,272,035)           | (4,953,547)          |
| Net cash provided by operating activities                       | <u>64,057,510</u>     | <u>43,275,237</u>    |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>         |                       |                      |
| Principal payments on bank note                                 | -                     | (2,900,000)          |
| Principal payments on JPA member loans                          | -                     | (2,730,000)          |
| Interest and financing costs                                    | (209,367)             | (22,892)             |
| Net cash used by non-capital financing activities               | <u>(209,367)</u>      | <u>(5,652,892)</u>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                       |                      |
| Acquisition of capital assets                                   | (19,919)              | (56,442)             |
| Proceeds from disposition of assets                             | 25,955                | -                    |
| Net cash used by capital and related financing activities       | <u>6,036</u>          | <u>(56,442)</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                       |                      |
| Interest income received  | <u>1,230,787</u>      | <u>153,840</u>       |
| Net change in cash and cash equivalents                         | 65,084,966            | 37,719,743           |
| Cash and cash equivalents at beginning of year                  | <u>58,963,340</u>     | <u>21,243,597</u>    |
| Cash and cash equivalents at end of year                        | <u>\$ 124,048,306</u> | <u>\$ 58,963,340</u> |
| <b>Reconciliation to the Statement of Net Position</b>          |                       |                      |
| Cash and cash equivalents (unrestricted)                        | \$ 119,048,306        | \$ 56,963,340        |
| Restricted cash   | <u>5,000,000</u>      | <u>2,000,000</u>     |
| Cash and cash equivalents                                       | <u>\$ 124,048,306</u> | <u>\$ 58,963,340</u> |

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

|  | <b>2019</b>   | <b>2018</b>   |
|--|---------------|---------------|
| Operating income   | \$ 63,473,607 | \$ 49,981,049 |
| Adjustments to reconcile operating income to net cash provided by operating activities |               |               |
| Depreciation expense   | 29,290        | 39,629        |
| Loss on disposal of capital assets   | 953           | -             |
| Revenue adjusted for uncollectible accounts  | (228,011)     | 1,255,952     |
| (Increase) decrease in:  |               |               |
| Accounts receivable  | (6,387,653)   | (3,496,749)   |
| Market settlements receivable  | (166,657)     | 266,328       |
| Accrued revenue  | (2,640,739)   | (1,955,039)   |
| Other receivables  | 68,361        | 113,739       |
| Prepaid expenses   | (144,859)     | (1,052,005)   |
| Deposits   | 11,795,714    | (10,818,970)  |
| Increase (decrease) in:  |               |               |
| Accounts payable   | 225,509       | (129,684)     |
| Increase (decrease) in accrued cost of electricity                                     | (2,051,364)   | 8,195,562     |
| Accrued payroll and benefits   | 163,903       | 106,266       |
| Other accrued liabilities  | 257,530       | (20,900)      |
| User taxes due to other governments  | 218,606       | 205,059       |
| Supplier security deposits   | (556,680)     | 585,000       |
| Net cash provided by operating activities  | 64,057,510    | 43,275,237    |



**SILICON VALLEY CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**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, 2019, 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).

**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.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**CASH AND CASH EQUIVALENTS**

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

**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.

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, 2019, and 2018.

*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".

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**OPERATING AND NON-OPERATING REVENUE**

Revenue from the sale of electricity to customers is considered operating revenue. Interest income is considered non-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 not yet billed. Management estimates that a portion of the billed amounts will be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

**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 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), 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 the California Independent System Operator 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  
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**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.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
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**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 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). At September 30, 2019 all of SVCE's cash and cash equivalents were held in depository accounts.

**3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE**

Accounts receivable were as follows at September 30:

|                                      | <b>2019</b>   | <b>2018</b>   |
|--------------------------------------|---------------|---------------|
| Accounts receivable from customers   | \$ 31,776,814 | \$ 25,389,161 |
| Allowance for uncollectible accounts | (1,500,000)   | (1,728,014)   |
| Net accounts receivable              | \$ 30,276,814 | \$ 23,661,147 |

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.

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

SVCE receives generation scheduling and other services from a scheduling coordinator registered with the California Independent System Operator (CAISO). Energy settlements due from the scheduling coordinator were \$167,000 and \$0 as of September 30, 2019 and 2018, respectively.

**5. CAPITAL ASSETS**

Capital asset activity for the years ended September 30, 2018 and 2019 was as follows:

|                                | <b>Furniture &amp;<br/>Equipment</b> | <b>Accumulated<br/>Depreciation</b> | <b>Total</b>      |
|--------------------------------|--------------------------------------|-------------------------------------|-------------------|
| Balances at September 30, 2017 | \$ 190,588                           | \$ (23,082)                         | \$ 167,506        |
| Additions                      | 56,442                               | (39,629)                            | 16,813            |
| 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 | <u>\$ 250,614</u>                    | <u>\$ (102,576)</u>                 | <u>\$ 148,038</u> |

**6. DEBT**

**Notes payable to River City Bank**

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

In October 2018, SVCE renewed its credit agreement with River City Bank to borrow up to \$20,000,000 in the form of a Revolving Credit Promissory Note. The intended use of the Revolving Line of Credit was to provide liquidity flexibility resulting in placing SVCE in a stronger position when negotiating power supply contract.

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**6. DEBT (continued)**

**Notes payable to River City Bank (continued)**

In response to the PG&E bankruptcy announcement in January 2019, SVCE responded by amending the credit agreement with River City Bank and expanding the line of credit to \$35,000,000. In October 2019, SVCE renewed the \$35,000,000 line of credit with River City Bank and extended the duration to October 2021.

As of September 30, 2019, 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 \$6,600,000. These Letters of Credit reduce the available balance on the revolving line of credit.

**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. The total of these loans was \$2,730,000. No principal payments were made through the year ended September 30, 2017. In January 2018, SVCE repaid the loans.

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

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

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**6. DEBT (continued)**

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

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



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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, 2019 and 2018, SVCE had 23 and 16 plan participants, respectively. SVCE is required to contribute up to 10% of covered payroll as a match to required employee contributions. SVCE contributed approximately \$254,000 and \$198,000 during the years ended September 30, 2019 and 2018, 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, 2019:

| Year Ended September 30, |                       |
|--------------------------|-----------------------|
| 2020                     | \$ 204,000,000        |
| 2021                     | 150,000,000           |
| 2022                     | 93,000,000            |
| 2023                     | 48,000,000            |
| 2024                     | 33,000,000            |
| 2025-2041                | <u>418,000,000</u>    |
| Total                    | <u>\$ 946,000,000</u> |

As of September 30, 2019, SVCE had non-cancelable contractual commitments to professional 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 \$16.5 million.

**SILICON VALLEY CLEAN ENERGY AUTHORITY  
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**10. OPERATING LEASE**

Rental expense for SVCE’s office space was \$326,000 and \$320,000 for the years ended September 30, 2019, and 2018, respectively. During the year ended September 30, 2017, SVCE entered into non-cancelable lease for its office premises through January 31, 2022.

Future minimum lease payments under the lease are as follows:

|       |                   |
|-------|-------------------|
| 2020  | \$ 329,504        |
| 2021  | 339,392           |
| 2022  | 114,240           |
| Total | <u>\$ 783,136</u> |

**11. FUTURE GASB PRONOUNCEMENTS**

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

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

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**12. PG&E BANKRUPTCY**

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

**13. CONTINGENCIES**

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

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