Annual Financial Report

Fiscal Years Ended June 30, 2018 and 2017

ssea

silver state energy association

The Silver State Energy Association is an association of public agencies with the common goal of jointly planning, developing, owning and operating power resources to meet their own needs and those of their customers. Learn more at www.silverstateenergy.org.

silver state energy association

Annual Financial Report

For the Fiscal Years Ended

June 30, 2018 and 2017

Board of Directors
Rory Dwyer, Chairman, City of Boulder City
Douglas N. Beatty, Vice Chairman, Colorado River Commission of Nevada
Mike Fetherston, Overton Power District No. 5
Edward Wright, Lincoln County Power District No. 1
David L. Johnson, Southern Nevada Water Authority

Scott P. Krantz
SSEA Manager

Members
City of Boulder City
Colorado River Commission of Nevada
Lincoln County Power District No. 1
Overton Power District No. 5
Southern Nevada Water Authority

Prepared by
Richard C. Schmalz, SSEA Energy Accounting and Settlements Officer
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Annual Financial Report
For the fiscal years ended June 30, 2018 and 2017

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INTRODUCTORY SECTION

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P.O. Box 99956, MS 115
Las Vegas, NV 89193-9956

October 17, 2018

Board of Directors
Silver State Energy Association
100 City Parkway, Suite 700, MS 115
Las Vegas, Nevada 89106

We are pleased to present the Annual Financial Report (AFR) of the Silver State Energy Association (SSEA) for the fiscal year ended June 30, 2018. The AFR was prepared in conformance with accounting principles generally accepted in the United States of America (GAAP).

SSEA management is responsible for the completeness and reliability of the financial information presented in this report. To provide reasonable assurance of the proper recording of transactions, management has established and maintains a system of internal accounting and other controls. The concept of reasonable assurance recognizes the cost of internal controls should not exceed the benefits derived. Where necessary, the basic financial statements include amounts based upon management's best estimates and judgments.

The SSEA Cooperative Agreement requires an annual audit of the basic financial statements of the SSEA. Piercy Bowler Taylor & Kern, a firm of licensed certified public accountants, has audited the SSEA's basic financial statements as of and for the year ended June 30, 2018. The objective of the independent audit was to provide reasonable assurance that the basic financial statements of the SSEA are free of material misstatement. An independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded there was a reasonable basis for rendering an unmodified ("clean") opinion that the SSEA's basic financial statements for the fiscal years ended June 30, 2018 and 2017 are fairly presented in all material respects in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the basic financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

THE REPORTING ENTITY AND ITS SERVICES

The SSEA is a joint powers agency comprised of public agencies that are authorized by law to engage in certain activities associated with the acquisition and disposition of electric power to meet their own needs and those of their customers. The SSEA was created under NRS Chapter 277, Cooperative Agreements between local governments, and is a political subdivision of the State of Nevada (the State) and was established on August 1, 2007. The SSEA is governed by a Cooperative Agreement among its five members, each member with an appointed Board representative, which include:

- The Southern Nevada Water Authority, a political subdivision of the State charged with managing the region's water resources.
- The City of Boulder City, Nevada a municipal corporation of the State since 1960. The Boulder City municipal electric utility serves the portion of the incorporated area of the City that is populated.
- Overton Power District No. 5, a not-for-profit general improvement district created in 1935 by the State. The District's service area encompasses the northeast quadrant of Clark County, Nevada, which includes the City of Mesquite and the unincorporated towns of Bunkerville, Glendale, Logandale, Moapa, and Overton.
- Lincoln County Power District No. 1, a not-for-profit general improvement district created in 1935 by the State. The District's service area encompasses most of Lincoln County, Nevada and a portion of Clark County, Nevada known as the Coyote Springs LLC.
- The Colorado River Commission of Nevada, an executive agency of the State of Nevada responsible for acquiring and managing Nevada's share of water and hydropower resources from the Colorado River.

Operations and Budgets – The operations of the SSEA are broken down into projects, each with specific member participants, project scope, objectives, budgets and timelines. Each member has determined if and to what degree they wish to participate in each of the three existing SSEA Project Service Agreements (PSAs). As required by the Cooperative Agreement, an Administrative and General (A&G) Expense budget is approved by the Board on or before June 1 of each year. Additionally, the Board approves specific budgets for each of the capital projects, periodically reviews expenditures to date and considers whether to make adjustments to authorized PSA capital budgets based upon current circumstances which may have changed since the previous approval.

Management and Staffing – The SSEA has no employees. Necessary staff is provided by two of the member agencies: the Colorado River Commission (CRC) and the Southern Nevada Water Authority (SNWA). Currently, the Board appointed SSEA manager is also the Director of Energy Management for the SNWA. Personnel supporting the trading, analysis, accounting, project management and administrative functions are balanced between CRC and SNWA employees.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy – According to a report from the University of Nevada, Las Vegas's Center for Business and Economic Research (CBER) issued on June 15, 2018, the Southern Nevada economy is continuing its sustained recovery. The 2018 Midyear Economic Update publication states that the growth is widespread across Southern Nevada's industries and has returned to long-term trend levels. CBER noted that construction, real estate, leisure and hospitality, trade, transportation and utilities, education and health services, professional and business services, financial activities and other services are all doing well. Financial conditions have improved and the number of Nevadans' with negative mortgage equity, which peaked near 70%, is now down to 8%. Because the Southern Nevada economy is heavily dependent on tourism, the outlook is tied to the growth of the U.S. and western states' economies. CBER forecasts visitor volume, gross gaming revenue, employment, population and personal income to continue strong improvement through 2018 and 2019. Although new housing starts have enjoyed an extremely robust four years CBER is forecasting a reduction in the number of new building permits for 2019 as builders complete the large number of projects recently permitted for construction. Nevadans' personal income grew in 2017 and continued improvement is expected through 2018 and 2019.

The Southern Nevada unemployment rate continues to show improvement. The Nevada Department of Employment, Training and Rehabilitation (DETR) reported that the unemployment rate for the Las Vegas Metropolitan Statistical Area (MSA) for June 2018 was 4.7%. This compares to an unemployment rate of 5.1% for June 2017. The seasonally adjusted unemployment rate for the State was 4.7% for June 2018 and June 2017. Following the significant improvement, Nevada's unemployment rate is now nearly 1% above the national average. The average seasonally adjusted unemployment rate for the United States was 4.0% for June 2018 and 4.4% for June 2017. Nevada has frequently ranked among the top states for joblessness since 2010, in June 2018 Nevada's ranking had improved to No.42. Total employment for the Las Vegas MSA was 1,097,668 in June 2018 compared to 1,007,715 in June 2017, an increase of 9%.

The improving economic trends are expected to positively impact the growth of the SSEA. Economic growth typically increases power demands which are the primary driver of SSEA members' electricity needs. The expected increase, driven by increased population, employment, and tourism may be mitigated to some degree by the implementation of additional conservation measures and the installation of more energy efficient equipment.

<u>Financial Policy</u> – In accordance with the SSEA Cooperative Agreement, two working capital bank accounts have been established, one of which is interest bearing. The amount of working capital is set by the Agreement at 3 months of budgeted expenses. If any member's working capital account is in excess of the minimum required 3 months expenses, the SSEA Manager may suspend billings to the member until the amount of the member's working capital is reduced to an amount equal to the member's required share.

On a quarterly basis, the SSEA Manager will report to the members

- the amount of cash on deposit,
- the member's share of actual A&G and project expenses, and
- the payments made by the member to cover such expenses and/or the amount of cash drawn down by the SSEA to cover such expenses.

On an annual basis, any fiscal year-end working capital balance will be applied to the following year's capital needs. If excess working capital remains after it has been applied to the following year's working capital needs, it will be refunded to each of the members, including interest, upon request by the member.

Long Term Financial Planning – To date, the SSEA has not engaged in documented long-term financial planning. Potential future drivers of major funding requirements have been identified but have not received preliminary evaluation, such as if the organization would be called upon to fund energy facilities on behalf of its members. Informal assessments of potential funding sources, including the possibility of SSEA issuing debt as well as the requisites to successfully issuing the debt, also have not been evaluated.

Major Initiatives – The SSEA is engaged on behalf of its members on several major energy fronts, which are best addressed by focusing on each of the specific PSAs currently in place.

- *Project Service Agreement #1: Joint Generation Resource Planning and Evaluation.* This project involves the joint exploration, research, investigation, review, evaluation and feasibility of implementing, operating and maintaining electric generation projects and such other projects, whether physical or financial, designed to meet the future power needs of member participants. Of the original $1 million project budget, only $10,000 has been expended and there are currently no active energy targets being sought.
- *Project Services Agreement #2: Eastern Nevada Transmission Project Development Agreement.* This project involves the joint exploration, research, investigation, review, and evaluation of the feasibility of constructing 230-kilovolt high voltage transmission lines and related facilities to allow the interconnection of the participant member electrical systems with Mead Substation in Nevada. This project was replaced in May of 2014 with PSA #2A, a continuation of PSA #2, on a reduced scope with a five-year term and budget of $100,000. In early 2016, a project right-of-way was granted, and the project is awaiting a decision by the members to move forward.
- *Project Services Agreement #3: Power Supply Management Services Agreement.* This project allows member participants to request that SSEA provide various power supply management services in connection with the operation, scheduling, or optimization to meet a project participant's needs. Fiscal 2014 was the first full year during which the SSEA provided full service to two of its members, the City of Boulder City and the SNWA, as well as targeted power purchases and sales for other members which could choose to become full service members at any time.

Sincerely,

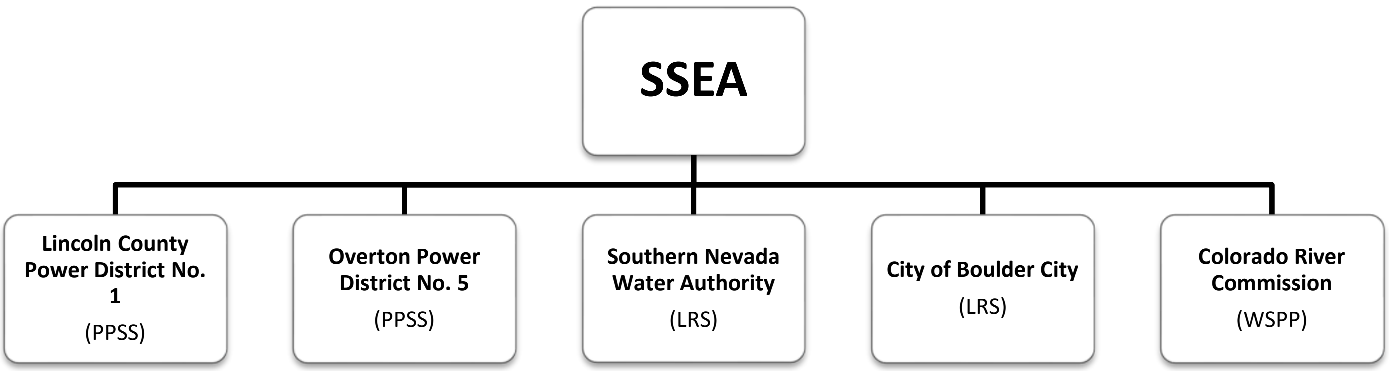
SILVER STATE ENERGY ASSOCIATION

Scott P. Krantz
SSEA Manager

Richard C. Schmalz
Energy Accounting & Settlements Officer

Organizational Chart

As of June 30, 2018



Legend

PPSS	Power Purchase and Sale Service
LRS	Load Requirements Service
WSPP	Western Systems Power Pool

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FINANCIAL SECTION

silver state energy association

P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Silver State Energy Association, Nevada

We have audited the accompanying financial statements of the Silver State Energy Association (SSEA) as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise SSEA's basic financial statements as listed in the table of contents.

An audit performed in accordance with applicable professional standards is a process designed to obtain reasonable assurance about whether SSEA's basic financial statements are free from material misstatement. This process involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SSEA's preparation and fair presentation of the basic financial statements to enable the design of audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SSEA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the basic financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of the basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility. Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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 basic financial statements referred to above present fairly, in all material respects, the financial position of SSEA as of June 30, 2018 and 2017, 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.

Other Matters. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-13 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

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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.

Other Information. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise SSEA's basic financial statements. The introductory section and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*. In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, on our consideration of SSEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SSEA's internal control over financial reporting and compliance.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
October 18, 2018

SILVER STATE ENERGY ASSOCIATION
Management's Discussion and Analysis
For Fiscal Years Ended June 30, 2018 and 2017

We offer readers this narrative overview and analysis of the financial activities of the Silver State Energy Association (SSEA) for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with our audited basic financial statements and additional information furnished in our letter of transmittal accompanying this report.

Fiscal Year 2018 Financial Highlights

- In 2018, SSEA completed its fifth full year of providing Load Requirements Service for two of its members.
- Power sales and other assessments to members increased from $59 million in 2017 to $62 million in 2018 due to an increase in cost of energy purchase and sale transactions for customers participating in PSA No. 3.
- Energy delivered to the SSEA members declined by 2% due to a reduction in members' energy requirements.

Overview of financial statements. This discussion and analysis is intended to serve as an introduction to the SSEA's basic financial statements. The SSEA's basic financial statements are comprised of two components: 1) a proprietary (enterprise) fund and 2) notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

Fund financial statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for specific activities or objectives. The SSEA maintains one type of fund: a proprietary fund.

Proprietary fund. The proprietary fund reports all of the SSEA's operations. The operations are reported similar to a private-sector business enterprise. There are three components presented in the basic financial statements: 1) comparative statements of net position; 2) comparative statements of revenues, expenses and changes in net position; and 3) comparative statements of cash flows. These can be found in the financial section of this report.

The comparative statements of net position present the SSEA's assets and liabilities, with the difference reported as "net position." Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the SSEA is growing or contracting. The comparative statements of revenues, expenses and changes in net position outline how the SSEA's net position has changed over time. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The statements of cash flows are the third basic financial statement for the proprietary fund. The primary purpose of the statements of cash flows is to provide relevant information about the SSEA's cash receipts and cash payments; these are segregated among operating, capital and related financing, and investing activities.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the SSEA's basic financial statements. The notes to the basic financial statements can be found in the financial section of this report.

Supplementary information. In addition to the basic financial statements and accompanying notes, this report includes supplementary information describing the SSEA's member participation in various projects. Supplementary information can be found in the supplementary section of this report.

Financial position. All of the SSEA's net position is in capital assets. Existing capital assets are the result of joint exploration, research, investigation, review and evaluation of the feasibility of constructing a 230-kilovolt high voltage transmission line to serve the needs of our members. The SSEA's investment in capital assets did not materially change. The members' project investment at June 30, 2018 was as follows:

MEMBER	INVESTMENT
City of Boulder City (COBC)	$ 4,337
Lincoln County Power District No. 1 (LCPD)	65,060
Overton Power District No. 5 (OPD)	182,169
Southern Nevada Water Authority (SNWA)	182,169
Total	**$ 433,735**

The following schedule provides an overview of the SSEA's financial position for the fiscal years ended June 30, 2018, 2017 and 2016:

STATEMENT OF NET POSITION
JUNE 30, 2018, 2017 AND 2016

ASSETS	**2018**	**2017**	**2016**
Current assets:			
Cash	$ 10,937,513	$ 8,210,301	$ 7,019,601
Accounts receivable	246,387	329,049	626,893
Accounts receivable, members	5,203,074	4,098,466	1,545,852
Prepaid expenses	20,491,740	25,942,608	27,348,244
Total current assets	36,878,714	38,580,424	36,540,590
Capital assets:			
Capitalized project costs	433,735	433,735	433,864
Total assets	$ 37,312,449	$ 39,014,159	$ 36,974,454
LIABILITIES			
Current liabilities:			
Accounts payable	$ 3,575,634	$ 3,510,953	$ 5,384,075
Accounts payable, members	-	1,164,643	980,043
Advances from members	33,303,080	33,904,828	30,176,472
Total current liabilities	36,878,714	38,580,424	36,540,590
NET POSITION			
Invested in capital assets	433,735	433,735	433,864
Total liabilities and net position	$ 37,312,449	$ 39,014,159	$ 36,974,454

Cash at fiscal year-end 2018 increased by $2.7 million due to a lag in invoicing from certain vendors for prepay items.

Accounts receivable decreased significantly from $626,892 in 2016 to $246,387 in 2018 reflecting a lower amount of unsettled power sales to non-members.

Accounts receivable members increased significantly to $5.2 million due to increased energy market purchases resulting from SNWA's sale of its Silverhawk power plant and due to a change in accounting period to record COBC estimated monthly expenses.

Prepaid expenses eased downward from $27.3 million in 2016 to $25.9 million in 2017 and then decreased significantly to $20.5 million in 2018. The 2017 decrease of $1.4 million reflects a $2 million reduction in prepaid future energy costs which is partially offset by an increase of $.7 million to the Western Area Power Administration, the SSEA's energy balancing authority. The 2018 decrease of $5.4 million reflects a $4.4 million reduction in prepaid future energy costs, a $.7 million reduction in prepaid expenses with CRC and a decrease of $.6 million to the Western Area Power Administration, the SSEA's energy balancing authority.

Natural gas contracts are executed in compliance with the SSEA Risk Management Procedures as a means of mitigating power price volatility over the upcoming 5-year horizon. A significant volume of the 5 - year futures gas contracts were converted to forward purchased power contracts in fiscal years 2016 - 2018.

Accounts payable has decreased significantly from $5.4 million in 2016 to only $3.6 million in 2018, representing amounts due for energy purchases, broker fees, transmission and ancillary services. The decrease is mostly a result of no longer having expenses associated with the Silverhawk power plant.

Advances from members has increased from $30 million in 2016 to $33 million in 2018. The most significant driver of the increase has been the need to acquire advance funds from members to post the required collateral discussed in prepaid expenses above and to support adequate operating cash balances. These advances from members are effectively prepayments of future energy costs, deposits for future services from certain energy providers or cash held in the bank.

SILVER STATE ENERGY ASSOCIATION
Management's Discussion and Analysis
For Fiscal Years Ended June 30, 2018 and 2017

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSTION
JUNE 30, 2018, 2017 and 2016

OPERATING REVENUE	**2018**	**2017**	**2016**
Power sales and other assessments to members	$ 62,511,118	$ 59,185,818	$ 52,708,733
OPERATING EXPENSES			
Office supplies and expenses	545,879	549,266	449,940
Outside services	2,051,054	2,028,077	1,923,327
Power purchases and related expenses	59,915,117	56,609,381	50,336,395
Total operating expenses	$ 62,512,050	$ 59,186,724	$ 52,709,662
OPERATING LOSS	(932)	(906)	(929)
Member assessments for deferred project costs	-	(129)	15,000
Investment income	932	906	929
CHANGE IN NET POSITION	-	(129)	15,000
NET POSITION, BEGINNING	433,735	433,864	418,864
NET POSITION, ENDING	$ 433,735	$ 433,735	$ 433,864

Results of Operations

Fiscal Year 2018 Summary

Power sales and other assessments to members as well as total operating expenses increased in fiscal year 2018, from $59 million to $63 million primarily due to an increase in cost of energy purchase and sale transactions with customers participating in PSA No. 3. The megawatt-hour sales decline continued from 1.5 million to 1.47 million, a 2% reduction, as CRC, COBC and LCPD purchases have been reduced. A recovery of these energy requirements is not expected in the near term. See the following chart for the annual power sales to each of the member agencies:

SSEA Sales to Members

In MWh

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013
SNWA	1,156,379	1,139,525	1,111,379	1,082,859	1,105,060	297,691
CRC	144,259	183,574	465,894	582,053	585,276	102,376
COBC	158,157	161,645	167,227	162,296	160,473	144,680
LCPD	13,506	19,994	16,090	11,737	13,068	11,664
OPD	-	-	(10,316)	(21,891)	(29,159)	(4,604)
Total	1,472,301	1,504,739	1,750,275	1,817,055	1,834,718	551,806

Member assessments for deferred projects had no significant activity as the Eastern Nevada Transmission Project (ENTP) received full project right-of-way grant in early 2016. Project participants are evaluating options for further development of this project.

Investment income of $932 was virtually unchanged from 2017 due to stable investment balances and returns at the financial institution.

Net position remained at $433,735, reflecting no additional project cost during the year. The entire net position consists of investment in the ENTP.

Fiscal Year 2017 Summary

Power sales and other assessments to members as well as total operating expenses increased in fiscal year 2017, from $53 million to $59 million primarily due to a change in accounting to track energy purchase and sale transactions with customers participating in PSA No. 3 through the

SNWA which was partially offset by a $7.7 million reduction in power sales to the CRC. The megawatt-hour sales decline continued from 1.75 million to 1.5 million, a 14% reduction, as CRC purchases have been reduced. A recovery of these energy requirements is not expected in the near term.

Member assessments for deferred projects had no significant activity as the Eastern Nevada Transmission Project (ENTP) received full project right-of-way grant in early 2016. Project participants are evaluating options for further development of this project.

Investment income of $906 was virtually unchanged from 2016 due to stable investment balances and returns at the financial institution.

Net position slightly decreased to $433,735, reflecting a minor refund of a prior project cost. The entire net position consists of investment in the ENTP.

Requests for information. This financial report is designed to provide a general overview of the SSEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed as follows:

Office of the
Energy Accounting & Settlements Officer
Silver State Energy Association
100 City Parkway, Suite 700, MS 115
Las Vegas, NV 89106
(702) 259-8168

This report is also available on the SSEA website: http://www.silverstateenergy.org/

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BASIC FINANCIAL STATEMENTS

silver state energy association

SILVER STATE ENERGY ASSOCIATION

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 10,937,513	$ 8,210,301
Accounts receivable	246,387	329,049
Accounts receivable, members	5,203,074	4,098,466
Prepaid items	20,491,740	25,942,608
Total current assets	36,878,714	38,580,424
Capital assets:		
Capitalized project costs	433,735	433,735
Total assets	$ 37,312,449	$ 39,014,159
LIABILITIES		
Current liabilities		
Accounts payable	$ 3,575,634	$ 3,510,953
Accounts payable, members		1,164,642
Advances from members	33,303,080	33,904,829
Total current liabilities	36,878,714	38,580,424
NET POSITION		
Net investment in capital assets	433,735	433,735
Total liabilities and net position	$ 37,312,449	$ 39,014,159

See notes to financial statements.

SILVER STATE ENERGY ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUE		
Power sales and other assessments to members	$ 62,511,118	$ 59,185,818
OPERATING EXPENSES		
Office supplies and expenses	545,879	549,266
Outside services	2,051,054	2,028,077
Power purchases and related expenses	59,915,117	56,609,381
	62,512,050	59,186,724
OPERATING LOSS	(932)	(906)
Refund credited to assessments for deferred project costs		(129)
Investment income	932	906
CHANGE IN NET POSITION		(129)
NET POSITION, BEGINNING	433,735	433,864
NET POSITION, ENDING	$ 433,735	$ 433,735

See notes to financial statements.

SILVER STATE ENERGY ASSOCIATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power sales and other assessments to members	$ 60,804,761	$ 60,361,561
Cash paid for goods and services	(58,078,481)	(59,171,767)
Net cash provided by (used in) operating activities	2,726,280	1,189,794
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Cash received from members for, and (refund) of, project costs	--	(129)
(Acquisition) and cost refund of capital assets	--	129
Net cash used in capital financing activities	--	--
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	932	906
NET CHANGE IN CASH	2,727,212	1,190,700
CASH, BEGINNING	8,210,301	7,019,601
CASH, ENDING	$ 10,937,513	$ 8,210,301

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (932)	$ (906)
(Increase) decrease in operating assets:		
Accounts receivable	82,662	297,844
Accounts receivable, members	(1,104,608)	(2,552,614)
Prepaid items	5,450,868	1,405,636
Increase (decrease) in operating liabilities:		
Accounts payable	64,681	(1,873,122)
Accounts payable, members	(1,164,642)	184,599
Advances from members	(601,749)	3,728,357
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 2,726,280	$ 1,189,794

See notes to financial statements.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Under the provisions of Chapter 277 of the Nevada Revised Statutes (NRS), public agencies may enter into an agreement for the joint exercise of any power, privilege, or authority and may create a separate legal or administrative entity to conduct the joint or cooperative undertaking.

The Silver State Energy Association (SSEA) is an association of public agencies with the common goal of jointly planning, developing, owning and operating power resources to meet their own needs and those of their customers. The economies of scale produced by SSEA offer improved project development opportunities and power purchasing capabilities, the sharing of resources and expertise, and the opportunity for jointly managed energy needs. SSEA is a political subdivision of the State of Nevada (Nevada) and was established August 1, 2007, through a cooperative agreement pursuant to the lnterlocal Cooperation Act.

SSEA was established as a joint venture through an interlocal agreement among the member agencies (Members) consisting of the City of Boulder City, the Colorado River Commission of Nevada (CRC), Lincoln County Power District No. 1, Overton Power District No. 5 and the Southern Nevada Water Authority (SNWA). SNWA provides commodity services for the following entities, among others: the City of Henderson, the City of Las Vegas, the City of North Las Vegas, the Clark County Water Reclamation District, and the Las Vegas Valley Water District.

As appropriate projects are selected for development, the Members involved in each project enter into a project service agreement (PSA) indicating each participating Member's allocation of project costs.

The business and other affairs of the SSEA are conducted by a Board of Directors (the Board) consisting of one director appointed by each Member. The appointed director may, but need not be, a member of the governing body of the Member.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and GASS Statement 80, *Blending Requirements for Certain Component Units – An amendment of GASB Statement No. 14*, defines the reporting entity as the primary government and those component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the entity's governing body and either the ability of the primary government to impose its will on the entity or the possibility that the entity will provide a financial benefit to or impose a financial burden on the primary government. In addition to financial accountability, component units can be other entities in which the economic resources received or held by that entity are entirely or almost entirely for the direct benefit of the primary government, the primary government is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the entity and the resources to which the primary government is entitled or has the ability to otherwise access are significant to the primary government.

SSEA has examined its position relative to its Members and determined that there are no requirements that would cause the basic financial statements of SSEA to be included in the Members' or any other entities' financial reports. In addition, no entities were determined to be component units of SSEA.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) applicable to government units as prescribed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. SSEA is not subject to rate regulation by federal or state utility regulatory bodies such as the Federal Energy Regulatory Commission (FERC) or the Public Utilities Commission of Nevada.

SSEA is accounted for as an enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods and services to customers on a continual basis be financed primarily through user charges.

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of SSEA. Exchange transactions are those in which each party receives and gives up essentially equal values. For the periods reported, there were no non-exchange transactions. Nonoperating revenues of enterprise funds include investment earnings, revenues resulting from ancillary activities, and capital contributions.

Assets, Liabilities, and Equity

Accounts Receivable: Amounts due from Members and others are recorded at net realizable value and consist of amounts due for general and project expenses. It is SSEA's policy to write off uncollectible receivables based on a case-by-case evaluation of facts and circumstances. At June 30, 2018 and 2017, all amounts due from Members were considered to be collectible.

Capital Assets (capitalized project costs): Consistent with industry standards and GAAP, the expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation are held in a capitalized account in accordance with the provisions of FERC. If the project continues to completion, these amounts would be capitalized to property and equipment. If the project is abandoned, they would be charged to expense at that time. As of June 30, 2018 and 2017, capitalized project costs were $433,735, for which an equal amount is reported as net investment in capital assets.

Advances from Members: In accordance with the cooperative agreement, revenues from Member assessments are recorded when general and administrative expenses and project costs are incurred, with any amounts received from Members in excess of those incurred expenses and costs reflected as advances from Members in the accompanying statements of net position.

Certain immaterial reclassifications were made to prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates and assumptions.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information: The SSEA manager prepares a tentative budget for administrative and general expenses for each fiscal year on or before April 15th, with the final budget being adopted by the Board on or before June 1 of each year. SSEA administrative and general expenses incurred during any fiscal year may not exceed the budgeted level authorized by the Board. This budget may be amended by the Board as necessary.

Budgets for each project are established consistent with the requirements of each PSA.

NOTE 3. PROJECT SERVICE AGREEMENTS

Except for CRC, each Member is required to execute one or more PSAs with SSEA within two years from the date the Member becomes a signatory to the cooperative agreement and within two years from the date when all PSAs to which the Member is a signatory are no longer effective.

On November 7, 2007, the Board approved PSA No. 1 – *Joint Generation Resource Planning and Evaluation* (PSA #1). The project participants include the City of Boulder City, Overton Power District No. 5, Lincoln County Power District No. 1 and SNWA.

PSA #1 involves the joint exploration, research, investigation, review, evaluation, and feasibility of implementing, operating, and maintaining electric generation projects and such other projects, whether physical or financial, that may be designed to meet the future power needs of the project participants.

The project consists of three phases. The first two phases have been completed. The third phase, which had been put on hold by the members, was reinitiated in 2012 for the purpose of determining the feasibility of SSEA obtaining an allocation of federal hydropower through Western Area Power Administration or CRC.

The project term was November 7, 2007 through December 31, 2010, with provisions to continue from year-to-year thereafter. The project budget is $1,000,000. Since this is an activity intended to identify projects for future development by SSEA and not a particular contemplated project intended to result in the development of capital assets under GAAP and FERC provisions, the related costs are not capitalized but are recorded as period costs when incurred.

On June 11, 2008, the Board approved PSA No. 2, *Eastern Nevada Transmission Project* (PSA #2). The project participants are the City of Boulder City, Overton Power District No. 5, Lincoln County Power District No. 1 and SNWA.

PSA #2 involves the joint exploration, research, investigation, review, and evaluation of the feasibility of constructing 230 kV high-voltage electrical transmission lines and related facilities to allow the interconnection of the participant electrical systems with Mead Substation in Southern Nevada. Work performed under this agreement includes siting, permitting, and preliminary design of the proposed transmission lines, of which $396,551 has been recorded as capitalized project costs under the provisions of GAAP and FERC.

The original project term was June 11, 2008, through June 11, 2011, unless terminated earlier by the project participants. PSA #2 was amended on February 28, 2011, to extend its term for an additional three years. The project budget was $2,600,000.

On July 17, 2014, the Board approved PSA No. 2A, *Eastern Nevada Transmission Project* (PSA #2A). The project participants are the City of Boulder City, Overton Power District No. 5, Lincoln County Power District No. 1 and SNWA. PSA #2A supersedes PSA #2, which concluded in June 2014.

PSA #2A is a continuation of the project commenced under PSA #2, but with a reduced scope of work and a reduced budget of $100,000, of which $37,184 has been recorded as capitalized project costs under the provisions of GAAP and FERC. The project term is for five years commencing on July 17, 2014.

On November 10, 2009, the Board approved PSA No. 3, *Power Supply Management Services Agreement* (PSA #3). The project participants are the City of Boulder City, Lincoln County Power District No. 1, Overton Power District No. 5 and SNWA.

PSA #3 allows the project participants to request that SSEA provide various power supply management services in connection with the operation, scheduling, hedging or optimization of a project participant's resources or in furtherance of meeting the power supply needs of a project participant. There are two service schedules offered under PSA #3: 1) Load Requirements Service (LRS), which includes full commodity management; and 2) Power Purchase and Sale Service (PPSS), which enables the project participant to buy and sell specifically requested products with SSEA.

The project term is November 10, 2009, to termination of the cooperative agreement. The project budget is to be developed as service is initiated by project participants. Since this is an activity intended to provide ongoing services to the participants and not a particular contemplated project that is intended to result in the development of capital assets, under GAAP and FERC provisions, the related costs are not capitalized but are recorded as period costs when incurred.

Under the provisions of service schedule LRS of PSA #3, SSEA has been delivering energy to the City of Boulder City since June 1, 2011 and to SNWA since April 1, 2013. Overton Power District No. 5 and Lincoln County Power District No. 1 entered into service schedule PPSS under PSA #3 on September 1, 2011 and October 1, 2011, respectively.

NOTE 4. RISK MANAGEMENT

SSEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The United States has been recovering from a widespread recession accompanied by declines in residential real estate sales, mortgage lending and related construction activity, and other inflationary trends and weakness in the commercial and investment banking systems, all of which are likely to continue to have far-reaching effects on the economic activity in the country for an indeterminate period. The near- and long-term impact of these factors on the Nevada economy and the SSEA's operations cannot be predicted at this time but may be substantial.

SSEA often carries cash on deposit with a financial institution in excess of federally-insured limits. The financial institution pledges sufficient collateral with the Nevada State Treasurer for all amounts that exceed the applicable FDIC insurance. The financial institution pledges only AAA rated instruments to secure the deposits.

NOTE 5. COMMITMENTS AND CONTINGENCIES

Litigation: The SSEA is not currently a party to any litigation. However, the SSEA may, from time-to-time, be a party in various litigation matters. It is management's opinion, based upon advice from legal counsel, that the risk of financial losses to SSEA from such litigation, if any, will not have a material adverse effect on SSEA's future financial position, results of operations or cash flows. Accordingly, no provision has been made for any such losses.

SSEA does not accrue for estimated future legal and defense costs, if any, to be incurred in connection with outstanding or threatened litigation and other disputed matters, but rather records such as period costs when the services are rendered.

Forward Energy Contracts: To provide electrical energy at a known and budgeted cost, SSEA actively manages a portfolio of energy resources and adheres to a strict set of energy risk management procedures established to fulfill the Energy Risk Management Policy adopted by the Board. The portfolio is composed of forward electricity contracts as well as natural gas and electricity financial contracts that exist solely for the purpose of serving SSEA's projected energy requirements over the next five years. These contracts are considered to be "normal purchases and sales contracts" and, therefore, they are considered to be outside the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The primary risks associated with this portfolio are counterparty credit and termination risks, which are managed by policies and procedures that require careful financial evaluation of trading partners, trading limits and in some cases, as specified by policy, the posting of collateral.

As of June 30, 2018 and 2017, prepaid items related to the future purchases of power were $19,659,366 and $24,100, 949, respectively. In addition, in relation to the aforementioned forward energy contracts, the SSEA had commitments at June 30, 2018 and 2017, to sell energy in the amounts of $43,325,732 and $46,218,413, respectively, (net of commitments to purchase energy). The SSEA intends to enter into additional energy supply contracts in the future as the delivery period for the committed sales nears.

SILVER STATE ENERGY ASSOCIATION

SCHEDULE OF EXPENSES BUDGET AND ACTUAL

	For year ended June 30, 2018		
	Budget Original and Final	Actual	Variance
ADMINISTRATIVE AND GENERAL			
Labor	$ 43,191	$ 41,021	$ 2,170
Other	13,316	14,447	(1,131)
Total administrative and general expenses	$ 56,507	$ 55,468	$ 1,040
Project Service Agreement #3			
Power purchases and related costs and expenses	$ 63,070,199	$ 62,455,650	$ 614,549
RECONCILIATION OF EXPENSES			
Current year expenses (net)			
Project Service Agreement #3		$ 62,455,650	
Total administrative and general expenses		55,468	
Add back:			
Interest income		932	
Total operating expenses		$ 62,512,050	

	Inception through June 30, 2018		
	Budget Original and Final	Actual	Remaining Available
NON-CAPITALIZED PROJECTS			
Project Service Agreement #1			
Phase I	$ 5,000	$ 2,073	$ 2,927
Phase II	5,000	2,971	2,029
Phase III:			
Work Effort I	2,500	1,911	589
Work Effort 2	5,000	1,927	3,073
Work Effort 3	10,000	368	9,632
	$ 27,500	$ 9,250	$ 18,250
CAPITALIZED PROJECTS			
Project Service Agreement #2			
Administrative	$ 20,000	$ 11,647	$ 8,353
Siting and permitting	2,271,500	384,904	1,886,596
Project management	308,500		308,500
	2,600,000	396,551	2,203,449
Project Service Agreement #2A	100,000	37,184	62,816
Total capitalized project costs	$ 2,700,000	$ 433,735	$ 2,266,265

INDEPENDENT AUDITORS' REPORT

ssea
silver state energy association

PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Silver State Energy Association, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Silver State Energy Association (SSEA) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SSEA's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 18, 2018.

Internal Control over Financial Reporting. In planning and performing our audit of the basic financial statements, we considered SSEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of SSEA's internal control. Accordingly, we do not express an opinion on the effectiveness of SSEA's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SSEA's basic financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether SSEA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts, including whether the funds established by SSEA, as listed in Nevada Revised Statutes (NRS) 354.624 (5)(a)(1 through 5), complied with the express purposes required by NRS 354.6241. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SSEA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SSEA internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
October 18, 2018