Annual Financial Report

For the Years Ended June 30, 2019 and 2018

silver state energy association

A political subdivision of the State of Nevada

Silver State Energy Association

Annual Financial Report
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For the Year Ended June 30, 2019 and 2018

INTRODUCTORY SECTION

silver state energy association

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

October 14, 2019

To the Board of Directors
Silver State Energy Association
Las Vegas, Nevada

We are pleased to present the Annual Financial Report (AFR) of the Silver State Energy Association (the SSEA) for the fiscal year ended June 30, 2019. The AFR was prepared in conformance with accounting principles generally accepted in the United States of America (GAAP).

The SSEA's 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, 2019. 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 year ended June 30, 2019, are fairly presented in all material respects in conformity with GAAP.

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.

<u>The Reporting Entity and its Services</u>

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 Nevada Revised Statutes (NRS) Chapter 277, *Cooperative Agreements: States, Counties, Cities, Districts and other Public Agencies*, and is a political subdivision of the State of Nevada (the State or Nevada) 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 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 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 and periodically reviews expenditures to date for those projects.

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

Relevant Financial Policies

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 reports 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 working capital needs. If excess working capital remains after it has been applied to the following year's working capital needs, it will be refunded, 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 SSEA would be called upon to fund energy facilities on behalf of its members. Potential funding sources, including the possibility of the SSEA issuing debt as well as the requisites to successfully issuing the debt, 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 the 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. PSA #2 was completed and terminated effective July 17, 2019.

Project Services Agreement #3: *Power Supply Management Services Agreement*. This project allows member participants to request that the SSEA provide various power supply management services in connection with the operation, scheduling or optimization to meet a project participant's needs. Fiscal year 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

Michael L. Gonzales
Manager, Energy Accounting

SILVER STATE ENERGY ASSOCIATION

BOARD OF DIRECTORS, MEMBERS AND SSEA STAFF

FOR THE YEAR ENDED JUNE 30, 2019

Board of Directors

Robert Reese, Colorado River Commission of Nevada
David Johnson, Southern Nevada Water Authority
Dennis Porter, City of Boulder City
Edward Wright, Lincoln County Power District No. 1
Jack Nelson, Overton Power District No. 5

Members

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

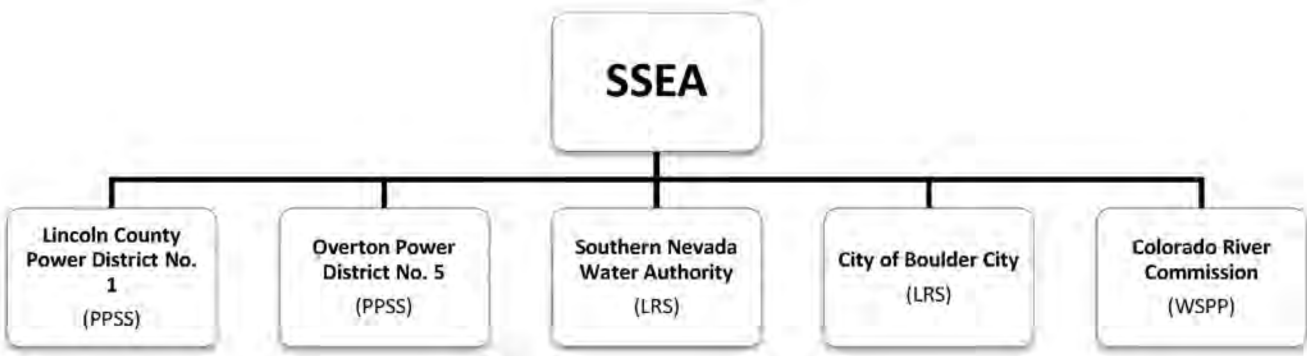
SSEA Staff

Scott P. Krantz, Manager

SILVER STATE ENERGY ASSOCIATION

ORGANIZATION CHART

FOR THE YEAR ENDED JUNE 30, 2019



FINANCIAL SECTION

PBTK
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
Las Vegas, Nevada

We have audited the accompanying financial statements of the Silver State Energy Association (the SSEA) as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the 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 the 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 the 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 the 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 the SSEA as of June 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.

Other Matters. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9-14 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

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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.

Other Information. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the 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 14, 2019, on our consideration of the 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 the SSEA's internal control over financial reporting and compliance.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
October 14, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

We offer readers this narrative overview and analysis of the financial activities of the Silver State Energy Association (the SSEA) for the fiscal year ended June 30, 2019. 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.

Financial Highlights

In 2019, the SSEA completed its sixth full year of providing Load Requirements Service for two of its members.

Power sales and assessments to members were $3.4 million higher this year, as a result of increased energy costs.

Energy, measured in MWh, delivered to the SSEA members declined by 0.6% due to a reduction in members' energy requirements.

Financial Statement Overview

Overview of the 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 proprietary (enterprise) fund financial statements and 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.

A proprietary fund reports all of the SSEA's operations. The operations are reported similar to a private-sector business enterprise. There are three basic financial statements presened: 1) comparative statements of net position; 2) comparative statements of revenues, expenses and changes in net position; and 3) comparative statements of cash flows.

The comparative statements of net position present the SSEA's assets and liabilities, with the difference reported as "net position." 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 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.

The proprietary fund financial statements can be found in the "Basic Financial Statements" section of this report.

Notes to Basic Financial Statements

The notes provide additional information pertaining to the SSEA's operations and financial position and are considered to be an integral part of the financial statements.

(Continued)

The notes to the basic financial statements can also be found in the "Basic Financial Statements" section of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report includes other supplementary information describing the SSEA's member participation in various projects.

The other supplementary information can be found immediately following the "Basic Financial Statements" section of this report.

Proprietary Fund Financial Analysis

Member Investment in Capitalized Project Costs
June 30, 2019, 2018 and 2017

	2019	2018	2017
Southern Nevada Water Authority	182,169	182,169	182,169
City of Boulder City	4,337	4,337	4,337
Lincoln County Power District No. 1	65,060	65,060	65,060
Overton Power District No. 5	182,169	182,169	182,169
Total capitalized project costs	433,735	433,735	433,735

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 the SSEA's members.

Summary Statements of Net Position
June 30, 2019, 2018 and 2017

	2019	2018	2017
ASSETS			
Current assets	$ 33,717,217	$ 36,878,714	$ 38,580,424
Noncurrent assets	433,735	433,735	433,735
Total assets	34,150,952	37,312,449	39,014,159
LIABILITIES			
Current liabilities	33,717,217	36,878,714	38,580,424
NET POSITION	$ 433,735	$ 433,735	$ 433,735

Cash at fiscal year-end 2019 increased by $3.2 million due to a lag in invoicing from certain vendors for prepay items.

Accounts receivable increased from $246,387 in 2018 to $417,037 in 2019 reflecting a higher amount of power sales to non-members.

Accounts receivable from members decreased from $5.2 million in 2018 to $5.1 million in 2019 due to decreased energy market purchases.

(Continued)

Prepaid items decreased significantly from $20.5 million in 2018 to $14 million in 2019. The decrease of $6.5 million reflects a $5.8 million reduction in prepaid future energy costs and a $.7 million reduction in prepaid expenses with CRC.

Accounts payable has increased significantly from $3.6 million in 2018 to $4.4 million in 2019, representing amounts due for energy purchases and transmission and ancillary services.

Unearned revenue (advances from members) decreased from $33.3 million in 2018 to $29.3 million in 2019, primarily as a result of the decrease in prepaid items.

Summary Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019, 2018 and 2017

	2019	2018	2017
Operating revenues	$ 62,544,368	$ 59,140,632	$ 54,377,598
Operating expenses	62,546,462	59,141,564	54,378,504
Operating loss	(2,094)	(932)	(906)
Nonoperating revenues	2,094	932	777
Change in net position			(129)
Net position, beginning of year	433,735	433,735	433,864
Net position, end of year	$ 433,735	$ 433,735	$ 433,735

Power sales and other assessments to members as well as total operating expenses remained virtually unchanged at $63 million in fiscal year 2019. The megawatt-hour sales decline continued from 1.47 million to 1.46 million, a .6% reduction, as Southern Nevada Water Authority and Lincoln County Power District No. 1 purchases were reduced, but were partially offset by an increase of Colorado River Commission of Nevada purchases. A recovery of Lincoln County Power District No. 1 energy purchases is not expected in the near term.

Annual Power Sales to Members (in MWh)
For the Year Ended June 30, 2019, 2018, 2017 and 2016

	2019	2018	2017	2016
Colorado River Commission of Nevada	156,359	144,259	183,574	465,894
Southern Nevada Water Authority	1,135,344	1,156,379	1,139,525	1,111,379
City of Boulder City	158,926	158,157	161,645	167,227
Lincoln County Power District No. 1	12,211	13,506	19,994	16,090
Overton Power District No. 5				(10,316)
Total power sales in MWh	1,462,840	1,472,301	1,504,738	1,750,274

(Continued)

Summary analysis for the year ended June 30, 2019

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 $2,094 increased from 2018 due to holding more cash in the interest-bearing account.

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

Summary analysis for the year ended June 30, 2018

Member assessments for deferred projects had no significant activity as the 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 virually unchangeed from 2017 due to stable investment balances and returns at the financial institution.

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

Economic Factors

According to a report from the University of Nevada Las Vegas, Center for Business and Economic Research (CBER) issued on June 5, 2019, the Southern Nevada economy continues to make steady progress towards recovery. Financial conditions have improved and the number of Nevadans with negative mortgage equity, which peaked near 77.7%, is now down to 4.8%. Because the Southern Nevada economy depends heavily on tourism, its outlook ties to the growth of the U.S. and international economies. CBER forecasts visitor volume, gross gaming revenue and hotel/motel occupancy rates all exhibit mixed to negative trends. They also forecast employment growth declining and population and personal income showing steady and consistent growth through 2019 and 2020. Based on CBER's assessment of the international and national trends, they believe that the Southern Nevada economy will continue to see improvements through 2020. In addition, they anticipate that the economic growth in the Southern Nevada economy will generally out perform the national economy.

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 2019 was 4.8%. This compares to an unemployment rate of 5.0% for June 2018. The seasonally adjusted unemployment rate for the State was 4.0% for June 2019 and 4.5% for June 2018. Following the significant improvement, Nevada's unemployment rate is now less than 0.5% above the national average. The average seasonally adjusted unemployment rate for the United States was 3.7% for June 2019 and 4.0% for June 2018. Nevada has frequently ranked among the top states for joblessness since 2010. In June 2019 Nevada's ranking had improved to No. 38.

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 the 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.

(Continued)

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 to:

Silver State Energy Association
Manager, Energy Accounting
100 City Parkway
Suite 700, MS 115
Las Vegas, NV 89106

This report is also available on the SSEA website:

http://www.silverstateenergy.org/

Basic Financial Statements

SILVER STATE ENERGY ASSOCIATION

PROPRIETARY FUND
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash	$ 14,179,382	$ 10,937,513
Accounts receivable	417,037	246,387
Accounts receivable, members	5,115,413	5,203,074
Prepaid items	14,005,385	20,491,740
Total current assets	33,717,217	36,878,714
Noncurrent assets		
Capital assets, net of accumulated depreciation and amortization		
Capitalized project costs	433,735	433,735
Total assets	34,150,952	37,312,449
LIABILITIES		
Current liabilities		
Accounts payable	4,384,313	3,575,634
Unearned revenue (advances from members)	29,332,904	33,303,080
Total liabilities	33,717,217	36,878,714
NET POSITION		
Net investment in capital assets	$ 433,735	$ 433,735

See notes to basic financial statements.

SILVER STATE ENERGY ASSOCIATION

PROPRIETARY FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Power sales and member assessments	$ 62,544,368	$ 59,140,632
OPERATING EXPENSES		
Administrative and general	459,601	545,879
Outside services	2,084,805	2,051,054
Power purchases and related expenses	60,002,056	56,544,631
Total operating expenses	62,546,462	59,141,564
Operating loss	(2,094)	(932)
NONOPERATING REVENUES		
Investment income	2,094	932
CHANGE IN NET POSITION		
NET POSITION, BEGINNING OF YEAR	433,735	433,735
NET POSITION, END OF YEAR	$ 433,735	$ 433,735

See notes to basic financial statements.

SILVER STATE ENERGY ASSOCIATION

Proprietary Fund
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from power sales and member assessments	$ 58,661,853	$ 57,434,276
Cash payments for goods and services	(55,422,078)	(54,707,996)
Net cash provided by operating activities	3,239,775	2,726,280
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	2,094	932
NET INCREASE IN CASH	3,241,869	2,727,212
CASH, BEGINNING OF YEAR	10,937,513	8,210,301
CASH, END OF YEAR	$ 14,179,382	$ 10,937,513
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (2,094)	$ (932)
Adjustments to reconcile operating loss to net cash provided by operating activities		
(Increase) decrease in operating assets		
Accounts receivable	(170,650)	82,662
Accounts receivable, members	87,661	(1,104,608)
Prepaid items	6,486,355	5,450,868
Increase (decrease) in operating liabilities		
Accounts payable	808,679	64,681
Accounts payable, members		(1,164,642)
Unearned revenue (advances from members)	(3,970,176)	(601,749)
Total adjustments	3,241,869	2,727,212
Net cash provided by operating activities	$ 3,239,775	$ 2,726,280

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Silver State Energy Association (the SSEA) have been prepared in conformity with accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 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 the SSEA offer improved project development opportunities and power purchasing capabilities, the sharing of resources and expertise, and the opportunity for jointly managed energy needs. The SSEA is a political subdivision of the State of Nevada (the State or Nevada) and was established August 1, 2007, through a cooperative agreement pursuant to the Interlocal Cooperation Act.

The 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.

GASB 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 organization's governing board and either the ability of the primary government to impose its will on the organization or the possibility that the organization 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 organizations in which the economic resources received or held by that organization 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 that organization and the resources to which the primary government is entitled or has the ability to otherwise access are significant to the primary government.

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

(Continued)

Basic Financial Statements

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. The 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.

The SSEA is accounted for as an enterprise fund, which is a proprietary fund type. 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 include statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Proprietary (Enterprise) Fund Financial Statements

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the SSEA are power sales and member assessments (charges for services). Operating expenses include administratived and general expenses, outside services and the cost of purchased power and related expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets and Liabilities

Receivables, Payables and Unearned Revenues

Amounts due from Members and others are recorded at net realizable value and consist of amounts due for administrative and general expenses and project costs. It is the SSEA's policy to write off uncollectible receivables based on a case-by-case evaluation of facts and circumstances. No allowance for uncollectable amounts receivable has been established since management does not anticipate any material collection loss in respect to delinquent accounts.

In accordance with the cooperative agreement, revenues from Member assessments are recorded when general and administrative expenses and project costs are incurred. Unearned revenues (advances from Members) represent any amounts received from Members in excess of incurred expenses and costs.

Prepaid Items

Prepaid items at year end primarily consist of payments related to the SSEA's committments related to future power purchases (Note 4).

(Continued)

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.

Net Position

In the proprietary fund financial statements, net position is reported as net investment in capital assets, restricted, or unrestricted. Net position is reported as restricted when constraints placed on it are either imposed by external parties (such as creditors, grantors, contributors or other governments) or imposed by law through a constitutional provision or enabling legislation.

Prioritization and Use of Available Resources

When both restricted resources and other resources can be used for the same purposes, it is the SSEA's policy to use restricted resources first.

Use of Estimates

Timely preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts. Accordingly, these estimates may require revision in future periods.

Reclassifications

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

Note 2. Stewardship 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 1st of each year. The 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.

(Continued)

New Accounting Pronouncements

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2018. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for periods beginning after December 15, 2018. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for periods beginning after December 15, 2019. The objective of this statement is to better meet the information needs of financial statement users by requiring recognition of certain lease assets, liabilities and inflows or outflows of resources for arrangements previously accounted for as operating leases based on the payment provisions of the contract. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019. The objective of this statement is to establish accounting requirements for interest cost incurred before the end of a construction period and requires that such interest costs be recognized as an expense in the period in which the cost is incurred. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*, effective for periods beginning after December 15, 2018. The objective of this statement is to address the reporting of a majority equity interest in a legally separate organization and requires that such majority equity interest be reported as an investment. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligation*s, effective for periods beginning after December 15, 2020. The objective of this statement is to establish the method to be used for reporting conduit debt obligations by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management has completed its assessment of this statement and determined that it will not have a material effect on the SSEA's financial position or changes therein.

(Continued)

Note 3. Detailed Notes

Capital Assets (Capitalized Project Costs)

For the year ended June 30, 2019, capital asset activity was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Business-type activities				
Capital assets not being depreciated or amortized				
Capitalized project costs	$ 433,735	$	$	$ 433,735

Project Service Agreements

Except for CRC, each Member is required to execute one or more PSAs with the 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 the 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 the 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 230kV high voltage electrical transmission lines and related facilities to allow the interconnection of the participant electrical systems with the 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.

(Continued)

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 the 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 the 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, the 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. Other Information

Commitments (Foward Energy Contracts)

To provide electrical energy at a known and budgeted cost, the 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 the 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 counter-party 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, 2019 and 2018, prepaid items related to future purchases of power were $14,074,506 and $19,659,366, respectively. In addition, in relation to the aforementioned forward energy contracts, the SSEA had commitments at June 30, 2019 and 2018, to sell energy in the amounts of $76,670,879 and $43,325,732, 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.

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 the SSEA from such litigation, if any, will not have a material adverse effect on the SSEA's future financial position, results of operations or cash flows. Accordingly, no provision has been made for any such losses.

The 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.

Risk Management

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. Any future impact of these factors on the Nevada economy and the SSEA's operations cannot be predicted at this time, but may be substantial.

The SSEA is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. Any future impact of these factors on the SSEA's operations cannot be predicted at this time, but may be substantial.

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

OTHER SUPPLEMENTARY INFORMATION

SILVER STATE ENERGY ASSOCIATION

SILVER STATE ENERGY ASSOCIATION ENTERPRISE FUND
SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original and Final Budget	Actual	Variance
ADMINISTRATIVE AND GENERAL			
Labor	$ 44,586	$ 41,696	$ (2,890)
Other	15,470	13,428	(2,042)
Total administrative and general	$ 60,056	$ 55,124	$ (4,932)
PROJECT SERVICE AGREEMENT # 3			
Power purchases and related expenses	$ 60,954,025	$ 62,489,244	$ 1,535,219

RECONCILIATION OF EXPENSES		
Current expenses, net		
Total administrative and general	$	55,124
Total project service agreement # 3		62,489,244
Total current expenses, net		62,544,368
Add back expenses paid with interest income		2,094
Total operating expenses	$	62,546,462

SILVER STATE ENERGY ASSOCIATION

Silver State Energy Association Enterprise Fund
Schedule of Expenses - Budget and Actual
From Inception through June 30, 2019

	Original and Final Budget	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 II	5,000	1,927	3,073
Work effort III	10,000	368	9,632
Total non-capitalized projects	$ 27,500	$ 9,250	$ 18,250
CAPITALIZED PROJECTS			
Project service agreement # 2			
Administrative	$ 20,000	$ 11,647	$ 8,353
Siting and permiting	2,271,500	384,904	1,886,596
Project management	308,500		308,500
Total project service agreement # 2	2,600,000	396,551	2,203,449
Project service agreement # 2A	100,000	37,184	62,816
Total capitalized projects	$ 2,700,000	$ 433,735	$ 2,266,265

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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
Las Vegas, 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 (the SSEA) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SSEA's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 14, 2019.

Internal Control over Financial Reporting. In planning and performing our audit of the basic financial statements, we considered the 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 the SSEA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 the 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 the 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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We noted certain matters that we reported to the SSEA in a separate letter dated October 14, 2019.

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 the 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 the SSEA internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Piercy Bowler Taylor & Kern

Las Vegas, Nevada
October 14, 2019