

Financial Statements

Years Ended June 30, 2016
and June 30, 2015

With Report of Independent Auditors



 **Sonoma**
Clean Power

Local. Renewable. Ours.

**SONOMA CLEAN POWER AUTHORITY
YEARS ENDED JUNE 30, 2016 AND 2015**

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Independent Auditor's Report

To the Board of Directors
Sonoma Clean Power Authority
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sonoma Clean Power Authority (SCPA), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise SCPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCPA as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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

Pisante & Bunker LLP

Santa Rosa, California
November 16, 2016

SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Sonoma Clean Power Authority's (SCPA) financial activities as of and for the years ended June 30, 2016 and 2015. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of SCPA was made possible by the passage, in 2002, of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

SCPA was created as a California Joint Powers Authority on December 4, 2012. SCPA was established to provide electric power and related benefits within Sonoma County, including developing a wide range of renewable energy sources and energy efficiency programs. Governed by an appointed board of directors (Board), SCPA has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. SCPA is responsible for the acquisition of electric power for its service area.

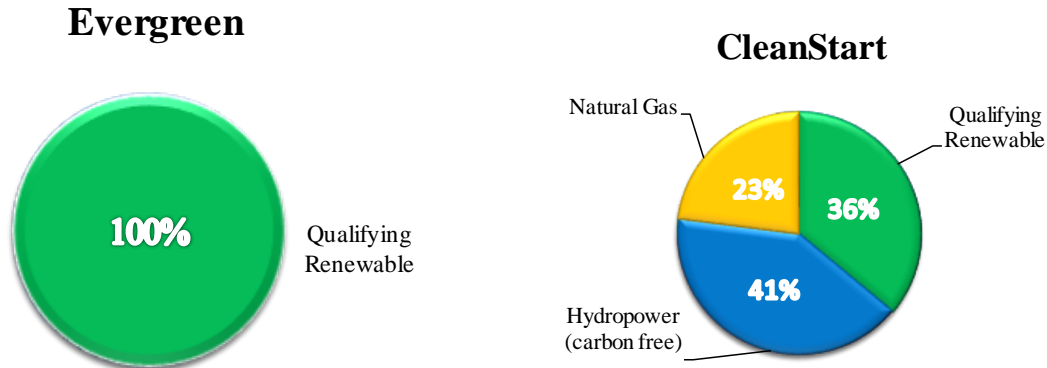
SCPA's financial activity commenced on April 23, 2013, when it succeeded the Sonoma County Water Agency (SCWA) in performing specified activities related to a community choice aggregation program. Pursuant to an agreement between SCPA and SCWA, SCPA accepted an obligation to reimburse SCWA for specified costs to initiate the entity and its programs which were incurred prior to the agreement.

In May 2014, SCPA began providing service to its first 22,000 customer accounts. Significant growth has occurred since that time, and as of June 30, 2016, SCPA serviced approximately 200,000 customer accounts. Service areas include the cities and towns of Cloverdale, Cotati, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, Windsor, and all of Sonoma County's unincorporated areas.

Providing its customers with affordable electricity with significant renewable attributes is a main focus of SCPA's operations. SCPA has entered into agreements with electricity suppliers to ensure that a portion of the electricity provided to customers is from renewable sources. In an effort to increase demand for renewable electricity, SCPA offers its customers two electricity services to choose from: CleanStart and Evergreen. Evergreen customers have chosen to purchase electricity from 100% local renewable sources. Customers who do not choose to participate in Evergreen fall into the CleanStart service and receive electricity with 36% renewable energy, 41% hydropower, and 23% general power which is primarily natural gas. SCPA intends to raise awareness and participation of its Evergreen service to provide a greater demand for renewable electricity.

SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following chart illustrates the energy mix of SCPA's CleanStart and Evergreen services:



Financial Reporting

SCPA maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this report

This report reflects SCPA activities that are funded through the sale of energy to its customers and is divided into the following sections:

- Management discussion and analysis, which provides an overview of operations.
- The financial statements, which offer information on SCPA's financial status:
 - The *Statements of Net Position* includes all of SCPA's assets, liabilities, and net position using the accrual method of accounting. The *Statements of Net Position* provide information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of SCPA's revenue and expenses for the years shown.
 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and payments, such as debt financing.
 - Notes to the financial statements, which provide additional details and information to the main reporting documents.

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS

The following table is a summary of SCPA's assets, liabilities, and net position as of June 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 60,653,208	\$ 33,825,432	\$ 11,975,089
Noncurrent assets			
Capital assets	201,155	171,042	63,415
Other noncurrent assets	754,666	339,766	805,000
Total noncurrent assets	<u>955,821</u>	<u>510,808</u>	<u>868,415</u>
Total assets	<u>61,609,029</u>	<u>34,336,240</u>	<u>12,843,504</u>
Current liabilities	21,130,289	15,842,820	7,024,637
Noncurrent liabilities	-	4,836,405	5,920,157
Total liabilities	<u>21,130,289</u>	<u>20,679,225</u>	<u>12,944,794</u>
Net position			
Net investment in capital assets	201,155	171,042	63,415
Unrestricted (deficit)	40,277,585	13,485,973	(164,705)
Total net position	<u>\$ 40,478,740</u>	<u>\$ 13,657,015</u>	<u>\$ (101,290)</u>

Current Assets

2016 compared to 2015 Current assets reached \$60,653,000 by the end of 2016 and are mostly comprised of the following: \$27,631,000 in cash, \$15,628,000 in accounts receivable, \$9,325,000 in accrued revenue, and \$7,008,000 in investments, each of which mark a significant increase from 2015. The increase in cash is largely the result of an operating surplus from servicing a larger territory for an entire fiscal year. Accounts receivable and accrued revenue also experienced increases directly attributable to territory expansions within Sonoma County in mid- to late 2015. These assets were affected in 2016 to a greater extent than the previous period because the customer base was included for the entire year. Accrued revenue differs from accounts receivable in that it is the result of electricity use by SCPA customers before invoicing to those customers has occurred. The increase in investments is from a 2016 purchase of a six-month certificate of deposit.

SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

2016 compared to 2015 Capital assets increased from \$171,000 in 2015 to \$201,000 in 2016 as a result of purchases of furniture, equipment, and tenant improvements. Spending in this category increased from the prior year primarily due to SCPA making accommodations for its increase in employees. The amount reported is net of depreciation. SCPA does not own assets used for electric generation or distribution.

Other Noncurrent Assets

2016 compared to 2015 Other noncurrent assets increased from \$340,000 in 2015 to \$755,000 in 2016. This increase is due to certain cash deposits with energy providers for collateral for energy purchases. These deposits will be returned to SCPA at the completion of the related contract, or as other milestones are met. The remaining balance are various deposits for regulatory and other operating purposes.

Current Liabilities

2016 compared to 2015 Current liabilities increased from \$15,843,000 in 2015 to \$21,130,000 in 2016, mostly due to the increase in accrued cost of electricity, resulting from growth in the number of customers. Accrued cost of electricity is the cost of energy delivered to customers that will be paid by SCPA in subsequent months as provided with agreements with suppliers. Other components include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities. During 2016, SCPA retired all of its term debt. See Note 5 for more details regarding debt.

Noncurrent Liabilities

2016 compared to 2015 As of June 30, 2016, SCPA no longer had noncurrent liabilities. This was due to the early retirement of bank loans and the return of \$3,450,000 in security deposits to an energy supplier for multiple generation facilities. The security deposits were held by SCPA in the event the energy supplier's generation facilities were not operational within a contractually defined timeframe. During the year the security deposits were replaced with letters of credit with SCPA as the beneficiary.

SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table is a summary of SCPA's results of operations.

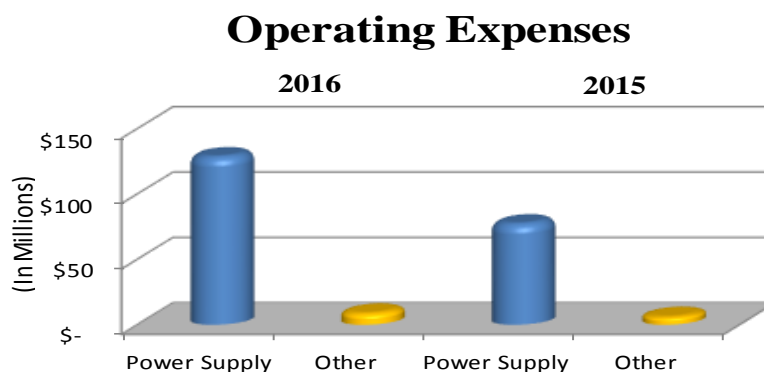
	2016	2015	2014
Operating revenues	\$ 163,680,820	\$ 96,552,720	\$ 9,792,608
Interest income	52,479	-	-
Total income	163,733,299	96,552,720	9,792,608
Operating expenses	136,875,570	82,588,593	8,565,792
Interest expense	36,004	205,822	111,441
Total expenses	136,911,574	82,794,415	8,677,233
Increase in net position	<u>\$ 26,821,725</u>	<u>\$ 13,758,305</u>	<u>\$ 1,115,375</u>

Operating Revenues

2016 compared to 2015 SCPA rapidly expanded its territory throughout Sonoma County through fiscal year ending 2015, peaking at just over 200,000 accounts. With the customer base holding fairly steady through fiscal year 2016, operating revenues were recognized at this larger customer base for an entire year for the first time. The result was a dramatic increase in operating revenues from the previous year. In addition to revenues from sales to retail customers, SCPA recognized approximately \$1,407,000 in sales intended for resale. These were sales of excess energy procured by SCPA, but not necessary to cover its retail customer's demands.

Operating Expenses

2016 compared to 2015 Expenses increased from fiscal year 2015 to 2016 as SCPA's customer base recently experienced significant growth. For both years, the largest expense was the cost of electricity provided to customers. Expenses for staff compensation, consulting, and other general and administrative expenses also increased in 2016, but at a lower level than the cost of energy. As shown in the table below, operations are heavily weighted with the cost of power supply, as SCPA strives to provide affordable electricity while maintaining an efficient organizational scale.



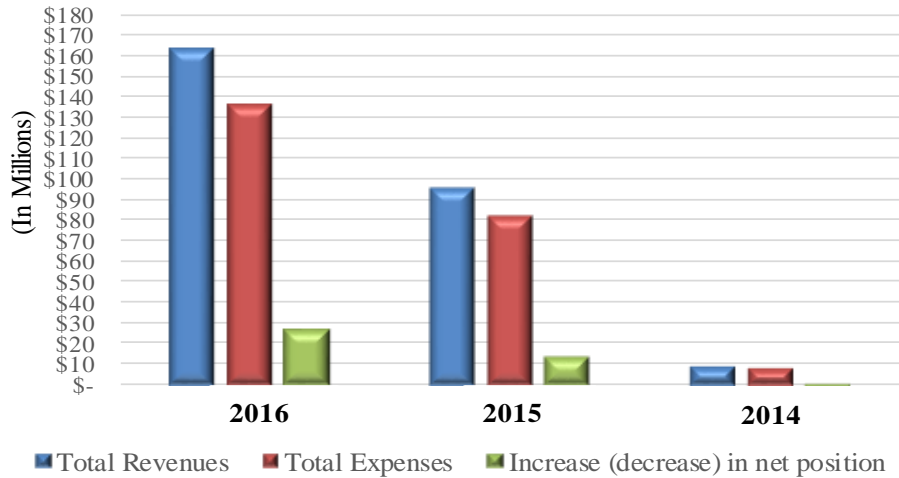
Interest Charges

2016 compared to 2015 Interest charges decreased by \$170,000 in 2016 as all debt was paid off early in 2016.

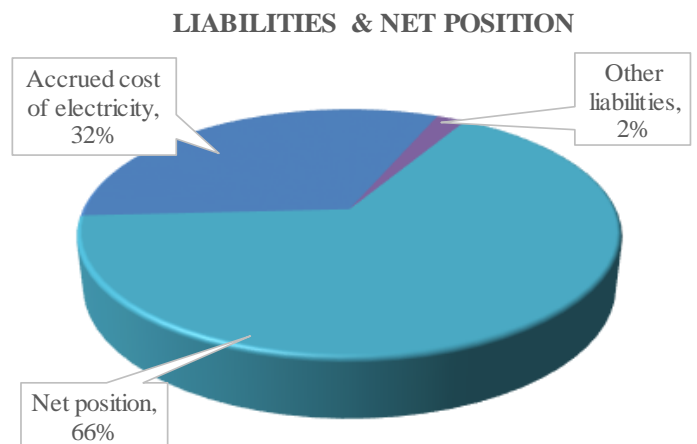
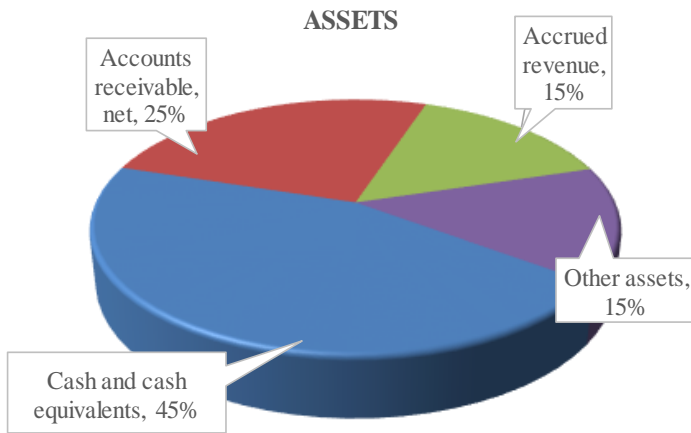
SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

OPERATING SUMMARY: FISCAL YEARS ENDED JUNE 30:



ASSETS, LIABILITIES, AND NET POSITION AS OF JUNE 30, 2016



Cash and cash equivalents	\$ 27,631,167
Accounts receivable, net	15,627,826
Accrued revenue	9,324,908
Other assets	9,025,128
Total Assets	\$ 61,609,029

Accrued cost of electricity	\$ 19,841,081
Other liabilities	1,289,208
Net position	40,478,740
Total Liabilities & net position	\$ 61,609,029

SONOMA CLEAN POWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

Sonoma Clean Power completed the fiscal year with nearly 89% of all eligible customers participating across Sonoma County. SCPA will serve the County of Mendocino starting in June 2017, as SCPA continues its incremental expansion following the successful rollout of service to all of the eligible areas of Sonoma County (only the City of Healdsburg is ineligible due to its municipal utility).

SCPA launched with deferred energy payments for energy as a way to reduce the need for bridging loans to cover cash flow, but SCPA will transition to standard payment terms in 2017. The agency will continue building cash reserves with three goals: reduce the cost of energy by improving credit profile and enabling cash collateral, make progress toward an investment grade credit rating planned for the end of 2020, and reduce general market risk by increasing the ability to subsidize rates through short-term periods.

SCPA recently helped form a statewide trade association, the California Community Choice Association or CalCCA, to help advocate in the legislature and at the CPUC. The strength of this organization will start to materialize once the operating members (all of the operational CCAs in California) contract for lobbying services and hire staff. SCPA identifies the successful launch of CalCCA as a key strategy for reducing risk over the next few years.

REQUEST FOR INFORMATION

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

Please address any questions about this report or requests for additional financial information to 50 Santa Rosa Avenue, 5th Floor, Santa Rosa, CA 95404.

Respectfully submitted,

Geof Syphers, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,631,167	\$ 12,726,406
Accounts receivable, net of allowance	15,627,826	12,178,959
Other receivables	1,041,433	-
Accrued revenue	9,324,908	8,240,561
Prepaid expenses	20,148	679,506
Investments	7,007,726	-
Total current assets	<u>60,653,208</u>	<u>33,825,432</u>
Noncurrent assets		
Capital assets, net of depreciation	201,155	171,042
Deposits	754,666	339,766
Total noncurrent assets	<u>955,821</u>	<u>510,808</u>
Total assets	<u>61,609,029</u>	<u>34,336,240</u>
LIABILITIES		
Current liabilities		
Accounts payable	657,339	615,941
Accrued cost of electricity	19,841,081	14,437,644
Other accrued liabilities	168,817	124,991
User taxes and energy surcharges due to other governments	463,052	410,112
Loan payable to Sonoma County Water Agency	-	254,132
Total current liabilities	<u>21,130,289</u>	<u>15,842,820</u>
Noncurrent liabilities		
Loan payable to Sonoma County Water Agency	-	1,386,405
Supplier security deposits	-	3,450,000
Total noncurrent liabilities	<u>-</u>	<u>4,836,405</u>
Total liabilities	<u>21,130,289</u>	<u>20,679,225</u>
NET POSITION		
Net investment in capital assets	201,155	171,042
Unrestricted	40,277,585	13,485,973
Total net position	<u>\$ 40,478,740</u>	<u>\$ 13,657,015</u>

The accompanying notes are an integral part of these financial statements.

SONOMA CLEAN POWER AUTHORITY

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Electricity sales, net	\$ 161,982,106	\$ 96,366,719
Evergreen electricity premium	291,857	186,001
Electricity sales for resale	1,406,857	-
Total operating revenues	<u>163,680,820</u>	<u>96,552,720</u>
OPERATING EXPENSES		
Cost of electricity	128,305,229	76,960,983
Staff compensation	1,665,149	1,257,990
Data manager	3,283,226	1,827,744
Service fees - PG&E	1,040,303	471,692
Consultants and other professional fees	890,272	543,845
Legal	474,456	250,718
Communications	858,491	1,011,082
General and administration	318,183	247,563
Depreciation	40,261	16,976
Total operating expenses	<u>136,875,570</u>	<u>82,588,593</u>
Operating income	<u>26,805,250</u>	<u>13,964,127</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	52,479	-
Interest expense	(36,004)	(205,822)
Total nonoperating revenues (expenses)	<u>16,475</u>	<u>(205,822)</u>
CHANGE IN NET POSITION	26,821,725	13,758,305
Net position at beginning of period	<u>13,657,015</u>	<u>(101,290)</u>
Net position at end of period	<u><u>\$ 40,478,740</u></u>	<u><u>\$ 13,657,015</u></u>

The accompanying notes are an integral part of these financial statements.

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 157,740,749	\$ 85,369,650
Receipts from electricity sales for resale	365,424	-
Tax and surcharge receipts from customers	2,428,922	1,656,692
Return of supplier security deposits	(3,450,000)	3,450,000
Cash payments to purchase electricity	(122,317,192)	(68,998,820)
Cash payments for staff compensation	(1,612,583)	(1,216,613)
Cash payments for contract services	(5,632,486)	(2,785,284)
Cash payments for communications	(768,169)	(1,070,161)
Cash payments for general and administration	(351,952)	(221,181)
Tax and surcharge payments to other governments	(2,375,982)	(1,355,547)
Net cash provided (used) by operating activities	<u>24,026,731</u>	<u>14,828,736</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds from bank notes and loans	-	80,000
Principal payments on loan	(1,640,537)	(5,014,696)
Deposits and collateral paid	(560,200)	(575,566)
Deposits and collateral returned	145,300	1,040,800
Interest expense payments	(40,049)	(244,399)
Net cash provided (used) by non-capital financing activities	<u>(2,095,486)</u>	<u>(4,713,861)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(71,237)</u>	<u>(118,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	(7,007,726)	-
Interest income received	52,479	-
Net cash provided (used) by investing activities	<u>(6,955,247)</u>	<u>-</u>
Net change in cash and cash equivalents	14,904,761	9,996,721
Cash and cash equivalents at beginning of year	<u>12,726,406</u>	<u>2,729,685</u>
Cash and cash equivalents at end of period	<u><u>\$ 27,631,167</u></u>	<u><u>\$ 12,726,406</u></u>

The accompanying notes are an integral part of these financial statements.

SONOMA CLEAN POWER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

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

	<u>2016</u>	<u>2015</u>
Operating income	\$ 26,805,250	\$ 13,964,127
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	40,261	16,975
Revenue reduced for uncollectible accounts	815,447	485,178
Increase (decrease) in electricity procurement payments made directly from bank notes and loans	-	280,172
(Increase) decrease in net accounts receivable	(4,264,314)	(7,272,924)
(Increase) decrease in other receivables	(1,041,433)	-
(Increase) decrease in accrued revenue	(1,084,347)	(4,395,324)
(Increase) decrease in prepaid expenses	659,358	(670,552)
Increase (decrease) in accounts payable	42,260	416,218
Increase (decrease) in accrued cost of electricity	5,403,437	8,254,614
Increase (decrease) in accrued liabilities	47,872	(893)
Increase (decrease) in user taxes and energy surcharges due to other governments	52,940	301,145
Increase (decrease) in supplier security deposits	(3,450,000)	3,450,000
Net cash provided (used) by operating activities	<u><u>\$ 24,026,731</u></u>	<u><u>\$ 14,828,736</u></u>

NONCASH FINANCING ACTIVITIES

During the year ended 2015, electrical procurement payments of \$280,172 were made directly from a bank line of credit.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Sonoma Clean Power Authority (SCPA) is a joint powers authority created on December 4, 2012 and its members consist of the County of Sonoma, the cities and towns of Cloverdale, Cotati, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, and Windsor as full participants, with full voting rights and powers. At June 30, 2016, SCPA is governed by a nine member Board of Directors appointed by each of the parties.

SCPA was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of SCPA is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

SCPA began its energy delivery operations in May 2014. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The Organization's operations are accounted for as a governmental enterprise fund, and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, SCPA has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less.

INVESTMENTS

SCPA separately states an investment in a certificate of deposit with a six-month term that is not considered short-term. In accordance with GASB 31, the certificate is reported using a cost-based measure. It is accounted for on the Statement of Net Position at cost.

CAPITAL ASSETS AND DEPRECIATION

SCPA's policy is to capitalize furniture and equipment valued over \$1,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture and leasehold improvements.

OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. The vast majority of operating revenue is derived from these sales. Also included as operating revenue are sales of electricity to other retailers for resale. SCPA engages in this activity in order to unload excess energy that was procured, but not necessary to cover its retail customer's demands.

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased primarily through two energy suppliers, Constellation, an Exelon Company, and Calpine Corporation. SCPA also purchases renewable energy from other sources. The cost of power and related delivery costs have been recognized as "cost of electricity" in the statement of revenues, expenses and changes in net position. As part of the agreement with Constellation, SCPA is required to maintain a cash balance of \$4,000,000 to ensure funds are available to purchase electrical power. This cash balance is included in cash and cash equivalents as presented in the statement of net position.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

SCPA purchases Renewable Energy Certificates (REC) to comply with external mandates and self-imposed benchmarks. The RECs purchased by SCPA are commonly called “bundled”, as they are purchased together with the associated renewable energy actually generated. SCPA procures RECs with the intent to retire them, and does not engage in the activity of building a surplus of RECs. An expense is recognized at the point that the cost of the REC is due and payable to the supplier.

STAFFING COSTS

SCPA pays employees semi-monthly and fully pays its obligation for health benefits and contributions to its defined contribution retirement plan each month. SCPA is not obligated to provide post-employment healthcare or other fringe benefits and, accordingly, no related liability is recorded in these financial statements. SCPA provides compensated time off, and the related liability is recorded in these financial statements.

INCOME TAXES

SCPA is a joint powers authority under the provision of the California Government Code. As such it is not subject to federal or state income or franchise taxes.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

SUPPLIER SECURITY DEPOSIT

Certain energy contracts entered into by SCPA require the supplier to provide SCPA with security deposits. Similar to collateral, this will be held by SCPA in the event the energy supplier’s generation facility is not operational within a contractually defined timeframe. If the facility is operational in time, then SCPA will return the deposit. At June 30, 2016, SCPA was not holding any such deposits.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

2. CASH AND CASH EQUIVALENTS

SCPA maintains its cash in non-interest-bearing accounts at First Community Bank (FCB). California Government Code Section 16521 requires that First Community Bank collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. SCPA has no deposit or investment policy that addressed a specific type of risk that would impose additional restrictions beyond this code. Accordingly, the amount of risk is not disclosed. Risk is monitored on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	2016	2015
Accounts receivable from customers	\$ 16,957,917	\$ 12,693,603
Allowance for uncollectible accounts	(1,330,091)	(514,644)
Net accounts receivable	<u>\$ 15,627,826</u>	<u>\$ 12,178,959</u>

While the majority of account collections occur within the first few months following customer invoicing, SCPA estimates that a portion of the billed accounts will not be collected. SCPA continues collection efforts on accounts in excess of de minimis balances regardless of the age of the account. Although collection success generally decreases with the age of the receivable, SCPA continues to have some success collecting older accounts. Accordingly, accounts above de minimis balances are not written off. The result is that the allowance for uncollectible accounts at the end of a period includes both current and prior period allowances. SCPA records bad debts for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Bad debt expense for 2016 and 2015 was \$815,447 and \$485,178, respectively.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
Balances at June 30, 2014	\$ 70,768	-	\$ (7,353)	\$ 63,415
Additions	98,212	\$ 26,390	(16,975)	107,627
Balances at June 30, 2015	168,980	26,390	(24,328)	171,042
Additions	27,931	42,443	(40,261)	30,113
Balances at June 30, 2016	<u>\$ 196,911</u>	<u>\$ 68,833</u>	<u>\$ (64,589)</u>	<u>\$ 201,155</u>

SONOMA CLEAN POWER AUTHORITY
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5. DEBT

LOAN WITH SONOMA COUNTY WATER AGENCY

In April 2013, SCPA entered into an agreement with the Sonoma County Water Agency (SCWA) to reimburse the SCWA for services, costs, and expenses incurred by SCWA to investigate the feasibility of implementing a community choice aggregation program in Sonoma County during all periods through December 31, 2013. Beginning January 1, 2014, interest on the balance began to accrue at the rate of 3% per year, calculated on a simple interest basis. Beginning January 1, 2015, SCPA began making monthly payments of \$25,000 to SCWA. In April 2016, SCPA paid off this loan ahead of schedule.

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2015				
Sonoma County Water Agency	<u>\$ 1,717,812</u>	<u>\$ -</u>	<u>\$ (77,275)</u>	\$ 1,640,537
Amounts due within one year				(254,132)
Amounts due after one year				<u>\$ 1,386,405</u>
Year ended June 30, 2016				
Sonoma County Water Agency	<u>\$ 1,640,537</u>	<u>\$ -</u>	<u>\$(1,640,537)</u>	\$ -
Amounts due within one year				-
Amounts due after one year				<u>\$ -</u>

6. DEFINED CONTRIBUTION RETIREMENT PLAN

The Sonoma Clean Power Authority Retirement Plan (Plan) is a defined contribution (IRC 457(b)) retirement plan established to provide benefits at retirement to its employees. The Plan is administered by Principal Financial Group. At June 30, 2016, there were 12 plan participants. SCPA is required to contribute up to 6% of covered payroll as a match to employee contributions. SCPA contributed \$73,000 and \$43,000 during the years ended June 30, 2016 and 2015, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

SONOMA CLEAN POWER AUTHORITY
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7. RISK MANAGEMENT

SCPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year ended June 30, 2016, SCPA purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was \$2,000,000 with a \$1,000 deductible.

8. COMMITMENTS AND CONTINGENCIES

SCPA had outstanding power purchase commitments of approximately \$276.2 million contingent upon construction of solar photovoltaic generation facilities that continue for twenty to twenty-five years from the commercial operation date of each project. SCPA will not own the operating system upon construction or have an option to buy the system after the contract period. Certain power purchase agreements required the posting of security deposits by the supplier to be held by SCPA as collateral in the event the facility is not operational within stipulated timeframes. These postings can be in the form of cash or letter of credit.

SCPA had additional outstanding non-cancelable power purchase-related commitments of approximately \$651.7 million for energy that have not yet been provided under power purchase agreements that continue to December 31, 2026.

The following table is the approximated obligations on existing energy and renewable contracts.

Year ended June 30,	
2016	\$ 120,200,000
2017	104,800,000
2018	111,200,000
2019	114,900,000
2020	81,700,000
2021-2043	<u>395,300,000</u>
	<u>\$ 928,100,000</u>

As of June 30, 2016, SCPA had outstanding non-cancelable commitments to professional service providers for services yet to be performed of \$9.3 million through April 30, 2019.

SONOMA CLEAN POWER AUTHORITY
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9. OPERATING LEASE

During 2015, SCPA moved its office and entered into an 84 month non-cancelable lease for its office premises until June 30, 2022. The rental agreement includes an option to renew the lease for five additional years. Rental expense under this lease was \$95,000 and \$12,000 for the years ended June 30, 2016 and 2015.

Future minimum lease payments under the lease are as follows:

Year ended June 30,	
2017	\$ 113,860
2018	156,367
2019	161,058
2020	165,890
2021	170,867
2022	175,993
Total	<u>\$ 944,035</u>

10. SUBSEQUENT EVENT

On October 13, 2016, SCPA's Board of Directors authorized the expansion of services to the unincorporated areas of Mendocino County and the cities of Fort Bragg, Willits and Point Arena, with the start of service in June 2017.