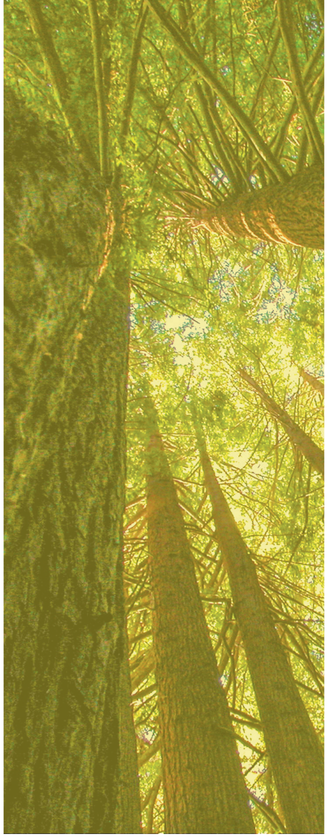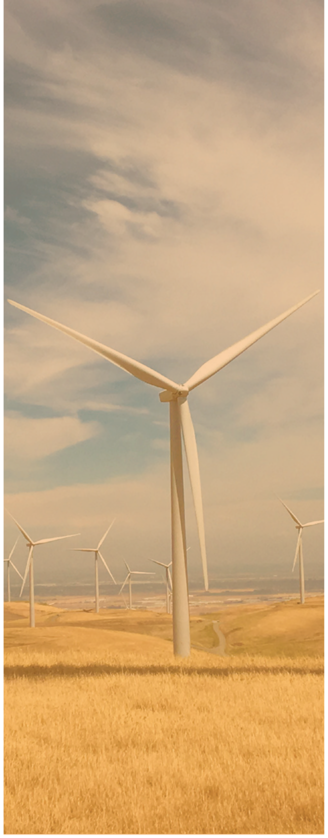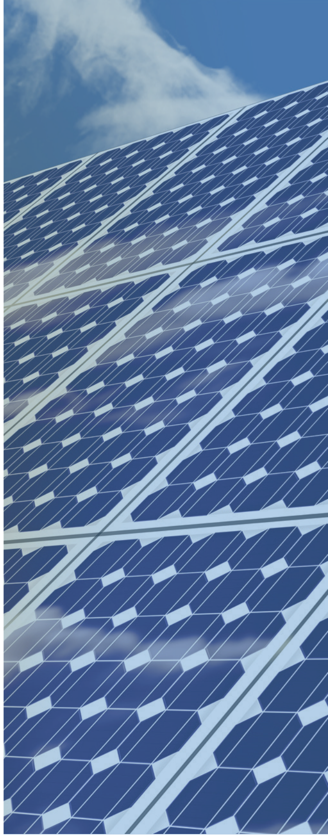

Financial Statements

Years Ended June 30, 2017
and June 30, 2016
With Report of Independent Auditors

Sonoma Clean Power

Local. Renewable. Ours.

SONOMA CLEAN POWER AUTHORITY
YEARS ENDED JUNE 30, 2017 AND 2016

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PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

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(707) 542-3343 • Office
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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, 2017 and 2016, 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, 2017 and 2016, 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.

Pisenti & Brinker LLP

Santa Rosa, California
October 30, 2017

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, 2017 and 2016. 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.

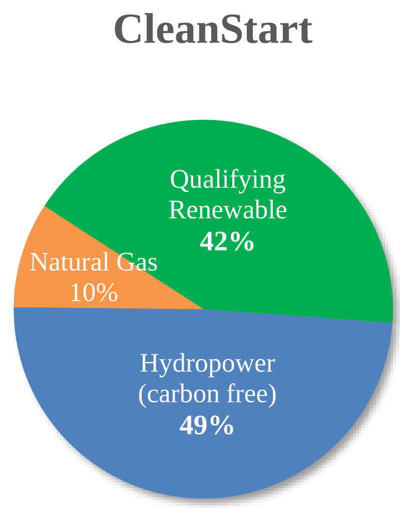
SCPA was created as a California Joint Powers Authority on December 4, 2012. SCPA was established to provide electric power and related benefits within Sonoma County, including developing a wide range of renewable energy sources and energy efficiency programs. Governed by an appointed board of directors (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, 2017, SCPA serviced approximately 230,000 customer accounts. In June 2017, SCPA expanded outside of Sonoma County for the first time to serve the unincorporated areas of Mendocino County and the cities of Fort Bragg, Willits and Point Arena. Within Sonoma County, 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 very low greenhouse gas emissions 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 and from hydropower, which has no emissions but is not classified as renewable in California. 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 49% carbon free hydropower, 42% renewable energy (sources such as geothermal, wind, and solar), and 10% general power which is primarily natural gas (total percentage exceeds 100% due to rounding). SCPA intends to raise awareness and participation of its Evergreen service to provide a greater demand for renewable electricity.

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



Financial Reporting

SCPA presents its financial statements 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's discussion and analysis, which provides an overview of operations.
- The Basic 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 basis 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 uses, such as debt financing.
    - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

FINANCIAL HIGHLIGHTS

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

	2017	2016	2015
Current assets	$ 71,857,772	$ 61,053,208	$ 33,825,432
Noncurrent assets			
Capital assets, net	182,197	201,155	171,042
Other noncurrent assets	3,737,559	354,666	339,766
Total noncurrent assets	3,919,756	555,821	510,808
Total assets	75,777,528	61,609,029	34,336,240
Current liabilities	13,397,884	21,130,289	15,842,820
Noncurrent liabilities	2,475,000	-	4,836,405
Total liabilities	15,872,884	21,130,289	20,679,225
Net position			
Net investment in capital assets	182,197	201,155	171,042
Unrestricted	59,722,447	40,277,585	13,485,973
Total net position	$ 59,904,644	$ 40,478,740	$ 13,657,015

Current Assets

2017 compared to 2016 Current assets reached $75,858,000 by the end of 2017 and are mostly comprised of the following: $40,035,000 in cash, $15,616,000 in accounts receivable, $8,693,000 in accrued revenue, and $7,028,000 in investments, each of which mark an increase from 2016. The most notable increase was in cash, with growth from 2016 to 2017 of approximately 45%. The increase in cash is the result of operating surpluses during the last two years. Accounts receivable and accrued revenue experienced moderate increases mostly attributable to territory expansions within Mendocino County in June 2017. 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.

Capital Assets

2017 compared to 2016 Capital assets are reported net of depreciation. From 2016 to 2017 the depreciation recognized on new and existing assets exceeded asset additions. The result is a decrease in net capital assets from $201,000 in 2016 to $182,000 in 2017. The assets held by SCPA are furniture, equipment, and tenant improvements. SCPA does not own assets used for electric generation or distribution.

Other Noncurrent Assets

2017 compared to 2016 Other noncurrent assets increased from $355,000 in 2016 to $3,738,000 in 2017. This increase reflects additions to cash deposits made with energy providers held as 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 comprised of various deposits for regulatory and other operating purposes.

Current Liabilities

2017 compared to 2016 Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by SCPA. Current liabilities decreased from $21,130,000 in 2016 to $13,398,000 in 2017, mostly due to a change in payment terms with our main energy supplier from due in 55 days to 25 days. Other components include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities.

Noncurrent Liabilities

2017 compared to 2016 During the fiscal year 2017 SCPA received $2,475,000 in security deposits from energy suppliers. 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 in operation in time, then SCPA will return the collateral. SCPA has no other noncurrent liabilities or any bank debt.

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

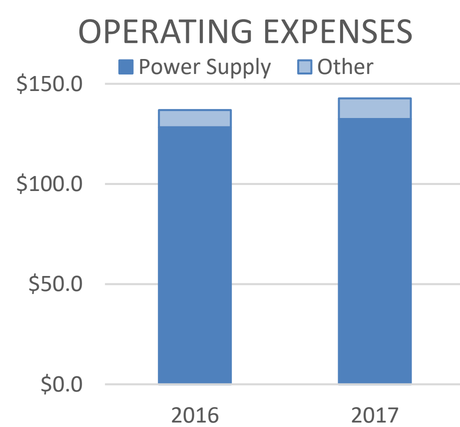
	2017	2016	2015
Operating revenues	$ 161,966,580	$ 163,680,820	$ 96,552,720
Interest income	225,765	52,479	-
Total income	162,192,345	163,733,299	96,552,720
Operating expenses	142,766,441	136,875,570	82,588,593
Interest expense	-	36,004	205,822
Total expenses	142,766,441	136,911,574	82,794,415
Increase in net position	$ 19,425,904	$ 26,821,725	$ 13,758,305

Operating Revenues

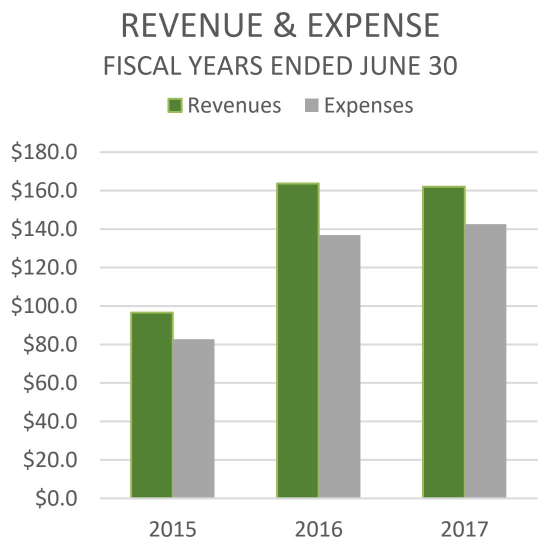
2017 compared to 2016 SCPA's customer base held fairly steady through fiscal year 2017, with the exception of the expansion into parts of Mendocino county during the final month of the year. Although total operating revenues were relatively flat from 2016 to 2017, the amount from retail customers decreased by about 4%. This decrease is due to across the board cuts in electricity rates that SCPA instituted at the beginning of the year. Despite the drop in revenues from these retail customers, total operating revenue held stable due to sales of approximately $8,418,000 to electricity resellers. The energy sold to resellers was originally purchased by SCPA, but was not needed to provide for retail customer use.

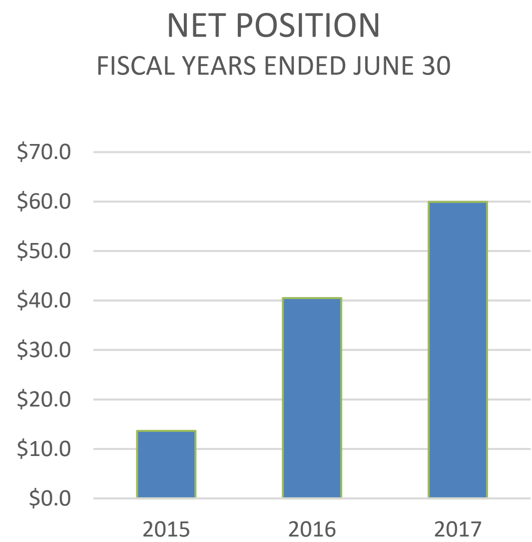
Operating Expenses

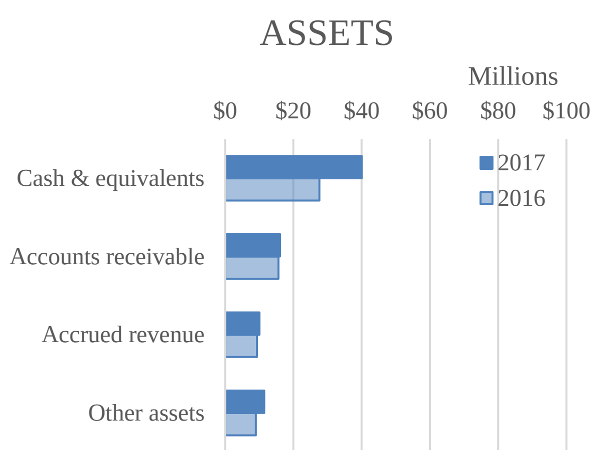
2017 compared to 2016 Expenses increased from fiscal year 2016 to 2017, largely as a result of energy purchases not needed for retail customer use. As mentioned above, this excess energy was sold to resellers. For both years, the largest expense was the cost of electricity. Expenses for staff compensation, consulting, and other general and administrative expenses also increased in 2017, but at a lower level than the cost of energy. Included in 2017 were rebate incentives related to various programs managed by SCPA. See Note 1 to the financial statements for more details regarding these programs. As shown in the table to the right, operations are heavily weighted with the cost of power supply, as SCPA strives to provide affordable electricity while maintaining an efficient organizational scale.

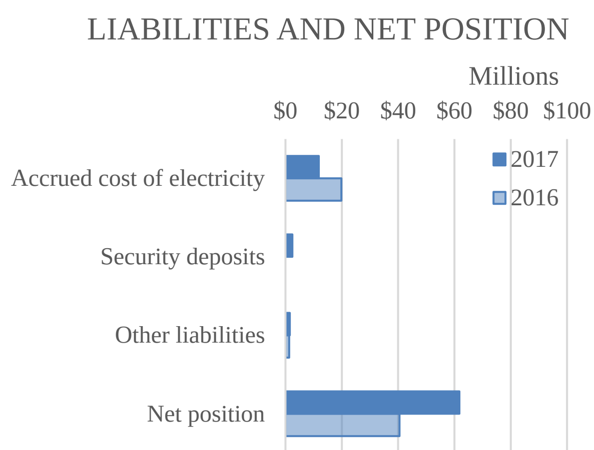


FINANCIAL SUMMARY (in millions)









Assets	2017	2016
Cash & equivalents	$40.0	$27.6
Accounts receivable	15.6	15.6
Accrued revenue	8.7	9.3
Other assets	11.4	9.0
Total Assets	$75.8	$61.6

Liabilites & net position	2017	2016
Accrued cost of electricity	$11.8	$19.8
Security deposits	2.5	0.0
Other liabilities	1.6	1.3
Net position	59.9	40.5
Total liabilities & net position	$75.8	$61.6

ECONOMIC OUTLOOK

Sonoma Clean Power serves 88% of all eligible customers in Sonoma and Mendocino Counties, and that rate of participation is expected to remain fairly stable into the future. Now that service to Mendocino is underway, there are no plans for further expansion.

SCPA will continue to provide stable and generally competitive electric rates whenever possible, and has identified unpredictable and unreasonably high PG&E customer exit fees as a key barrier to this goal. As a result, SCPA has prioritized regulatory work on customer exit fees. A CPUC proceeding on the topic should provide clarity by early 2019.

SCPA has a strong focus on building credit capacity through increasing cash reserves and entering into favorable energy purchase commitments with the intent of securing a strong credit rating in 2020. The possibility that energy costs may increase in the next few years due to a reduction in federal tax credits for renewable energy generation makes credit a key focus as SCPA may create incentives to encourage direct ownership of renewable energy systems, if that proves the most cost-effective means of constructing new generation sources. SCPA is also working with CalCCA (a trade association including all of the operational CCAs in California) to develop capabilities for joint ownership of large assets together with other community choice programs throughout California.

SCPA is also focused on promoting a rapid transition to electric vehicles that would have the effect of both reducing greenhouse gas emissions and increasing SCPA revenues as those vehicles are charged.

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, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 40,035,454	$ 27,631,167
Accounts receivable, net of allowance	15,615,980	15,627,826
Other receivables	184,177	1,041,433
Accrued revenue	8,693,481	9,324,908
Prepaid expenses	46,791	20,148
Deposits	253,461	400,000
Investments	7,028,428	7,007,726
Total current assets	71,857,772	61,053,208
Noncurrent assets		
Capital assets, net of depreciation	182,197	201,155
Deposits	3,737,559	354,666
Total noncurrent assets	3,919,756	555,821
Total assets	75,777,528	61,609,029
LIABILITIES		
Current liabilities		
Accounts payable	735,242	657,339
Accrued cost of electricity	11,827,067	19,841,081
Other accrued liabilities	362,581	168,817
User taxes and energy surcharges due to other governments	472,994	463,052
Total current liabilities	13,397,884	21,130,289
Noncurrent liabilities		
Supplier security deposits	2,475,000	-
Total liabilities	15,872,884	21,130,289
NET POSITION		
Net investment in capital assets	182,197	201,155
Unrestricted	59,722,447	40,277,585
Total net position	$ 59,904,644	$ 40,478,740

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, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Electricity sales, net	$ 152,962,450	$ 161,982,106
Evergreen electricity premium	250,165	291,857
Electricity sales for resale	8,417,669	1,406,857
Liquidated damages	336,296	-
Total operating revenues	161,966,580	163,680,820
OPERATING EXPENSES		
Cost of electricity	132,419,973	128,305,229
Staff compensation	2,624,111	1,665,149
Data manager	2,858,418	3,283,226
Service fees - PG&E	1,048,046	1,040,303
Consultants and other professional fees	1,195,081	890,272
Legal	299,252	474,456
Communications	870,061	858,491
General and administration	395,113	318,183
Program rebates and incentives	1,008,596	-
Depreciation	47,790	40,261
Total operating expenses	142,766,441	136,875,570
Operating income	19,200,139	26,805,250
NONOPERATING REVENUES (EXPENSES)		
Interest income	225,765	52,479
Interest expense	-	(36,004)
Total nonoperating revenues (expenses)	225,765	16,475
CHANGE IN NET POSITION	19,425,904	26,821,725
Net position at beginning of period	40,478,740	13,657,015
Net position at end of period	$ 59,904,644	$ 40,478,740

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

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	$ 153,855,888	$ 157,740,749
Receipts from electricity sales for resale	9,275,053	365,424
Receipts from liquidated damages	368,441	-
Receipts from supplier security deposits	2,475,000	-
Return of supplier security deposits	-	(3,450,000)
Tax and surcharge receipts from customers	2,328,361	2,428,922
Payments to purchase electricity	(140,429,487)	(122,317,192)
Payments for staff compensation	(2,439,940)	(1,612,583)
Payments for contract services	(5,425,130)	(5,632,486)
Payments for communications	(869,998)	(768,169)
Payments for general and administration	(365,031)	(351,952)
Payments for program rebates and incentives	(1,103,596)	-
Tax and surcharge payments to other governments	(2,318,419)	(2,375,982)
Net cash provided (used) by operating activities	15,351,142	24,026,731
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal payments on loan	-	(1,640,537)
Deposits and collateral paid	(3,512,500)	(560,200)
Deposits and collateral returned	395,000	145,300
Interest expense payments	-	(40,049)
Net cash provided (used) by non-capital financing activities	(3,117,500)	(2,095,486)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(34,418)	(71,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	-	(7,007,726)
Interest income received	205,063	52,479
Net cash provided (used) by investing activities	205,063	(6,955,247)
Net change in cash and cash equivalents	12,404,287	14,904,761
Cash and cash equivalents at beginning of year	27,631,167	12,726,406
Cash and cash equivalents at end of period	$ 40,035,454	$ 27,631,167

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, 2017 AND 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2017	2016
Operating income	$ 19,200,139	$ 26,805,250
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	47,790	40,261
Revenue reduced for uncollectible accounts	1,258,826	815,447
(Increase) decrease in net accounts receivable	(1,246,980)	(4,264,314)
(Increase) decrease in other receivables	857,257	(1,041,433)
(Increase) decrease in accrued revenue	631,426	(1,084,347)
(Increase) decrease in prepaid expenses	(26,643)	659,358
(Increase) decrease in current deposits	(118,854)	-
Increase (decrease) in accounts payable	83,489	42,260
Increase (decrease) in accrued cost of electricity	(8,150,207)	5,403,437
Increase (decrease) in accrued liabilities	329,957	47,872
Increase (decrease) in user taxes and energy surcharges due to other governments	9,942	52,940
Increase (decrease) in supplier security deposits	2,475,000	(3,450,000)
Net cash provided (used) by operating activities	$ 15,351,142	$ 24,026,731

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 voting members consist of the County of Sonoma, Unincorporated Mendocino County, the cities and towns of Cloverdale, Cotati, Fort Bragg, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, and Windsor. At June 30, 2017, SCPA is governed by an eleven 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.

BASIS OF ACCOUNTING

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.

SCPA'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.

CASH AND CASH EQUIVALENTS

For purposes 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.

DEPOSITS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

SUPPLIER SECURITY DEPOSITS

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.

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 sell off 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 through several energy suppliers. 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.

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.

PROGRAM REBATES AND INCENTIVES

During fiscal year 2017, SCPA provided incentive rebates for customers who purchased or leased electric vehicles through the *Drive EverGreen* program. This program was provided in partnership with several local auto dealerships to encourage the use of electric vehicles. In addition, SCPA provided incentive rebates for customers to purchases charging equipment for their electric vehicles. During fiscal year 2017 SCPA paid out approximately $1 million in rebates for vehicles and charging equipment.

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.

2. CASH AND CASH EQUIVALENTS

SCPA maintains its cash in interest and non-interest-bearing accounts in several banks. California Government Code Section 16521 requires that these banks 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:

	2017	2016
Accounts receivable from customers	$ 18,204,897	$ 16,957,917
Allowance for uncollectible accounts	(2,588,917)	(1,330,091)
Net accounts receivable	$ 15,615,980	$ 15,627,826

The majority of account collections occur within the first few months following customer invoicing. 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. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years. SCPA records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for 2016-17 and 2015-16 were $1,259,000 and $815,000, respectively.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
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	196,911	68,833	(64,589)	201,155
Additions	23,025	5,807	(47,790)	(18,958)
Balances at June 30, 2017	$ 219,936	$ 74,640	$ (112,379)	$ 182,197

5. 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, 2017, there were 16 plan participants. SCPA is required to contribute up to 8% of covered payroll as a match to employee contributions. SCPA contributed $207,000 and $73,000 during the years ended June 30, 2017 and 2016, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

6. 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. SCPA purchases 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.

7. COMMITMENTS AND CONTINGENCIES

SCPA had outstanding power purchase commitments of approximately $224.31 million, contingent upon construction of solar photovoltaic generation facilities, that continue for twenty to twenty-five years from the commencement of commercial operations 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 $798.29 million for energy that have not yet been provided under power purchase agreements that continue to March 31, 2044.

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

Year ended June 30,	
2018	$ 122,800,000
2019	126,500,000
2020	129,000,000
2021	94,500,000
2022	57,100,000
2023-2044	492,700,000
	$ 1,022,600,000

7. COMMITMENTS AND CONTINGENCIES (continued)

As of June 30, 2017, SCPA had outstanding non-cancelable commitments to professional service providers for services yet to be performed of $5.9 million through April 30, 2019.

8. 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 $122,000 and $95,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under the lease are as follows:

Year ended June 30,	
2018	$ 156,367
2019	161,058
2020	165,890
2021	170,867
2022	175,993
Total	$ 830,175

9. SUBSEQUENT EVENT

On October 8, 2017, wildfires began burning in several northern California counties. As a result of the fires, thousands of buildings in SCPA's service territory were completely or partially destroyed or without power for extended periods. Management estimates a reduction in revenue and a reduction in the cost of electricity beginning in October 2017. Despite the negative effect this will cause, Management continues to expect positive earnings in the upcoming year.