



Financial Statements

Years Ended June 30, 2020 and June 30, 2019
With Report of Independent Auditors



**SONOMA CLEAN POWER AUTHORITY
YEARS ENDED JUNE 30, 2020 AND 2019**

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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, 2020 and 2019, 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

Independent Auditor's Report (continued)

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, 2020 and 2019, 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.

Other Matters

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

Perenti & Brinku LLP

Santa Rosa, California
November 23, 2020

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The Management's Discussion and Analysis provides an overview of Sonoma Clean Power Authority's (SCP) financial activities as of and for the years ended June 30, 2020 and 2019. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of SCP 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.

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

Financial Reporting

SCP presents its financial statements as an enterprise fund under the economic resources measurement focus and accrual basis of accounting, in accordance with generally accepted accounting principles (GAAP) for proprietary funds, as prescribed by the Governmental Accounting Standards Board (GASB).

Contents of this Report

This report is divided into the following sections:

- Management discussion and analysis, which is an overview of the financial operations.
- The Basic Financial Statements:
 - The *Statements of Net Position* include all of SCP's assets, liabilities, deferred inflows, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of SCP'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 capital asset acquisitions and investments.
 - *Notes to the Basic Financial Statements*, provide additional details and information related to the basic financial statements.

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS

Summary of Assets, Liabilities, Deferred Inflows of Resources, and Net Position

The following table is a summary of SCP's assets, liabilities, deferred inflows of resources, and net position and a discussion of significant changes for the years ending June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 99,885,320	\$ 98,541,897	\$ 85,142,630
Noncurrent assets			
Capital assets and land, net	8,209,209	4,978,658	3,332,156
Other noncurrent assets	27,459,242	5,459,242	4,114,666
Total noncurrent assets	<u>35,668,451</u>	<u>10,437,900</u>	<u>7,446,822</u>
Total assets	<u>135,553,771</u>	<u>108,979,797</u>	<u>92,589,452</u>
Current liabilities	<u>18,569,377</u>	<u>17,061,240</u>	<u>15,828,325</u>
Deferred inflows of resources	<u>22,000,000</u>	<u>-</u>	<u>-</u>
Net position			
Investment in capital assets	8,209,209	4,978,658	3,332,156
Unrestricted	<u>86,775,185</u>	<u>86,939,899</u>	<u>73,428,971</u>
Total net position	<u>\$ 94,984,394</u>	<u>\$ 91,918,557</u>	<u>\$ 76,761,127</u>

Current assets

SCP's current assets were approximately \$99,885,000 at the end of 2020 and are mostly comprised of cash and cash equivalents, accounts receivable, accrued revenue, and investments. Accrued revenue differs from accounts receivable in that it is the result of electricity use by SCP customers before invoicing to those customers has occurred. The total of current assets increased during 2020 as a result of SCP's operating surplus.

Capital assets

The increase each year was primarily due to improvements made to SCP's future headquarters acquired during 2017-18. Capital improvements have also been made at SCP's Advanced Energy Center, a facility that will be used to showcase energy-efficient technology to the public. Capital assets held by SCP are comprised of a building and related land, leasehold improvements, furniture and equipment and are reported net of depreciation. SCP does not own assets used for electric generation or distribution.

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Other noncurrent assets

The increase in 2019 compared to 2018 is largely a result of additions to cash deposits made with energy providers held as collateral for energy purchases. These deposits will be returned to SCP at the completion of the related contract or as other milestones are met. The remaining balance is comprised of various deposits for regulatory and other operating purposes.

Other noncurrent assets increased in 2020 primarily due to a transfer of \$22,000,000 to a Rate Stabilization Fund to be used for later years when financial results may not be as strong or are stressed. Deferring revenue to be used in future years will allow SCP to avoid or reduce the impact of sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances. This amount is also reported as a deferred inflow of resources on the statements of net position.

Current Liabilities

This category consists mostly of the cost of electricity delivered to customers that is not yet due to be paid by SCP. Current liabilities increased from \$17,061,000 in 2019 to \$18,569,000 in 2020, generally due to the timing of payment arrangements with suppliers. Other components include trade accounts payable, taxes and surcharges due to governments, and various other accrued liabilities.

Summary of Revenues, Expenses, and Changes in Net Position

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 170,812,025	\$ 174,330,237	\$ 171,957,784
Interest income	1,719,517	1,104,358	562,637
Total income	<u>172,531,542</u>	<u>175,434,595</u>	<u>172,520,421</u>
Operating expenses	169,465,705	160,277,165	154,666,738
Charitable contributions	-	-	997,200
Total expenses	<u>169,465,705</u>	<u>160,277,165</u>	<u>155,663,938</u>
Change in net position	<u>\$ 3,065,837</u>	<u>\$ 15,157,430</u>	<u>\$ 16,856,483</u>

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Total Income

SCP's customer base held fairly steady through fiscal years 2018 to 2020. Fluctuations in revenue year-to-year are mostly the result of increases in customer rates. While rates increased in fiscal year 2020, SCP deferred operating revenues of \$22,000,000 that was directed to its rate stabilization fund. Other components of operating revenues include grant income received from state and local agencies.

Interest income increased each year as a result of rising cash balances.

Operating Expenses

For both years, the largest expense was the cost of electricity. Operating expenses increased each year, primarily due to increased pricing for certain products in the energy markets. Non-energy related expenses also increased from 2019 to 2020 primarily related to expanded program and grant activities.

Charitable Contributions After the 2017 wildfires that affected Sonoma and Mendocino Counties, SCP contributed \$997,000 towards relief efforts during 2018. These contributions did not recur in 2019 or 2020.

**SONOMA CLEAN POWER AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

ECONOMIC OUTLOOK

Sonoma Clean Power Authority serves 87% of all eligible customers in Sonoma and Mendocino Counties, and this is expected to remain relatively stable. Energy prices have allowed a general reduction in SCP’s customer rates over time, but these savings have been more than offset for customers by increases in PG&E’s exit fees and delivery rates.

SCP has made some progress on creating more certainty over the exit fees paid by its customers, but also expect those fees to remain at high levels for several years. The CPUC has clarified a number of rules relating the exit fees but has not yet recognized that SCP and other public power providers should have access to all of the resources those fees are paying for. As a result, SCP is working closely with CalCCA on regulatory and legislative solutions. SCP is focused on building credit capacity through sustaining significant cash reserves and entering into favorable energy purchase commitments. The next three to four years could see much lower contributions to reserves compared with previous years, as SCP seeks to protect customers from increases in PG&E exit fees and pays for the construction of its headquarters from current revenues.

SCP is also focused on promoting a rapid transition to electric vehicles and electrification of homes and businesses that would have the effect of both reducing greenhouse gas emissions and increasing SCP revenues. Vehicle charging requires purchasing electricity, and building electrification displaces the use of natural gas and propane.

REQUEST FOR INFORMATION

This financial report is designed to provide SCP’s customers and creditors with a general overview of the Organization’s finances and to demonstrate SCP’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, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 43,090,441	\$ 57,590,439
Accounts receivable, net of allowance	21,653,953	17,248,908
Other receivables	2,871,965	1,136,168
Accrued revenue	10,195,459	10,409,152
Prepaid expenses	1,078,247	1,617,136
Deposits	757,079	332,079
Investments	20,238,176	10,208,015
Total current assets	99,885,320	98,541,897
Noncurrent assets		
Unrestricted cash in Rate Stabilization Fund	22,000,000	-
Land and construction-in-progress	8,062,515	4,803,103
Equipment, net of depreciation	146,694	175,555
Deposits	5,459,242	5,459,242
Total noncurrent assets	35,668,451	10,437,900
Total assets	135,553,771	108,979,797
LIABILITIES		
Current liabilities		
Accrued cost of electricity	15,138,782	13,687,997
Accounts payable	1,689,931	1,799,787
Advanced from grantors	188,875	444,625
Other accrued liabilities	982,648	630,499
User taxes and energy surcharges due to other governments	569,141	498,332
Total current liabilities	18,569,377	17,061,240
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization Fund	22,000,000	-
NET POSITION		
Investment in capital assets	8,209,209	4,978,658
Unrestricted	86,775,185	86,939,899
Total net position	\$ 94,984,394	\$ 91,918,557

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

SONOMA CLEAN POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Electricity sales, net	\$ 189,350,328	\$ 172,216,148
Revenue directed to Rate Stabilization Fund	(22,000,000)	-
Evergreen electricity premium	612,300	455,454
Grant revenue	2,849,397	1,658,635
Total operating revenues	<u>170,812,025</u>	<u>174,330,237</u>
OPERATING EXPENSES		
Cost of electricity	152,745,011	145,314,794
Contract services	10,218,163	8,833,818
Staff compensation	4,359,100	3,536,210
General and administration	1,092,239	874,455
Program rebates and incentives	985,971	1,658,031
Depreciation	65,221	59,857
Total operating expenses	<u>169,465,705</u>	<u>160,277,165</u>
Operating income	<u>1,346,320</u>	<u>14,053,072</u>
NONOPERATING REVENUES		
Investment income	1,673,914	1,104,358
Other nonoperating revenue	45,603	-
Total nonoperating revenues	<u>1,719,517</u>	<u>1,104,358</u>
CHANGE IN NET POSITION	3,065,837	15,157,430
Net position at beginning of year	<u>91,918,557</u>	<u>76,761,127</u>
Net position at end of year	<u>\$ 94,984,394</u>	<u>\$ 91,918,557</u>

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

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 188,320,212	\$ 174,816,229
Receipts from grantors	1,020,921	821,538
Other operating receipts	65,603	408,100
Payments to electricity suppliers	(150,812,416)	(147,718,903)
Payments for other goods and services	(11,746,985)	(9,304,249)
Payments for staff compensation	(4,246,350)	(3,379,303)
Tax and surcharge payments to other governments	(2,478,131)	(2,332,060)
Payments for program rebates and incentives	(1,309,422)	(1,663,931)
Payments for charitable contributions	-	(108,000)
Net cash provided by operating activities	<u>18,813,432</u>	<u>11,539,421</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(2,755,070)</u>	<u>(1,268,100)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	1,167,403	1,079,315
Proceeds from certificates of deposit matured	10,274,237	-
Purchase of certificates of deposit	<u>(20,000,000)</u>	<u>(10,208,015)</u>
Net cash used by investing activities	<u>(8,558,360)</u>	<u>(9,128,700)</u>
 Net change in cash and cash equivalents	7,500,002	1,142,621
Cash and cash equivalents at beginning of year	<u>57,590,439</u>	<u>56,447,818</u>
Cash and cash equivalents at end of year	<u>\$ 65,090,441</u>	<u>\$ 57,590,439</u>
 Reconciliation to the Statement of Net Position		
Cash and cash equivalents (current)	\$ 43,090,441	\$ 57,590,439
Cash and cash equivalents (noncurrent)	22,000,000	-
Cash and cash equivalents	<u>\$ 65,090,441</u>	<u>\$ 57,590,439</u>

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

SONOMA CLEAN POWER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

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

	<u>2020</u>	<u>2019</u>
Operating income	\$ 1,346,320	\$ 14,053,072
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	65,221	59,857
Revenue adjusted for allowance for uncollectible accounts	440,412	(1,096,512)
Other nonoperating revenue	45,603	-
Charitable contributions considered an operating activity for cash flow purposes only	-	(108,000)
(Increase) decrease in:		
Accounts receivable	(4,845,460)	1,711,751
Other receivables	(1,533,684)	(928,379)
Accrued revenue	213,692	(836,129)
Prepaid expenses	538,889	(1,086,605)
Deposits	(425,000)	(1,132,290)
Increase (decrease) in:		
Accrued cost of electricity	937,546	428,061
Accounts payable	(544,729)	396,581
Advance from grantors	(255,750)	(55,375)
Accrued liabilities	759,563	111,549
User taxes due to other governments	70,809	21,840
Rate Stabilization Fund	22,000,000	-
Net cash provided by operating activities	<u>\$ 18,813,432</u>	<u>\$ 11,539,421</u>

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

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

1. REPORTING ENTITY

Sonoma Clean Power Authority (SCP) is a joint powers authority created on December 4, 2012. As of June 30, 2020, partner communities consist of the following local governments:

Cloverdale	Sebastopol
Cotati	Sonoma
Fort Bragg	Unincorporated Mendocino County
Petaluma	Unincorporated Sonoma County
Point Arena	Willits
Rohnert Park	Windsor
Santa Rosa	

SCP is separate from and derives no financial support from its members. SCP is governed by a Board of Directors whose membership is composed of elected officials representing one or more of the partner communities.

SCP 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 SCP 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.

Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company. SCP administers energy efficiency programs which supports the development, coordination, and implementation of energy efficiency programs in and around SCP's service area. The energy efficiency programs are supported by rate-payer funds regulated by the California Public Utilities Commission.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

SCP'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.

SCP's operations are accounted for as a governmental enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into two categories – investment in capital assets and unrestricted.

When both restricted and unrestricted resources are available for use, it is SCP's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, SCP defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less, including cash held in the Sonoma County Investment Pool which are available on demand and are considered highly liquid.

CAPITAL ASSETS AND DEPRECIATION

SCP'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. Buildings and improvements are depreciated over 30 years.

DEPOSITS AND OTHER RECEIVABLES

Various energy contracts entered into by SCP require SCP to provide a 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. SCP submits requests for reimbursement of grant related expenses from grantor agencies. At the point an eligible expense is incurred, revenue and a receivable are recorded. At June 30, 2020, SCP had approximately \$2,400,000 in grants receivable that is expected to be received in the following fiscal year.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RATE STABILIZATION FUND

In April 2020, SCP established a Rate Stabilization Fund to allow SCP to defer revenue in years when financial results are strong to be used in future years when financial results are not as strong or stressed. In accordance with GASB 62 and GASB 65, the amount recognized as an addition to the fund is shown as a reduction of operating revenues and reported on the statements of net position as a deferred inflow of resources.

SCP directed \$22,000,000 to the Rate Stabilization Fund for the year ended June 30, 2020.

NET POSITION

Net position is presented in the following components:

Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. SCP did not have any outstanding borrowings as of June 30, 2020 and 2019.

Restricted: This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net position that does not meet the definition of “investment in capital assets.”

OPERATING AND NON-OPERATING REVENUES

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers, grant revenue earned from the delivery of program activities, and penalties from suppliers that fail to meet delivery commitments.

Interest income is considered “non-operating revenue.”

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the cost of electricity purchased and related services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

ELECTRICAL POWER PURCHASED

During the normal course of business, SCP purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and capacity arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from SCP's participation in the California Independent System Operator's centralized market. The cost of electricity and capacity is recognized as "Cost of Electricity" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS), SCP acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). SCP obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. An expense is recognized when the cost of the Certificate is due and payable to the supplier. SCP purchases capacity commitments from qualifying generators to comply with the California Energy Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAFFING COSTS

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

PROGRAM REBATES AND INCENTIVES

SCP provides incentive rebates for customers who purchase or lease electric vehicles through the *DriveEV* program. This program was provided in partnership with several local auto dealerships to encourage the use of electric vehicles. In addition, SCP provides incentive rebates for customers to purchase charging equipment for their electric vehicles. SCP also provides incentive rebates through its *Fire Rebuild Program* which assists homeowners affected by the October 2017 firestorms to rebuild energy-efficient homes. Rebates and incentives provided under these and other programs were approximately \$986,000 and \$1,658,000 for 2020 and 2019, respectively.

ADVANCE FROM GRANTOR

SCP received grant funding from the Bay Area Air Quality Management District that will assist SCP's *Fire Rebuild Program*. The amount in this category represents funds received by SCP, but not yet expended to carry out the specific goals.

INCOME TAXES

SCP is a joint powers authority under the provision of the California Government Code and is not subject to federal or state income or franchise taxes.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. These reclassifications did not result in any change in previously reported net position or change in net position.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

CASH AND CASH EQUIVALENTS

SCP maintains its cash in interest and non-interest-bearing accounts in a commercial bank and in the Sonoma County Investment Pool (the County Pool). California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. SCP 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.

The County Pool includes both voluntary and involuntary participation from external entities. SCP is a voluntary participant. SCP has approved by board resolution, the investment policy of the County of Sonoma, which complies with the California Government Code.

The County Pool is not registered with the Securities and Exchange Commission as an investment company. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs, and fair value.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

INVESTMENTS

During the years ending June 30, 2020 and 2019, SCP purchased Certificates of Deposits (CDs) utilizing a Certificate of Deposit Account Registry Service (CDARS). The purpose of CDARS is for institutions, such as SCP, to invest in CDs in order to stay below the Federal Deposit Insurance Corporation (FDIC) insurance limits at any given bank.

SCP does not have an investment policy that addresses specific types of risk. Risk is monitored on an ongoing basis.

Below is a summary of CDs held by SCP's custodian, measured at fair value, as of June 30, 2020:

Purchase date	Maturity date	Interest rate	Amount
9/26/2019	9/24/2020	2.47%	\$ 12,738,176
10/3/2019	10/1/2020	2.47%	7,500,000
			\$ 20,238,176

Below is a summary of CDs held by SCP's custodian, measured at fair value, as of June 30, 2019:

Purchase date	Maturity date	Interest rate	Amount
9/27/2018	9/26/2019	2.71%	\$ 10,208,015

FAIR VALUE MEASUREMENT

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. SCP's investments, measured at fair value, are classified as Level 2.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

FAIR VALUE MEASUREMENT (CONTINUED)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. SCP's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made on the basis of \$1 which is substantially equal to fair value. SCP's proportionate share of investments in the County Pool for the years ended June 30, 2020 and 2019 of \$36,074,000 and \$15,403,000, respectively, are not required to be categorized under the fair value hierarchy.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SCP would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in SCP's name, and held by the counterparty. SCP's investment securities are not exposed to custodial credit risk because all securities are held by SCP's custodial bank in SCP's name.

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. SCP has not adopted a policy to manage interest rate risk.

The County Pool manages its exposure to interest rate risk by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2020, approximately 36% of the securities in the County Pool had maturities of one year or less. Of the remainder, only 1/2 percent had a maturity of more than five years.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

CREDIT RISK

The investment policy of the County Pool contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, money market accounts, or external investment pools) that represent 5% or more of total County investments, refer to the 2019-20 Sonoma County Comprehensive Annual Financial Report.

4. ACCOUNTS RECEIVABLE

Accounts receivable was as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Accounts receivable from customers	\$ 24,448,579	\$ 19,603,119
Allowance for uncollectible accounts	<u>(2,794,626)</u>	<u>(2,354,211)</u>
Net accounts receivable	<u>\$ 21,653,953</u>	<u>\$ 17,248,908</u>

The majority of account collections occur within the first few months following customer invoicing. SCP estimates that a portion of the billed accounts will not be collected. SCP 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, SCP continues to be successful in collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amounts billed during the current and prior fiscal years.

During the year ended 2020, certain receivables were written-off, resulting in a decrease in accounts receivable and an offsetting decrease in the allowance for doubtful accounts. Accordingly, those write-offs have no direct impact on current year revenue or expenses.

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2020 and 2019 was as follows:

Land and construction-in-progress	<u>Land</u>	<u>Construction- in-progress</u>	<u>Total</u>
Balances at June 30, 2018	\$ 860,520	\$ 2,264,086	\$ 3,124,606
Additions	-	1,678,497	1,678,497
Balances at June 30, 2019	860,520	3,942,583	4,803,103
Additions	-	3,259,412	3,259,412
Balances at June 30, 2020	<u>\$ 860,520</u>	<u>\$ 7,201,995</u>	<u>\$ 8,062,515</u>

Depreciable capital assets	<u>Furniture & Equipment</u>	<u>Leasehold Improvements</u>	<u>Accumulated Depreciation</u>	<u>Total</u>
Balances at June 30, 2018	\$ 305,405	\$ 74,640	\$ (172,495)	\$ 207,550
Additions	23,546	8,418	(59,857)	(27,893)
Dispositions	(15,721)	-	11,619	(4,102)
Balances at June 30, 2019	313,230	83,058	(220,733)	175,555
Additions	36,360	-	(65,221)	(28,861)
Dispositions	(2,964)	-	2,964	-
Balances at June 30, 2020	<u>\$ 346,626</u>	<u>\$ 83,058</u>	<u>\$ (282,990)</u>	<u>\$ 146,694</u>

In June 2018, SCP purchased office property to be used as its future headquarters for approximately \$3,125,000, including closing and other costs. SCP is renovating the property and the cost of the property is included in construction-in-progress. Starting in 2019, construction-in-progress also includes improvements made to a leased property that will be used as a demonstration showroom and classroom aimed at showcasing a variety of zero-carbon technologies. Depreciation expense on these assets will begin when the renovation is complete and the assets are placed in service.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

6. GRANTS

SCP administers a grant from the California Energy Commission (CEC). The purpose of the grant is to help bring energy efficiency and emerging technologies directly to SCP customers. Programs include incentivizing the installation of energy-saving equipment in customers' homes, as well as building a storefront in downtown Santa Rosa where the public can learn about and test energy-saving technologies. The multi-year grant agreement is for approximately \$9,800,000 and is effective January 2018 through April 2021.

Grant revenue is recognized when corresponding eligible expenses are incurred. Grant funds received before eligible expenses are incurred are reported as "advances from grantors" in the Statements of Net Position.

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The Sonoma Clean Power Authority Retirement Plan (Plan) is a defined contribution (IRC 457(b)) retirement plan established to provide retirement benefits to its employees. The Plan is administered by Principal Financial Group. As of June 30, 2020, there were 25 active plan participants. SCP is required to contribute up to 8% of covered payroll as a match to employee contributions. SCP contributed \$256,000 and \$207,000 during 2020 and 2019, respectively. Plan provisions and contribution requirements are established and may be amended by SCP's Personnel Director, as designated by the Board of Directors. Currently, the CEO is SCP's Personnel Director.

8. RISK MANAGEMENT

SCP 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, SCP purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. SCP has general liability coverage of \$2,000,000 with a deductible of \$1,000.

SCP maintains risk management policies, procedures and systems that help mitigate credit, liquidity, market, operating, regulatory and other risks that arise from participation in the California energy market.

Credit guidelines include a preference for transacting with investment-grade counterparties, evaluating counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. In addition, SCP enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

9. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, SCP enters into various power purchase agreements to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind and hydro-electric facilities.

SCP enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

The following table represents the expected, undiscounted, contractual obligations outstanding as of June 30, 2020:

Year ended June 30,	
2021	\$ 140,000,000
2022	130,000,000
2023	120,000,000
2024	120,000,000
2025	90,000,000
2026-2043	<u>410,000,000</u>
	<u>\$ 1,010,000,000</u>

As of June 30, 2020, SCP had noncancelable contractual commitments to professional service providers through April 30, 2022, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be \$5.9 million.

SONOMA CLEAN POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

10. OPERATING LEASE

Rental expense for SCP’s office space was \$300,000 and \$189,000 for the years ended June 30, 2020, and 2019, respectively. During 2014-15, SCP 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. A lease at an additional office location expires on October 31, 2021.

Future minimum lease payments under these leases are as follows:

Year ended June 30,	
2021	\$ 311,000
2022	224,000
Total	<u>\$ 535,000</u>

11. FUTURE GASB PRONOUNCEMENTS

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

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Management is evaluating the effect of these new pronouncements on its future financial reporting.

12. SUBSEQUENT EVENT

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of which the ongoing response to and impacts of COVID-19 will affect SCP’s operational and financial performance are unknown at this time and will be monitored by management. To date, SCP has continued to provide electricity across its entire service territory without interruption.