Financial Statements

Years Ended June 30, 2019 and June 30, 2018
With Report of Independent Auditors

Sonoma Clean Power

Innovation. Grown locally.

SONOMA CLEAN POWER AUTHORITY
YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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
December 24, 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, 2019 and 2018. 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 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), 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.
- The Basic Financial Statements:
    - The *Statements of Net Position* include all of SCP's assets, liabilities, 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*, which provides additional details and information related to the basic financial statements.

FINANCIAL HIGHLIGHTS

The following table is a summary of SCP's assets, liabilities, and net position as of June 30 and a discussion of significant changes:

	2019	2018	2017
Current assets	$ 98,541,897	$ 85,142,630	$ 71,857,772
Noncurrent assets			
Capital assets and land, net	4,978,658	3,332,156	182,197
Other noncurrent assets	5,459,242	4,114,666	3,737,559
Total noncurrent assets	10,437,900	7,446,822	3,919,756
Total assets	108,979,797	92,589,452	75,777,528
Current liabilities	17,061,240	15,828,325	13,397,884
Noncurrent liabilities	-	-	2,475,000
Total liabilities	17,061,240	15,828,325	15,872,884
Net position			
Investment in capital assets	4,978,658	3,332,156	182,197
Unrestricted	86,939,899	73,428,971	59,722,447
Total net position	$ 91,918,557	$ 76,761,127	$ 59,904,644

Current Assets SCP's current assets were approximately $98,542,000 at the end of 2019 and are mostly comprised of cash, short-term investments in the Sonoma County Investment Pool, accounts receivable, accrued revenue, and other 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 2018-19 as a result of SCP's operating surplus, growth in a grant receivable from the California Energy Commission, and additions to prepaid energy costs.

Capital Assets The increase from 2018 to 2019 was primarily due to improvements made to SCP's future headquarters acquired during 2017-18. 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.

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.

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 $15,828,000 in 2018 to $17,061,000 in 2019. The increase is mostly due to trade accounts payable related to building construction costs to be paid after year-end. Other components include accrued cost of electricity, taxes and surcharges due to governments, and various other accrued liabilities.

Noncurrent Liabilities At June 30, 2017, SCP held $2,475,000 in security deposits from energy suppliers. Similar to collateral, this was held by SCP in the event the energy supplier's generation facility was not operational within a contractually defined timeframe. During fiscal year 2018, the bulk of these deposits were returned to the supplier and replaced with a letter of credit with SCP as the beneficiary.

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

	2019	2018	2017
Operating revenues	$ 174,330,237	$ 171,957,784	$ 161,966,580
Interest income	1,104,358	562,637	225,765
Total income	175,434,595	172,520,421	162,192,345
Operating expenses	160,277,165	154,666,738	142,766,441
Charitable contributions	-	997,200	-
Total expenses	160,277,165	155,663,938	142,766,441
Increase in net position	$ 15,157,430	$ 16,856,483	$ 19,425,904

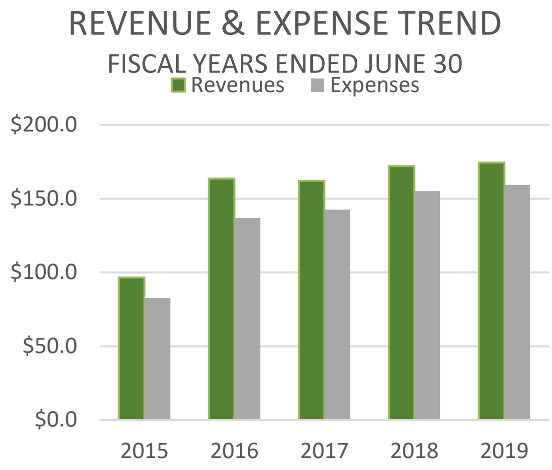
Operating Revenues SCP's customer base held fairly steady through fiscal year 2019, and therefore, operating revenues remained close to 2018. SCP expanded into Mendocino County in June 2017. With this expansion in effect for a full year in 2018, overall operating revenues increased 7% in 2018 compared to 2017.

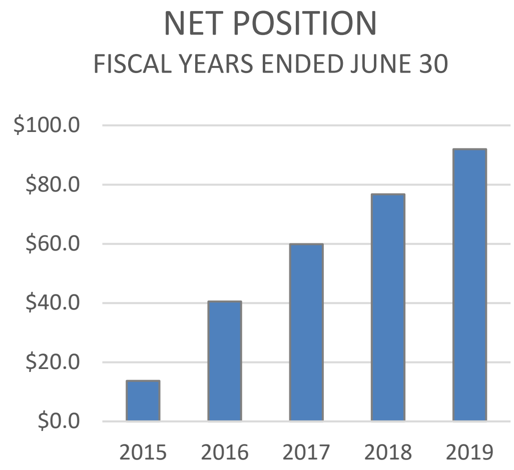
Operating Expenses For both years, the largest expense was the cost of electricity. Operating expenses increased approximately 3.6% from 2019 to 2018 which was less than the 4.7% increase in electricity costs in the San Francisco Bay Area, as reported by the U.S. Bureau of Labor Statistics.

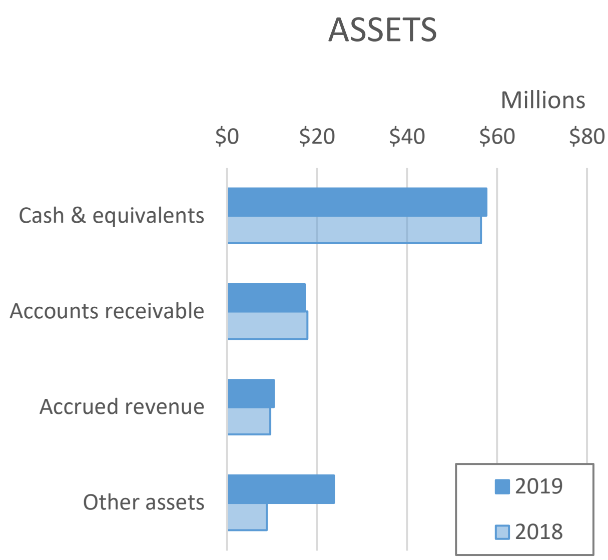
Expenses increased from fiscal year 2017 to 2018, largely as a result of energy purchases to provide for additional retail customer load for the Mendocino County expansion.

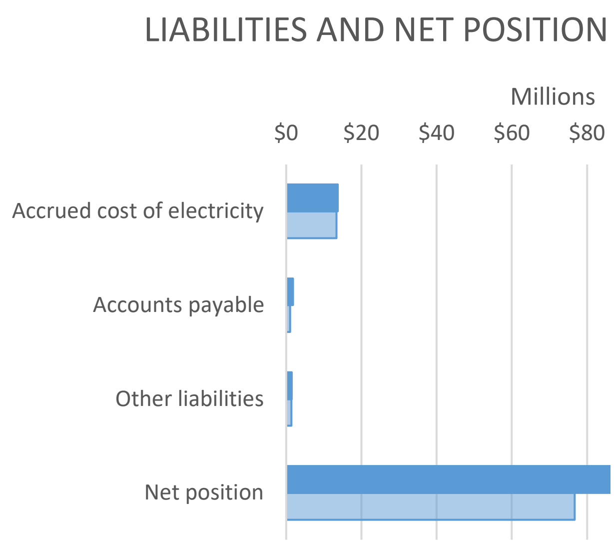
Charitable Contributions After the 2017 wildfires that affected Sonoma and Mendocino Counties, SCP contributed $997,000 towards relief efforts during 2017-18. These contributions did not recur in 2018-19.

FINANCIAL SUMMARY (in millions)









Assets	2019	2018
Cash & equivalents	$57.6	$56.4
Accounts receivable	17.2	17.9
Accrued revenue	10.4	9.6
Other assets	23.7	8.8
Total assets	$109.0	$92.6

Liabilites & net position	2019	2018
Accrued cost of electricity	$13.7	$13.4
Accounts payable	1.8	1.1
Other liabilities	1.5	1.4
Net position	91.9	76.8
Total liabilities & net position	$109.0	$92.6

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 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, but also expect those fees to remain at high levels for several years. The CPUC has established higher exit fees in 2019 but has not yet required PG&E to take very many actions to minimize the costs that make up the exit fees. As a result, SCP is working closely with CalCCA on regulatory solutions. SCP is focused on building credit capacity through increasing 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 that would have the effect of both reducing greenhouse gas emissions and increasing SCP revenues as vehicle charging requires purchasing electricity.

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, 2019 AND 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 57,590,439	$ 56,447,818
Accounts receivable, net of allowance	17,248,908	17,864,147
Other receivables	1,136,168	182,746
Accrued revenue	10,409,152	9,573,023
Prepaid expenses	1,617,136	530,531
Deposits and other current assets	332,079	544,365
Investments	10,208,015	-
Total current assets	98,541,897	85,142,630
Noncurrent assets		
Land and construction-in-progress	4,803,103	3,124,606
Capital assets, net of depreciation	175,555	207,550
Deposits and other noncurrent assets	5,459,242	4,114,666
Total noncurrent assets	10,437,900	7,446,822
Total assets	108,979,797	92,589,452
LIABILITIES		
Current liabilities		
Accounts payable	1,799,787	1,072,947
Accrued cost of electricity	13,687,997	13,364,094
Advanced from grantors	444,625	500,000
Other accrued liabilities	630,499	414,792
User taxes and energy surcharges due to other governments	498,332	476,492
Total current liabilities	17,061,240	15,828,325
NET POSITION		
Investment in capital assets	4,978,658	3,332,156
Unrestricted	86,939,899	73,428,971
Total net position	$ 91,918,557	$ 76,761,127

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Electricity sales, net	$ 172,216,148	$ 171,105,819
Evergreen electricity premium	455,454	429,525
Grant revenue	1,658,635	-
Liquidated damages	-	422,440
Total operating revenues	174,330,237	171,957,784
OPERATING EXPENSES		
Cost of electricity	145,314,794	141,283,608
Contract services	8,833,818	7,760,036
Staff compensation	3,536,210	3,034,920
General and administration	874,455	779,155
Program rebates and incentives	1,658,031	1,748,903
Depreciation	59,857	60,116
Total operating expenses	160,277,165	154,666,738
Operating income	14,053,072	17,291,046
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,104,358	562,637
Charitable contributions	-	(997,200)
Total nonoperating revenues (expenses)	1,104,358	(434,563)
CHANGE IN NET POSITION	15,157,430	16,856,483
Net position at beginning of year	76,761,127	59,904,644
Net position at end of year	$ 91,918,557	$ 76,761,127

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 174,816,229	$ 170,703,815
Receipts from grantors	821,538	500,000
Other operating receipts	408,100	3,228,627
Payments to suppliers for electricity	(147,718,903)	(145,866,360)
Payments to suppliers for other goods and services	(9,304,249)	(8,479,673)
Payments for staff compensation	(3,379,303)	(2,993,518)
Tax and surcharge payments to other governments	(2,332,060)	(2,292,682)
Payments for program rebates and incentives	(1,663,931)	(2,018,403)
Payments for charitable contributions	(108,000)	(689,200)
Net cash provided by operating activities	11,539,421	12,092,606
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	(1,268,100)	(3,210,074)
Net cash used by capital and financing activities	(1,268,100)	(3,210,074)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	1,079,315	501,404
Proceeds from certificates of deposit matured	-	7,028,428
Purchase of certificates of deposit	(10,208,015)	-
Net cash provided (used) by investing activities	(9,128,700)	7,529,832
Net change in cash and cash equivalents	1,142,621	16,412,364
Cash and cash equivalents at beginning of year	56,447,818	40,035,454
Cash and cash equivalents at end of year	$ 57,590,439	$ 56,447,818

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

SONOMA CLEAN POWER AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 14,053,072	$ 17,291,046
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	59,857	60,116
Revenue adjusted for allowance for uncollectible accounts	(1,096,512)	861,806
Charitable contributions considered an operating activity for cash flow purposes only	(108,000)	(689,200)
(Increase) decrease in:		
Accounts receivable	1,711,751	(3,109,973)
Other receivables	(928,379)	62,664
Accrued revenue	(836,129)	(879,543)
Prepaid expenses	(1,086,605)	(483,740)
Deposits	(1,132,290)	(668,011)
Increase (decrease) in:		
Accounts payable	396,581	29,705
Accrued cost of electricity	428,061	1,186,149
Advance from grantors	(55,375)	500,000
Accrued liabilities	96,949	403,089
User taxes due to other governments	21,840	3,498
Supplier security deposits	14,600	(2,475,000)
Net cash provided by operating activities	$ 11,539,421	$ 12,092,606

1. REPORTING ENTITY

Sonoma Clean Power Authority (SCP) is a joint powers authority created on December 4, 2012. As of June 30, 2019, 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.

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.

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. Building, excluding land, is depreciated over 30 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019, and 2018.

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 REVENUE

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."

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NON-OPERATING EXPENSES

Operating expenses include the cost of sales and 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 at the point that 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADVANCE FROM GRANTOR

SCP received grant funding from the Bay Area Air Quality Management District during 2018-19 that will assist SCP's *Fire Rebuild Program* which assists homeowners affected by the October 2017 firestorms to rebuild energy-efficient homes. The amount in this category represents funds received by SCP, but not yet expended to carry out the specific goals.

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. During 2018-19 and 2017-18, SCP paid out approximately $1.7 million each year in rebates for vehicles and charging equipment.

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.

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.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

CASH AND CASH EQUIVALENTS

SCP maintains its cash in interest and non-interest-bearing accounts in several banks and in the Sonoma County Investment Pool (the County Pool). 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%. 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 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.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

INVESTMENTS

During 2018-19 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, 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.

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, 2019, and 2018 of $15,403,000 and $15,114,000, respectively, are not required to be categorized under the fair value hierarchy.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

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, 2019, approximately 48% of the securities in the County Pool had maturities of one year or less. Of the remainder, only 1 percent had a maturity of more than five years.

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 2018-19 Sonoma County Comprehensive Annual Financial Report.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	2019	2018
Accounts receivable from customers	$ 19,603,119	$ 21,314,870
Allowance for uncollectible accounts	(2,354,211)	(3,450,723)
Net accounts receivable	$ 17,248,908	$ 17,864,147

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 2018-19, certain receivables were written-off, resulting in a decrease in accounts receivable and an offsetting decrease in the allowance for doubtful accounts. Accordingly, there is no net impact on current year revenue or expenses.

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2019 was as follows:

Land and construction-in-progress	Land	Construction-in-progress	Total
Balances at June 30, 2017	$ -	$ -	$ -
Additions	860,520	2,264,086	3,124,606
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

Depreciable capital assets	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Total
Balances at June 30, 2017	$ 219,936	$ 74,640	$ (112,379)	$ 182,197
Additions	85,469	-	(60,116)	25,353
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

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 2018-19, construction-in-progress costs also include 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 to be recorded when the renovation is complete.

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 benefits at retirement to its employees. The Plan is administered by Principal Financial Group. As of June 30, 2019, there were 21 plan participants. SCP is required to contribute up to 8% of covered payroll as a match to employee contributions. SCP contributed $207,000 and $174,000 during 2018-19 and 2017-18, 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's 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.

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, 2019:

Year ended June 30,	
2020	$ 142,000,000
2021	108,000,000
2022	70,000,000
2023	68,000,000
2024	72,000,000
2025-2043	603,000,000
	$ 1,063,000,000

As of June 30, 2019, 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 $8.9 million.

10. OPERATING LEASE

Rental expense for SCP's office space was $189,000 and $171,000 for the years ended June 30, 2019, and 2018, 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.

Future minimum lease payments under the lease are as follows:

Year ended June 30,		
2020	$	165,890
2021		170,867
2022		175,993
Total	$	512,750

11. FUTURE GASB PRONOUNCEMENTS

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

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities.

12. PG&E BANKRUPTCY

PG&E provides transmission and distribution services to SCP customers and serves as billing agent for SCP. PG&E is responsible to collect payments on behalf of SCP. In January 2019, PG&E filed for Chapter 11 bankruptcy protection. SCP expects the utility will continue to operate in a business-as-usual fashion and the SCP's revenues collected by PG&E will continue to flow through to SCP with no material interruption.