



FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Sonoma Clean Power Authority (SCP), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which comprise SCP's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SCP as of June 30, 2023 and 2022, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCP's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 SCP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Independent Auditor's Report (continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Handwritten signature in black ink, reading "Robert A. Brinkman" followed by "LLP".

Santa Rosa, California
November 27, 2023

SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023 and 2022. 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.

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. SCP added Mendocino County in 2017. Governed by an appointed board of directors, SCP has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations.

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's 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 of resources and net position and 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 SCP's revenues 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 investing activities.
 - The 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, 2023 AND 2022

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 as of June 30:

	2023	2022	2021
Current assets	\$ 202,870,155	\$ 128,709,149	\$ 93,296,314
Noncurrent assets			
Capital assets and land, net	18,396,670	19,603,127	19,896,829
Other noncurrent assets	846,256	846,256	32,160,922
Total noncurrent assets	19,242,926	20,449,383	52,057,751
Total assets	222,113,081	149,158,532	145,354,065
Current liabilities	21,253,236	18,031,973	19,665,852
Deferred inflows of resources	-	-	26,000,000
Net position			
Investment in capital assets	18,396,670	19,603,127	19,896,829
Unrestricted	182,463,175	111,523,432	79,791,384
Total net position	\$ 200,859,845	\$ 131,126,559	\$ 99,688,213

Current Assets

SCP's current assets were approximately \$202,870,000 at the end of 2023 and are mostly comprised of cash and cash equivalents, accounts receivable, accrued revenue, and investments. Accrued revenue differs from accounts receivable in that it represents electricity provided to SCP customers that has not yet been invoiced as of the statement of net position report date. Current assets increased during 2023 as a result of rate increases charged to customers. Current assets increased during 2022 as a result of the release of \$26,000,000 Rate Stabilization Fund for use in operations.

Capital Assets

Capital assets consist primarily of improvements made to SCP's headquarters facility and its separate Advanced Energy Center, a facility that is 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, 2023 AND 2022

Other Noncurrent Assets

Other noncurrent assets decreased in 2022 due to a reduction in the Rate Stabilization Fund from \$26,000,000 to \$0. The reduction in the noncurrent asset was the result of recognizing a deferred inflow as revenue during the year. SCP did not keep a balance in this fund in 2022 or 2023.

Current Liabilities

This category consists mostly of the cost of electricity delivered to customers that is not due to be paid by SCP as of the end of the reporting year. Current liabilities changed modestly each year 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 ended June 30:

	2023	2022	2021
Operating revenues	\$ 275,239,887	\$ 218,197,280	\$ 187,399,632
Nonoperating revenues	4,651,587	2,573,463	434,526
Total income	279,891,474	220,770,743	187,834,158
Operating expenses	210,158,188	189,332,397	183,130,339
Change in net position	<u>\$ 69,733,286</u>	<u>\$ 31,438,346</u>	<u>\$ 4,703,819</u>

SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

Total Income

SCP's customer base held steady through fiscal years 2021 to 2023. Fluctuations in revenue year-to-year are mostly the result of increases in customer rates, as well as revenue directed to and from the Rate Stabilization Fund. Other components of operating revenues include grant income received from state and local agencies.

In 2022 and 2023, nonoperating revenue included grant income from the California Arrearage Payment Program (CAPP), as well as earnings and unrealized losses from investments held. In 2022, SCP had an unrealized investment loss caused by a decline in the fair value of the investment in the Sonoma County Investment Pool (Pool). In 2023, SCP had positive investment earnings due to an increase in the fair value of its Pool investment as well as an increase of interest earnings on other investments.

Operating Expenses

For all the years presented, the largest expense was the cost of electricity. Operating expenses increased each year, primarily due to increased prices for certain products in the energy markets. Non-energy related expenses increased in 2022 primarily due to expanded program and grant activities. In 2023, non-energy related expenses increased mainly from community outreach and hiring new staff.

ECONOMIC OUTLOOK

SCP serves 87% of all eligible customers in Sonoma and Mendocino Counties, and this is expected to remain relatively stable. Commodity energy prices are expected to continue to have episodic spikes due to extreme summer heat or extended winter cold periods into the future, making financial forecasts difficult for individual months, but still relatively stable over annual periods. SCP is generally well hedged through 2024 but retains some market price exposure when contracted supply does not match the hourly customer demand.

The fee SCP customers pay to PG&E to compensate for the utility's legacy above-market contract costs remains volatile. However, overall high commodity energy prices have caused the fee to approach zero in 2023 and it is likely to remain low in 2024. Management expects to build cash reserves and reach SCP's long-term target balance of 280 days of liquidity in 2023 while maintaining competitive rates relative to PG&E. SCP is focused on building credit capacity through sustaining significant cash reserves and entering favorable energy purchase commitments.

SONOMA CLEAN POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022

ECONOMIC OUTLOOK (continued)

SCP is actively working with private partners to develop new local geothermal power resources because this type of resource supplies good capacity and financial protections from both winter and summer market prices. Construction of new resources will likely be under private ownership with SCP serving as the contract buyer for the energy and capacity.

SCP remains focused on promoting a rapid transition to electric vehicles and electrification of homes and businesses. These activities help reduce greenhouse gas emissions while increasing the sales and revenues from selling electricity.

REQUEST FOR INFORMATION

This financial report is designed to provide SCP's customers and creditors with a general overview of SCP'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 431 E. Street, Santa Rosa, CA 95404.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Geof Syphers", with a stylized, looping flourish at the end.

Geof Syphers, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

SONOMA CLEAN POWER AUTHORITY

**STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,450,786	\$ 43,103,542
Accounts receivable, net of allowance	25,168,510	26,903,911
Other receivables	3,125,083	1,669,138
Accrued revenue	12,609,835	13,431,809
Prepaid expenses	1,473,807	2,961,243
Deposits	8,789,058	5,462,981
Investments	86,253,076	35,176,525
Total current assets	<u>202,870,155</u>	<u>128,709,149</u>
Noncurrent assets		
Land and construction-in-progress	897,773	860,520
Capital assets, net of depreciation	17,498,897	18,742,607
Deposits	846,256	846,256
Total noncurrent assets	<u>19,242,926</u>	<u>20,449,383</u>
Total assets	<u>222,113,081</u>	<u>149,158,532</u>
LIABILITIES		
Current liabilities		
Accrued cost of electricity	12,939,088	14,643,563
Accounts payable	1,018,452	1,412,186
Advanced from grantors	3,074,682	-
Supplier security deposits	2,467,200	166,800
Other accrued liabilities	1,034,035	1,134,009
User taxes and energy surcharges due to other governments	719,779	675,415
Total current liabilities	<u>21,253,236</u>	<u>18,031,973</u>
NET POSITION		
Investment in capital assets	18,396,670	19,603,127
Unrestricted	182,463,175	111,523,432
Total net position	<u>\$ 200,859,845</u>	<u>\$ 131,126,559</u>

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

SONOMA CLEAN POWER AUTHORITY

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
OPERATING REVENUES		
Electricity sales, net	\$ 271,954,226	\$ 188,443,380
Evergreen electricity premium	2,661,646	2,327,587
Revenue directed from Rate Stabilization Fund	-	26,000,000
Grant revenue	624,015	1,426,313
Total operating revenues	<u>275,239,887</u>	<u>218,197,280</u>
OPERATING EXPENSES		
Cost of electricity	187,499,814	169,128,210
Contract services	9,024,836	9,858,749
Staff compensation	7,381,276	5,710,894
Other operating expenses	1,702,146	1,902,215
Program rebates and incentives	3,155,539	1,359,158
Depreciation	1,394,577	1,373,171
Total operating expenses	<u>210,158,188</u>	<u>189,332,397</u>
Operating income	<u>65,081,699</u>	<u>28,864,883</u>
NONOPERATING REVENUES (EXPENSES)		
Grant revenue	1,958,716	3,490,527
Interest and investment returns	2,692,871	(891,329)
Other nonoperating expenses	-	(25,735)
Nonoperating revenues (expenses), net	<u>4,651,587</u>	<u>2,573,463</u>
CHANGE IN NET POSITION	69,733,286	31,438,346
Net position at beginning of year	<u>131,126,559</u>	<u>99,688,213</u>
Net position at end of year	<u><u>\$ 200,859,845</u></u>	<u><u>\$ 131,126,559</u></u>

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

SONOMA CLEAN POWER AUTHORITY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 280,616,885	\$ 180,670,172
Receipts from grantors	3,955,568	1,379,951
Other operating receipts	3,452,362	2,491,228
Payments to electricity suppliers	(187,424,754)	(172,185,233)
Payments for other goods and services	(11,233,943)	(11,720,294)
Payments for staff compensation	(7,298,120)	(5,696,651)
Tax and surcharge payments to other governments	(3,399,274)	(2,325,905)
Payments for program rebates and incentives	(5,677,569)	(2,145,880)
Deposits and collateral paid	(9,560,000)	(3,041,631)
Deposits and collateral returned	6,150,000	6,770,721
Net cash provided (used) by operating activities	<u>69,581,155</u>	<u>(5,803,522)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant proceeds	<u>1,958,716</u>	<u>3,490,527</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(293,374)</u>	<u>(3,590,197)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	1,100,747	153,923
Purchase of certificates of deposit	<u>(50,000,000)</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>(48,899,253)</u>	<u>153,923</u>
Net change in cash and cash equivalents	22,347,244	(5,749,269)
Cash and cash equivalents at beginning of year	<u>43,103,542</u>	<u>48,852,811</u>
Cash and cash equivalents at end of year	<u><u>\$ 65,450,786</u></u>	<u><u>\$ 43,103,542</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Payments to acquire capital assets included in accounts payable	\$ 9,930	\$ 110,457

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

SONOMA CLEAN POWER AUTHORITY

**STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>2023</u>	<u>2022</u>
Operating income	\$ 65,081,699	\$ 28,864,883
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,394,577	1,373,171
(Increase) decrease in:		
Accounts receivable, net	1,735,401	(8,128,783)
Other receivables	(940,372)	(104,403)
Accrued revenue	821,974	(4,453,205)
Prepaid expenses	1,487,436	(1,850,901)
Deposits	(3,326,077)	3,644,601
Increase (decrease) in:		
Accrued cost of electricity	(1,861,619)	1,502,115
Accounts payable	(293,207)	(116,334)
Advanced from grantors	3,074,682	-
Accrued liabilities	61,897	(856,753)
User taxes due to other governments	44,364	155,287
Supplier security deposits	2,300,400	166,800
Rate Stabilization Fund	-	(26,000,000)
Net cash provided (used) by operating activities	<u><u>\$ 69,581,155</u></u>	<u><u>\$ (5,803,522)</u></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, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Sonoma Clean Power Authority (SCP) is a Joint Powers Authority created on December 4, 2012. As of June 30, 2023, 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 support 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, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, and then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

For purposes of the Statements 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.

DEPOSITS

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 deposits will be held. Other components of deposits include those for regulatory and other operating purposes.

INVESTMENTS

Investments in the Sonoma County Treasury Investment Pool are stated at fair value based on prices reported by the Sonoma County Auditor-Controller. Certificates of deposit are stated at cost. SCP intends to hold its securities to maturity. Investments with a maturity of less than one year are shown as current assets in the Statement of Net Position. Investments with a maturity of one year or more as of the Statement of Net Position date are shown as noncurrent assets. There were no noncurrent investments at the end of each year. SCP's investment policy permits the investment of funds in depository accounts, certificates of deposit, Local Agency Investment Fund (LAIF) program, United States Treasury obligations, commercial paper and money market funds.

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, seven years for furniture, and leasehold improvements over the remaining life of the lease. Buildings and improvements are depreciated over 30 years. SCP does not own any energy generating assets.

RATE STABILIZATION FUND

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 Statements No. 62 and No. 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.

During the year ended June 30, 2022, the entire Rate Stabilization Fund balance of \$26,000,000 was transferred to operating revenues. There was no activity in the fund for the year ended June 30, 2023.

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, 2023 or 2022.

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.

Investment earnings and grants that are not earned from the delivery of program activities are considered "non-operating revenues."

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

1. 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 of 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 electricity 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 bundled 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 (CEC) 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, 2023 AND 2022

1. 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 incentives and zero percent financing for customers who purchase energy saving measures for their homes and for equipment and appliances that switch from natural gas or propane fuel to electrically powered equipment. Rebates and incentives provided under these and other programs were approximately \$3,156,000 and \$1,359,000 for 2023 and 2022, respectively.

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

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

2. CASH AND CASH EQUIVALENTS

CASH

SCP maintains its cash in interest and non-interest-bearing accounts in several commercial banks. SCP's deposits are subject to California Government Code Section 16521 that requires banks to collateralize amounts of public funds in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 by 110%. Certain short-term investments with original maturities of less than three months are classified as cash and cash equivalents.

3. INVESTMENTS

INVESTMENTS

During the year ended June 30, 2023, SCP purchased investments with original maturities of three months or more. As of June 30, the fair value of investments was as follows:

Current investments:	2023	2022
Sonoma County Pooled Investment Fund	\$ 35,644,015	\$ 35,176,525
Certificates of Deposits	50,609,061	-
	<u>\$ 86,253,076</u>	<u>\$ 35,176,525</u>

SCP maintains an account with the Sonoma County Treasurer in the County Pool (the Pool), which is classified as investments on the Statements of Net Position. The 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 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 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 quarter. 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, 2023 AND 2022

3. INVESTMENTS (continued)

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; and Level 3 inputs are significant unobservable inputs.

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 Pool are made on the basis of \$1 which is substantially equal to fair value. SCP's proportionate share of investments in the Pool at June 30, 2023 and 2022 of \$35,644,000 and \$35,177,000, respectively, are not required to be categorized under the fair value hierarchy. As of June 30, 2023 and 2022, SCP's non-pool investments are considered Level 1 inputs. Quoted prices in active markets were used for determining fair value measurement.

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 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, 2023, approximately 49% of the securities in the Pool had maturities of one year or less. Of the remainder, less than 0.5% percent had a maturity of more than five years.

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

3. INVESTMENTS (continued)

CREDIT RISK

The investment policy of the 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 2021-22 Sonoma County Comprehensive Annual Financial Report.

4. ACCOUNTS RECEIVABLE

Accounts receivable was as follows as of June 30:

	2023	2022
Accounts receivable from customers	\$ 33,272,403	\$ 32,147,890
Allowance for uncollectible accounts	(8,103,893)	(5,243,979)
Net accounts receivable	<u>\$ 25,168,510</u>	<u>\$ 26,903,911</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 years ended June 30, 2023 and 2022, 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. During the years ended June 30, 2023 and 2022, SCP received California Arrearage Payment Program (CAPP) funds of approximately \$1,959,000 and \$3,491,000, respectively, that were applied to reduce past-due accounts receivable.

SONOMA CLEAN POWER AUTHORITY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

5. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

Land and construction-in-progress	Land	Construction-in-progress	Total
Balances at June 30, 2021	\$ 860,520	\$ 14,145,194	\$ 15,005,714
Transfers	-	(14,145,194)	(14,145,194)
Balances at June 30, 2022	860,520	-	860,520
Additions	-	37,253	37,253
Balances at June 30, 2023	<u>\$ 860,520</u>	<u>\$ 37,253</u>	<u>\$ 897,773</u>

Depreciable capital assets	Furniture & Equipment	Building and Leasehold Improvements	Accumulated Depreciation	Total
Balances at June 30, 2021	\$ 906,194	\$ 4,537,736	\$ (552,815)	\$ 4,891,115
Additions	67,506	1,037,698	(1,373,171)	(267,967)
Dispositions	(284,178)	(83,058)	341,501	(25,735)
Transfers	-	14,145,194	-	14,145,194
Balances at June 30, 2022	689,522	19,637,570	(1,584,485)	18,742,607
Additions	90,393	60,474	(1,394,577)	(1,243,710)
Balances at June 30, 2023	<u>\$ 779,915</u>	<u>\$ 19,698,044</u>	<u>\$ (2,979,062)</u>	<u>\$ 17,498,897</u>

In June 2018, SCP purchased office property to be used as its headquarters for approximately \$3,125,000. SCP completed its renovation in July 2021. The cost of the property was included in land and construction-in-progress. Starting in 2019, construction-in-progress also included improvements made to a leased property that was placed in service in June 2021 as a demonstration showroom and classroom aimed at showcasing a variety of zero-carbon technologies.

SONOMA CLEAN POWER AUTHORITY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

6. GRANTS

SCP administers a grant from the California Arrearage Payment Program (CAPP) that offers financial assistance for California energy utility customers to help reduce past due energy bill balances that increased during the COVID-19 pandemic. During 2022, this program is funded through the federal American Rescue Plan Act (ARPA) with Coronavirus State and Local Fiscal Recovery Funds. During 2023, this program was funded at the state level.

SCP also administered 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's customers. Programs included incentivizing the installation of energy-saving equipment in customers' homes, as well as building a storefront in downtown Santa Rosa where the public could learn about and test energy-saving technologies. The multi-year grant agreement was for approximately \$9,800,000 and was effective starting in January 2018.

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.

The following is a summary of grant revenue for the years ended June 30:

	2023	2022
CAPP	\$ 1,958,716	\$ 3,490,527
CEC and other	624,015	1,426,313
Total grant revenue	<u>\$ 2,582,731</u>	<u>\$ 4,916,840</u>

SONOMA CLEAN POWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023, there were 40 active plan participants. SCP is required to contribute a percentage of covered payroll as a match to employee contributions. SCP contributed \$506,000 and \$382,000 during 2023 and 2022, respectively. Plan provisions and contribution requirements are established and may be amended by SCP's Personnel Director, as designated by the Board of Directors.

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, 2023 AND 2022

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, 2023:

Year ending June 30,	
2024	\$ 155,667,247
2025	130,277,860
2026	108,148,974
2027	86,371,008
2028	67,587,517
2029-2046	574,983,555
	<u>\$ 1,123,036,161</u>

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2023:

GASB has approved GASB Statement No. 100, *Accounting Changes and Error Corrections* – Amendment of GASB Statement No. 62, and GASB Statement No. 101, *Compensated Absences*. Management is evaluating the effect of implementation of these statements.