



FINANCIAL STATEMENTS

Years Ended March 31, 2016 & 2015
with Independent Auditors' Report



MARIN CLEAN ENERGY
YEARS ENDED MARCH 31, 2016 AND 2015

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marin Clean Energy
San Rafael, California

We have audited the accompanying financial statements of Marin Clean Energy ("MCE"), as of and for the years ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise MCE'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Marin Clean Energy, as of March 31, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Varrinck, Trine, Day & Co., LLP.

Pleasanton, California

July 19, 2016

MARIN CLEAN ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Marin Clean Energy's (MCE) financial activities for the fiscal years ended March 31, 2016 and 2015. The information presented here should be considered in conjunction with the audited financial statements.

Contents of this Report

This report is divided into the following sections:

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

Nature of Operations

MCE is a California Joint Powers Authority founded in 2008 pursuant to the Joint Exercise of Powers Act and is a public agency separate from its members. MCE provides electric service to retail customers as a Community Choice Aggregation Program under the California Public Utilities Code Section 366.2.

MCE's mission is to address climate change by reducing energy related greenhouse gas emissions through renewable energy supply and energy efficiency at stable and competitive rates for customers while providing local economic and workforce benefits. MCE provides electric service to retail customers and has the rights and powers to set rates and charges for electricity and services it furnishes, incur indebtedness, and issue bonds or other obligations. MCE acquires electricity from commercial suppliers and delivers it through existing physical infrastructure and equipment managed by the California Independent System Operator and Pacific Gas and Electric Company. MCE's Energy Efficiency Program supports the development, coordination and implementation of residential, commercial and multi-family energy efficiency programs in and around MCE's service area.

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The parties to MCE's Joint Powers Agreement consist of local governments whose governing bodies elect to join MCE. Pursuant to the Public Utilities Code, when new parties join MCE, all electricity customers in its jurisdiction automatically become default customers of MCE for electric generation, provided that customers are given the option to "opt out". MCE receives no financial support from the parties to its Joint Powers Agreement and relies exclusively on operating revenues to meet its financial commitments.

MCE began to deliver electricity and energy efficiency programs in May 2010 and April 2013 respectively. From time to time new communities apply and are accepted to join MCE. MCE began serving customers in unincorporated Napa County in February 2015 and customers in Benecia, El Cerrito and San Pablo during May 2015. MCE accepted the membership applications of the cities of American Canyon, Calistoga, Lafayette, Napa, Walnut Creek and the Town of Yountville in April, 2016 and is initiating service to these communities in September 2016.

MCE's historical and projected retail accounts by customer group are as follows:

Enrolled Retail Service Accounts				
Phase-In Period (End of Month)				
	July 2013	Feb 2015	May 2015	Projected Sep 2016
MCE Customer Groups				
Residential	106,510	120,204	149,610	225,128
Small Commercial	11,829	13,761	17,119	24,107
Medium Commercial	903	1,120	1,429	2,278
Large Commercial	351	416	575	857
Industrial	15	19	24	32
Street Lighting & Traffic	748	1,014	1,219	1,866
Agriculture & Pump	109	1,467	1,625	1,700
Total	<u>120,465</u>	<u>138,001</u>	<u>171,601</u>	<u>255,968</u>
Customer Account Additions	32,651	17,536	33,600	84,367
% Increase in Customers Accounts	37%	15%	24%	49%

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Financial and Operational Highlights

MCE's net position increased by \$16.3 million to \$29.5 million as of March 31, 2016 up from a \$3.7 million increase in net position in the prior period. During fiscal 2015-16, MCE increased its cash and cash equivalents to \$21.7 million. Working capital and the current ratio (current assets divided by current liabilities) increased to \$26.5 million and 2.81:1 respectively. 78% of MCE's total liabilities consist of accrued electricity costs which represent electricity delivered to MCE but not yet billed by the supplier. During fiscal 2015-16 MCE repaid notes payable to the bank ahead of schedule. MCE had no bank debt outstanding as of March 31, 2016.

The following table is a summary of MCE's assets, liabilities, and net position as of March 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets			
Cash and cash equivalents	\$ 21,696,949	\$ 10,173,815	\$ 8,248,488
Other current assets	19,424,154	16,027,326	12,906,255
Total current assets	<u>41,121,103</u>	<u>26,201,141</u>	<u>21,154,743</u>
Noncurrent assets			
Capital assets	542,199	407,626	58,807
Other noncurrent assets	2,479,516	1,378,587	1,278,698
Total noncurrent assets	<u>3,021,715</u>	<u>1,786,213</u>	<u>1,337,505</u>
Total assets	<u>44,142,818</u>	<u>27,987,354</u>	<u>22,492,248</u>
Current liabilities			
Accrued cost of electricity	11,500,898	8,808,354	6,409,847
Other current liabilities	3,110,850	3,898,645	3,430,932
Notes payable to bank	-	1,035,409	1,069,125
Total current liabilities	<u>14,611,748</u>	<u>13,742,408</u>	<u>10,909,904</u>
Noncurrent liabilities			
Notes payable to bank	-	988,627	2,024,308
Total liabilities	<u>14,611,748</u>	<u>14,731,035</u>	<u>12,934,212</u>
Net position:			
Net investment in capital assets	542,199	407,626	58,807
Restricted	1,659,164	598,200	598,200
Unrestricted	27,329,707	12,250,493	8,901,029
Total net position	<u>\$ 29,531,070</u>	<u>\$ 13,256,319</u>	<u>\$ 9,558,036</u>
Working Capital:	\$ 26,509,355	\$ 12,458,733	\$ 10,244,839
Current Ratio:	2.81	1.91	1.94
Total Liabilities / Net Position:	0.49	1.11	1.35

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Consistent with its Reserve Policy, MCE is building its net position to support the working capital requirements of the agency, to provide a reserve to manage the risk of adverse economic or regulatory events, and to improve its credit worthiness. A strong net position allows MCE to provide consistent and reliable service to the community and to contract for energy and other services at lower costs and on more favorable terms.

MCE's results of operations are summarized as follows for the fiscal year ended March 31:

	2016	2015	2014
Operating revenues	\$ 151,664,778	\$ 100,654,696	\$ 85,561,759
Interest income	12,179	3,716	8,965
Total income	<u>151,676,957</u>	<u>100,658,412</u>	<u>85,570,724</u>
Operating expenses	135,257,348	96,835,644	83,749,875
Interest and related expenses	144,858	124,485	175,687
Total expenses	<u>135,402,206</u>	<u>96,960,129</u>	<u>83,925,562</u>
Increase in net position	<u><u>\$ 16,274,751</u></u>	<u><u>\$ 3,698,283</u></u>	<u><u>\$ 1,645,162</u></u>

Electricity Sales and Costs

Electricity revenues increased by \$50.6 million to \$149.5 million in fiscal 2015-16 as a result of the inclusion of new communities and the growth of customer accounts which grew from approximately 138,000 in February 2015 to 171,000 during the year. Cost of electricity increased by \$36.1 million to \$124.1 million as MCE acquired electricity to serve the new customers. Gross surplus, defined as electricity sales less cost of electricity, increased to \$25.4 million from \$10.8 million in the prior year as a result of increased sales and increased margins. Gross margin, defined as gross surplus as a percent of electricity sales, increased from 11% in 2015 to 17% in 2016 in part as a result of lower per unit energy costs.

MCE's gross surplus and gross margin are summarized as follows for the fiscal year ended March 31:

	2016	2015	2014
Electricity sales, net	\$ 149,486,696	\$ 98,840,861	\$ 84,605,751
Cost of electricity	<u>124,095,978</u>	<u>87,996,399</u>	<u>76,088,268</u>
Gross surplus	<u>\$ 25,390,718</u>	<u>\$ 10,844,462</u>	<u>\$ 8,517,483</u>
 Gross margin:	 <u>17.0%</u>	 <u>11.0%</u>	 <u>10.1%</u>

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Operating Revenues and Operating Expenses less Cost of Electricity

Total operating revenue less the cost of electricity increased by 117.8% to \$27.6 million in fiscal 2015-16. This was driven by increased gross surplus and increased grant funding from the California Utilities Commission to support the growth of the Energy Efficiency Program. Other revenues, consisting predominately of payments required from energy suppliers as a result of delays in energy deliveries, were flat for the year. Year-over-year operating expenses, excluding cost of electricity, increased by 26.3% to \$11.2 million reflecting increased staffing, contractor, legal and general overhead costs. Operating expenses, excluding cost of electricity, as a percent of operating revenue less cost of electricity fell from 70% in 2014-15 to 40% in fiscal 2015-16.

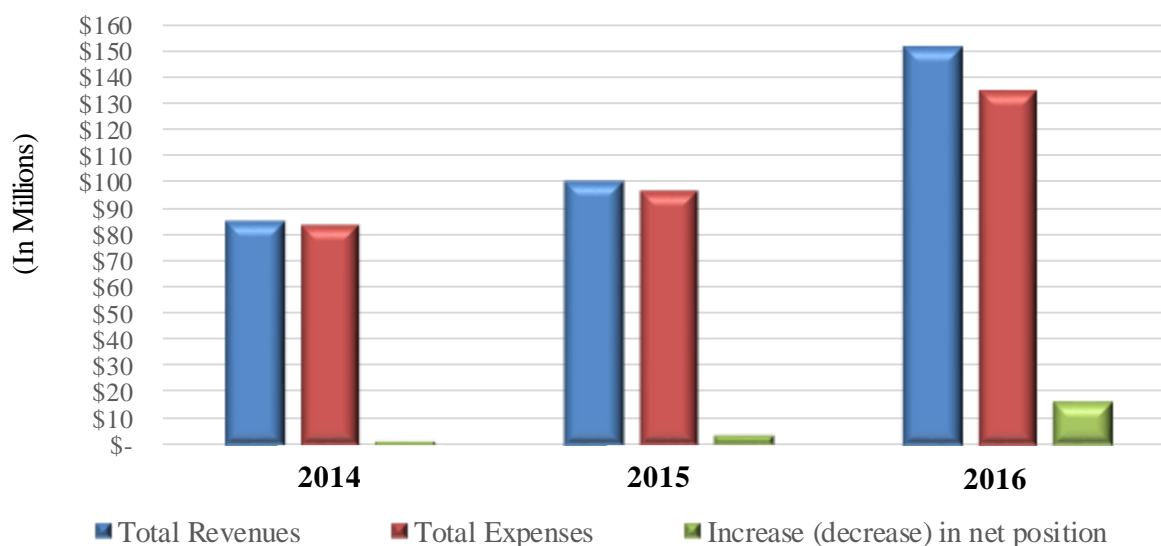
MCE's gross surplus, operating income, and various ratios are summarized as follows:

	2016	2015	2014
Gross surplus	\$ 25,390,718	\$ 10,844,462	\$ 8,517,483
Grant revenue - Energy Efficiency Program	1,545,030	1,125,344	917,947
Other revenue	633,052	688,491	38,061
Total operating revenues less cost of electricity	27,568,800	12,658,297	9,473,491
Operating expenses, excluding cost of electricity	11,161,370	8,839,245	7,661,607
Operating income	<u>\$ 16,407,430</u>	<u>\$ 3,819,052</u>	<u>\$ 1,811,884</u>
Operating expenses, excluding cost of electricity, over total operating revenues less cost of electricity:	<u>40.5%</u>	<u>69.8%</u>	<u>80.9%</u>
% increase in Gross surplus:	<u>117.8%</u>	<u>33.6%</u>	<u>1.0%</u>
% increase in operating expenses less cost of electricity:	<u>26.3%</u>	<u>15.4%</u>	<u>47.0%</u>
% increase in operating income:	<u>329.6%</u>	<u>110.8%</u>	<u>-95.0%</u>

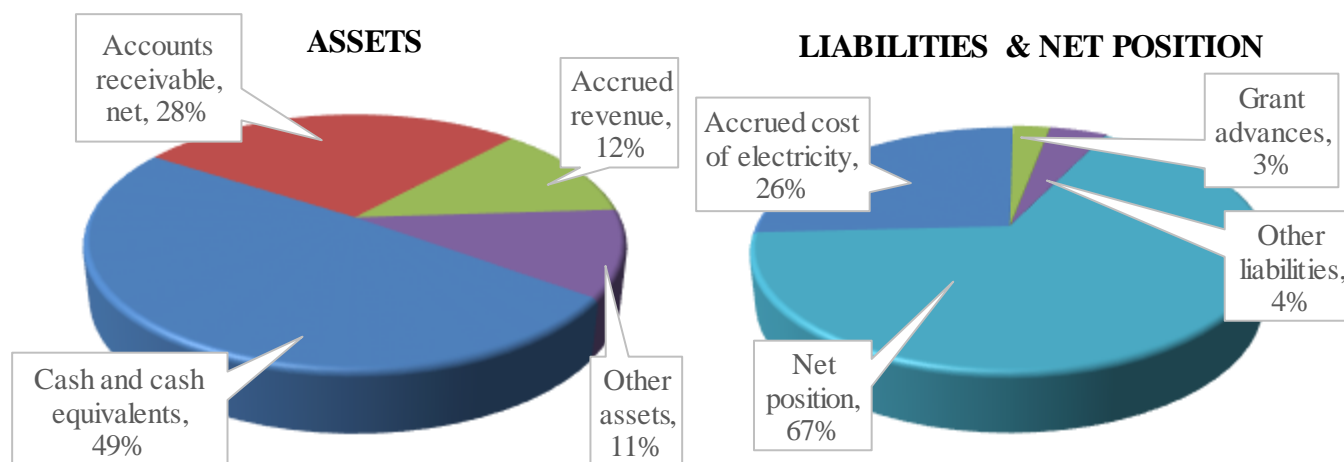
MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL SUMMARY

FINANCIAL POSITION: FISCAL YEAR ENDED MARCH 31:



ASSETS, LIABILITIES, AND NET POSITION AS OF MARCH 31, 2016:



Cash and cash equivalents	\$	21,696,949
Accounts receivable, net		12,217,586
Accrued revenue		5,356,608
Other assets		4,871,675
Total Assets	\$	44,142,818

Accrued cost of electricity	\$	11,500,898
Grant advances		1,220,909
Other liabilities		1,889,941
Net position		29,531,070
Total liabilities & net position	\$	44,142,818

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

PURCHASE COMMITMENTS AND ECONOMIC OUTLOOK

In the normal course of business, MCE enters into various agreements, including renewable energy agreements and other power purchase agreements to purchase power and electric capacity. These agreements involve short, medium and long term commitments. Entering into long term purchase commitments is an effective means of bringing new solar, wind and other renewable energy generating facilities on-line and of helping the agency to accomplish its mission of providing renewable energy and reducing greenhouse gas emissions. MCE manages risks associated with these commitments by aligning purchase commitments with expected demand for electricity and assuring diversity of technologies, geographical locations, and suppliers. Total expected obligations under power purchase agreements totaled approximately \$824.2 million as of March 31, 2016.

In September 2016 MCE will begin to provide service to customers located in the cities of American Canyon, Calistoga, Lafayette, Napa, Walnut Creek and the Town of Yountville resulting in an expected increase in the number of MCE customer accounts of 84,000 or 49% of its current customer base. In June 2016, MCE's Board of Directors approved a reduction in electricity rates effective September 1, 2016 consistent with MCE's Reserve Policy and Rate Setting Guidelines.

Management intends to continue its conservative use of financial resources and expects ongoing operating surpluses.

REQUESTS FOR INFORMATION

This financial report is designed to provide MCE's board members, stakeholders, customers and creditors with a general overview of the MCE's finances and to demonstrate MCE's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to Finance and Project Manager, 1125 Tamalpais Avenue, San Rafael, CA 94901.

BASIC FINANCIAL STATEMENTS

MARIN CLEAN ENERGY
STATEMENTS OF NET POSITION
MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,696,949	\$ 10,173,815
Accounts receivable, net of allowance	12,217,586	10,528,880
Other receivables	525,658	583,185
Accrued revenue	5,356,608	4,502,232
Prepaid expenses	1,261,373	368,152
Other current assets and deposits	62,929	44,877
Total current assets	<u>41,121,103</u>	<u>26,201,141</u>
Noncurrent assets		
Capital assets, net of depreciation	542,199	407,626
Restricted cash	2,206,664	1,145,700
Other noncurrent assets and deposits	272,852	232,887
Total noncurrent assets	<u>3,021,715</u>	<u>1,786,213</u>
Total assets	<u>44,142,818</u>	<u>27,987,354</u>
LIABILITIES		
Current liabilities		
Accounts payable	657,336	878,967
Accrued cost of electricity	11,500,898	8,808,354
Other accrued liabilities	305,054	199,357
User taxes and energy surcharges due to other governments	927,551	611,230
Advances from grantors	1,220,909	2,209,091
Notes payable to bank	-	1,035,409
Total current liabilities	<u>14,611,748</u>	<u>13,742,408</u>
Noncurrent liabilities		
Notes payable to bank	-	988,627
Total liabilities	<u>14,611,748</u>	<u>14,731,035</u>
NET POSITION		
Net position		
Net investment in capital assets	542,199	407,626
Restricted for line of credit collateral	1,659,164	598,200
Unrestricted	27,329,707	12,250,493
Total net position	<u>\$ 29,531,070</u>	<u>\$ 13,256,319</u>

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Electricity sales, net	\$ 149,486,696	\$ 98,840,861
Grant revenue for Energy Efficiency Program	1,545,030	1,125,344
Other revenue	633,052	688,491
Total operating revenues	<u>151,664,778</u>	<u>100,654,696</u>
Operating expenses		
Cost of electricity	124,095,978	87,996,399
Contract services	6,584,384	5,769,008
Staff compensation	3,405,416	2,216,199
General and administration	1,094,963	825,510
Depreciation	76,607	28,528
Total operating expenses	<u>135,257,348</u>	<u>96,835,644</u>
Operating income	<u>16,407,430</u>	<u>3,819,052</u>
Non-operating revenues (expenses)		
Interest income	12,179	3,716
Interest and related expenses	<u>(144,858)</u>	<u>(124,485)</u>
Net non-operating revenues (expenses)	<u>(132,679)</u>	<u>(120,769)</u>
Changes in net position	16,274,751	3,698,283
Net position at beginning of period	<u>13,256,319</u>	<u>9,558,036</u>
Net position at end of period	<u>\$ 29,531,070</u>	<u>\$ 13,256,319</u>

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 147,265,935	\$ 96,695,557
Grant receipts from Energy Efficiency Program	291,375	1,505,702
Cash received from other revenue sources	926,607	142,297
Cash payments to purchase electricity	(122,324,217)	(86,220,713)
Cash payments for contract services	(6,560,471)	(5,763,707)
Cash payments for staff compensation	(3,312,945)	(2,179,654)
Cash payments for general and administration	(1,080,328)	(751,575)
Other cash receipts	(41,598)	(144,766)
Net cash provided by operating activities	<u>15,164,358</u>	<u>3,283,141</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Return of financing reserve	598,200	-
Payments of financing reserve	(1,659,164)	-
Principal payments of notes payable to bank	(2,024,036)	(1,069,397)
Interest and related expenses	(144,858)	(124,485)
Net cash provided (used) by non-capital financing activities	<u>(3,229,858)</u>	<u>(1,193,882)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(421,261)	(167,648)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>9,895</u>	<u>3,716</u>
Net change in cash and cash equivalents	11,523,134	1,925,327
Cash and cash equivalents at beginning of year	<u>10,173,815</u>	<u>8,248,488</u>
Cash and cash equivalents at end of year	<u>\$ 21,696,949</u>	<u>\$ 10,173,815</u>

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

**STATEMENTS OF CASH FLOWS
(CONTINUED)**

FISCAL YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 16,407,430	\$ 3,819,052
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	76,607	28,528
(Increase) decrease in net accounts receivable	(1,688,706)	(1,432,309)
(Increase) decrease in other receivables	59,811	(527,269)
(Increase) decrease in accrued revenue	(854,376)	(779,949)
(Increase) decrease in prepaid expenses	(893,221)	(336,667)
(Increase) decrease in other assets and deposits	(54,327)	(144,766)
Increase (decrease) in accounts payable	(15,240)	54,137
Increase (decrease) in accrued cost of electricity	2,692,544	2,055,009
Increase (decrease) in other accrued liabilities	105,697	27,237
Increase (decrease) in user taxes due to other governments	316,321	44,268
Increase (decrease) in advances from grantor	(988,182)	475,870
Net cash provided by operating activities	<u><u>\$ 15,164,358</u></u>	<u><u>\$ 3,283,141</u></u>

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Marin Clean Energy (MCE) is a California joint powers authority created on December 19, 2008. As of March 31, 2016 parties to its Joint Powers Agreement consist of the following local governments: the Counties of Marin and Napa, the cities of Belvedere, Benicia, El Cerrito, Larkspur, Mill Valley, Novato, Richmond, San Pablo, San Rafael, and Sausalito and the towns of Corte Madera, Fairfax, Ross, San Anselmo, and Tiburon (collectively, “the Parties”). MCE is governed by a Board of Directors whose membership is composed of elected officials representing each of the Parties.

MCE’s mission is to address climate change by reducing energy related greenhouse gas emissions through renewable energy supply and energy efficiency at stable and competitive rates for customers while providing local economic and workforce benefits. MCE provides electric service to retail customers as a Community Choice Aggregation Program under the California Public Utilities Code Section 366.2.

MCE began the delivery of electricity and energy efficiency programs in May 2010 and April, 2013 respectively. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the California Independent System Operator and Pacific Gas and Electric Company. The Energy Efficiency Program supports the development, coordination and implementation of energy efficiency programs in and around MCE’s service area. The Energy Efficiency Program is supported by grants from the California Public Utilities Commission.

ACCOUNTING POLICIES

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

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

MCE'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.

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

CASH AND CASH EQUIVALENTS

For purpose of the Statements of Cash Flows, MCE has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. Amounts restricted for debt service and collateral for energy efficiency loan program are not considered cash and cash equivalents. These restricted balances are presented separately in the Statement of Net Position.

CAPITAL ASSETS AND DEPRECIATION

MCE's policy is to capitalize furniture and equipment valued over \$500 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. Leasehold improvements are depreciated over 10 years.

OPERATING AND NON-OPERATING REVENUE

Operating revenues consists of revenue from the sale of electricity to customers and grant revenue related to the Energy Efficiency Program. Other revenues primarily consist of payments from energy suppliers that result from delays in energy deliveries. Interest income is considered "non-operating revenue".

REVENUE RECOGNITION

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

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business MCE purchases electrical power from numerous suppliers. The cost of electricity and ancillary services are 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) and self-imposed benchmarks, MCE acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). MCE obtains Certificates with the intent to retire them, and does not sell or build surpluses of Certificates. An expense is recognized at the point that the cost of the RPS eligible energy is due and payable to the supplier. MCE is in compliance with external mandates and self-imposed benchmarks.

STAFFING COSTS

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

INCOME TAXES

MCE 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.

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

2. CASH AND CASH EQUIVALENTS

MCE maintains its cash in both interest and non-interest-bearing demand and term deposit accounts at River City Bank of Sacramento, California. MCE's deposits with River City Bank are subject to California Government Code Section 16521 which requires that River City Bank collateralize public funds in excess of the FDIC limit of \$250,000 by 110%. MCE monitors its risk exposure to River City Bank on an ongoing basis. MCE's Investment Policy permits the investment of funds in depository accounts, certificates of deposit and the Local Agency Investment Fund.

3. ACCOUNTS RECEIVABLE

Changes in accounts receivable were as follows:

	2016	2015	2014
Accounts receivable from customers	\$ 15,317,586	\$ 12,888,880	\$ 10,126,845
Allowance for uncollectible accounts	(3,100,000)	(2,360,000)	(1,030,274)
Net accounts receivable	<u>\$ 12,217,586</u>	<u>\$ 10,528,880</u>	<u>\$ 9,096,571</u>

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

4. CAPITAL ASSETS

Changes in depreciable capital assets were as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
Balances at March 31, 2014	\$ 100,416	\$ 5,881	\$ (47,490)	\$ 58,807
Additions	51,836	325,511	(28,528)	348,819
Balances at March 31, 2015	152,252	331,392	(76,018)	407,626
Additions	85,591	125,589	(76,607)	134,573
Balances at March 31, 2016	<u>\$ 237,843</u>	<u>\$ 456,981</u>	<u>\$ (152,625)</u>	<u>\$ 542,199</u>

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

5. ADVANCES FROM GRANTOR

MCE receives grant funding through the Public Utilities Commission of the State of California (CPUC) for its Energy Efficiency Program. Funds received are not recognized as revenue until they are expended for designated purposes. Total grant funding received for this Program during the fiscal year 2016 was \$172,000, and \$1,203,000 was spent and earned. In 2015, grant funding received was \$1,506,000 and \$1,030,000 was spent and earned. The Energy Efficiency Program receives additional grant funding under the Gas Public Purpose Program that is not received in advance. Revenue of \$332,000 and \$96,000 was recognized under this grant in fiscal years 2016 and 2015, respectively.

6. DEBT

NOTES PAYABLE TO RIVER CITY BANK

During the fiscal year ending March 31, 2016, MCE paid off both of its bank notes ahead of schedule.

Changes in notes payable were as follows:

	<u>Beginning</u>	<u>Payments</u>	<u>Ending</u>
Year ended March 31, 2015			
Note A	\$ 916,764	\$ (489,283)	\$ 427,481
Note B	2,176,669	(580,114)	1,596,555
Totals	<u>\$ 3,093,433</u>	<u>\$ (1,069,397)</u>	2,024,036
Amounts due within one year			(1,035,409)
Amounts due after one year			<u>\$ 988,627</u>
Year ended March 31, 2016			
Note A	\$ 427,481	\$ (427,481)	\$ -
Note B	1,596,555	(1,596,555)	-
Totals	<u>\$ 2,024,036</u>	<u>\$ (2,024,036)</u>	-
Amounts due within one year			-
Amounts due after one year			<u>\$ -</u>

LINE OF CREDIT AND LETTERS OF CREDIT

MCE enters into certain power purchase agreements which require MCE to post collateral in the form of cash or letter of credit. In order to comply with these requirements, MCE entered into a non-revolving, \$15,000,000 credit agreement with River City Bank (RCB) during fiscal 2015-16 that may be used for short term borrowing and to issue standby Letters of Credit used for performance security. RCB requires collateral for the line of credit of \$1,659,164 which is reported as restricted cash and restricted net position.

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

6. DEBT (continued)

During fiscal 2015-16, MCE posted standby Letters of Credit totaling \$7,300,000. As of March 31, 2016, MCE has not drawn any cash on the line of credit. Fees related to opening the line of credit and posting the letters of credit are reported as interest and related expenses. Subsequent to March 31, 2016, MCE amended the credit agreement with River City Bank to increase the line of credit limit to \$20,000,000 and allow for revolving use.

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The Marin Clean Energy Plan (Plan) is a defined contribution retirement plan established by MCE to provide benefits at retirement to its employees. The Plan is administered by Nationwide Retirement Solutions. As of March 31, 2016, there were 31 plan members. MCE is required to contribute 10% of annual covered payroll to the Plan and contributed \$257,000 and \$177,000 during the years ended March 31, 2016 and 2015, respectively. The Plan includes vesting provisions intended to encourage employee retention. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

8. RISK MANAGEMENT

MCE 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, MCE 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.

9. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

In the ordinary course of business, MCE enters into various power purchase agreements in order 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 small hydro-electric facilities.

MARIN CLEAN ENERGY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2016 AND 2015

9. PURCHASE COMMITMENTS (continued)

The following table represents the expected, undiscounted, contractual obligations outstanding as of March 31, 2016:

Year ended March 31,	
2017	\$ 113,490,717
2018	108,981,210
2019	77,023,813
2020	51,774,332
2021	39,523,348
2022-42	433,386,229
	<u>\$ 824,179,649</u>

SERVICE CONTRACTS

As of March 31, 2016, MCE had contractual commitments to professional service providers through April 30, 2019 for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be \$12.4 million.

10. OPERATING LEASE

Marin Clean Energy rents office space. Rental expense was \$179,000 and \$190,000 for the years ended March 31, 2016 and 2015, respectively. On March 9, 2015, MCE entered into a ten year non-cancelable lease for its office premise. 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 March 31,	
2017	\$ 321,480
2018	417,216
2019	429,744
2020	442,632
2021	460,332
2022-25	2,032,992
	<u>\$ 4,104,396</u>