MCE

FINANCIAL STATEMENTS

Years Ended March 31, 2017 & 2016
with Report of Independent Auditors

MARIN CLEAN ENERGY
YEARS ENDED MARCH 31, 2017 AND 2016

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

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, 2017 and 2016, 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 audits 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.

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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, 2017 and 2016, 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.

Vavrinek, Trine, Day & Co., L.L.P.

Pleasanton, California
July 12, 2017

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, 2017 and 2016. 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 basis of accounting. The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

    - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of 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.

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. The number of customers served following each new community enrollment phase since 2013 appears in the following table. MCE enrolled customers from new communities in July 2013, February 2015, May 2015 and September 2016. The September 2016 enrolment resulted from the cities of American Canyon, Calistoga, Lafayette, Napa, St. Helena, Walnut Creek and the Town of Yountville joining MCE and led to a 49% increase in MCE's customer base.

Enrolled Retail Service Accounts
Phase-In Period (End of Month)

	July 2013	Feb 2015	May 2015	Sep 2016
MCE Customer Groups				
Residential	106,510	120,204	149,610	224,536
Commercial & Industrial	13098	15,316	19,147	27,402
Street Lighting & Traffic	748	1,014	1,219	1,903
Agriculture & Pump	109	1,467	1,625	1,702
Total	120,465	138,001	171,601	255,543
Customer Account Additions	32,651	17,536	33,600	83,942
% Increase in Customers Accounts	37%	15%	24%	49%

Financial and Operational Highlights

MCE's recorded change in net position of $15.1 million in fiscal 2016/17 increasing the net position to $44.7 million as of March 31, 2017. Net income was $16.3 million in fiscal 2015/16. During fiscal 2016/17, MCE increased its cash and cash equivalents to $36.7 million. Working capital (current assets minus current liabilities) increased to $41.1 million and the current ratio (current assets divided by current liabilities) decreased from 2.81:1 to 2.73:1. For fiscal years 2016/17 and 2015/16, 78% and 79% of MCE's total liabilities consisted of accrued electricity costs which represent electricity delivered to MCE but not yet paid to the supplier. During fiscal 2015/16 MCE repaid notes payable to the bank ahead of schedule. MCE had no bank debt or letters of credit outstanding as of March 31, 2017.

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

	2017	2016	2015
Current assets			
Cash and cash equivalents	$ 36,655,995	$ 21,696,949	$ 10,173,815
Other current assets	28,112,638	19,424,154	16,027,326
Total current assets	64,768,633	41,121,103	26,201,141
Noncurrent assets			
Capital assets	571,666	542,199	407,626
Other noncurrent assets	3,032,573	2,479,516	1,378,587
Total noncurrent assets	3,604,239	3,021,715	1,786,213
Total assets	68,372,872	44,142,818	27,987,354
Current liabilities			
Accrued cost of electricity	18,477,359	11,500,898	8,808,354
Other current liabilities	5,235,796	3,110,850	3,898,645
Notes payable to bank	-	-	1,035,409
Total current liabilities	23,713,155	14,611,748	13,742,408
Noncurrent liabilities			
Notes payable to bank	-	-	988,627
Total liabilities	23,713,155	14,611,748	14,731,035
Net position:			
Net investment in capital assets	571,666	542,199	407,626
Restricted	2,212,221	1,659,164	598,200
Unrestricted	41,875,830	27,329,707	12,250,493
Total net position	$ 44,659,717	$ 29,531,070	$ 13,256,319
Working Capital:	$ 41,055,478	$ 26,509,355	$ 12,458,733
Current Ratio:	2.73	2.81	1.91
Total Liabilities / Net Position:	0.53	0.49	1.11
Liquidity Detail:			
Cash and cash equivalents	$ 36,655,995	$ 21,696,949	$ 10,173,815
Unutilized portion of line of credit	20,000,000	7,800,000	-
Total Liquidity	$ 56,655,995	$ 29,496,949	$ 10,173,815

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:

	2017	**2016**	**2015**
Operating revenues	$ 181,166,489	$ 151,664,778	$ 100,654,696
Interest income	105,271	12,179	3,716
Total income	181,271,760	151,676,957	100,658,412
Operating expenses	166,110,598	135,257,348	96,835,644
Interest and related expenses	32,515	144,858	124,485
Total expenses	166,143,113	135,402,206	96,960,129
Change in net position	15,128,647	16,274,751	3,698,283
Beginning net position	29,531,070	13,256,319	9,558,036
Ending net position	$ 44,659,717	$ 29,531,070	$ 13,256,319

Electricity Sales and Costs

Electricity revenues increased by $30.2 million to $179.7 million in fiscal 2016/17 as a result of the inclusion of new communities. Customer accounts grew from approximately 171,000 in March 2016 to 255,000 during the year. Increased customer load was offset by a 9% decrease in average electricity rates which went into effect in September 2016. Cost of electricity increased by $28.2 million to $152.2 million as MCE acquired electricity to serve the new customers. Gross surplus, defined as electricity sales less cost of electricity, increased to $27.4 million from $25.4 million in the prior year. Gross margin, defined as gross surplus as a percent of electricity sales, decreased from 17% in 2016 to 15.2% in 2017. Year over year changes in gross surplus and gross margin were impacted by an increase in retail load, decreased average retail electricity rates and a lower average cost of power.

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

	2017	**2016**	**2015**
Electricity sales, net	$ 179,689,662	$ 149,486,696	$ 98,840,861
Cost of electricity	152,293,297	124,095,978	87,996,399
Gross surplus	$ 27,396,365	$ 25,390,718	$ 10,844,462
Gross margin:	15.2%	17.0%	11.0%

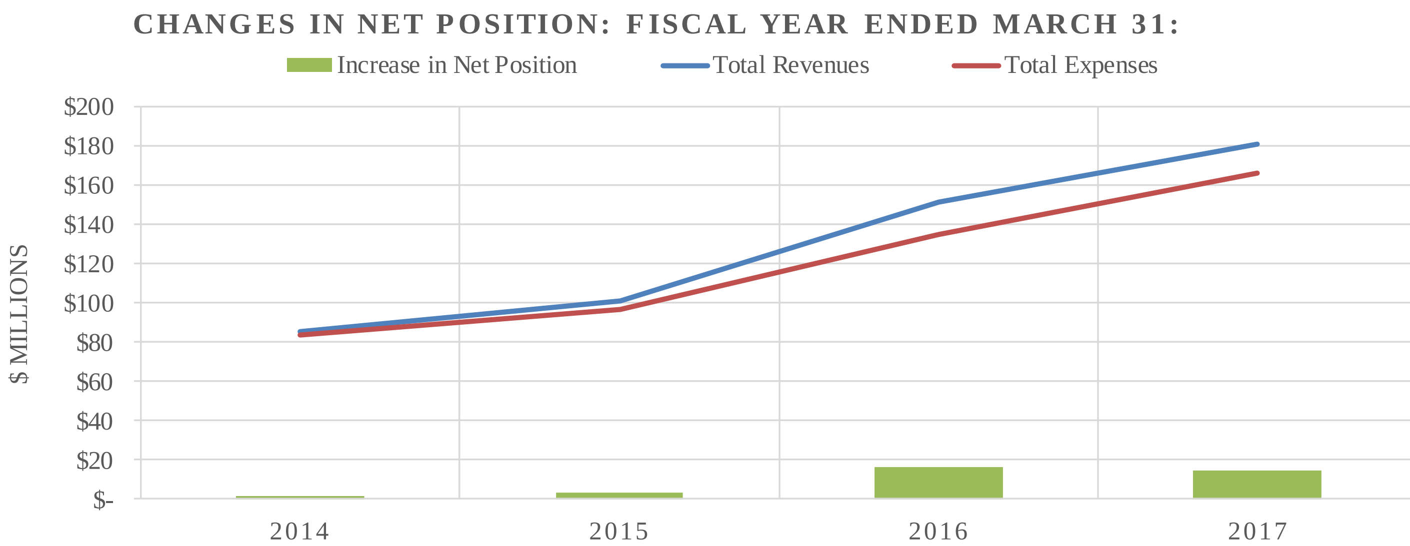
Operating Revenues and Operating Expenses less Cost of Electricity

Total operating revenue less the cost of electricity increased to $28.9 million in fiscal 2016/17, up from $27.6 million in the prior year. This was driven by increased gross surplus and offset by $211,000 decrease in rate-payer funding for the Public Purpose Programs. During the fiscal years 2014/15 and 2015/16 MCE recognized other revenues relating to payments required from energy suppliers as a result of delays in energy deliveries, as well as a one-time consideration for a lease termination. These accounted for the majority of other revenues during those years. For fiscal 2016/17, these events did not occur and the result is a significant drop in other revenues. Year-over-year operating expenses, excluding cost of electricity, increased by 23.8% to $13.8 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 rose from 40.5% in fiscal 2015/16 to 47.9% in fiscal 2016/17.

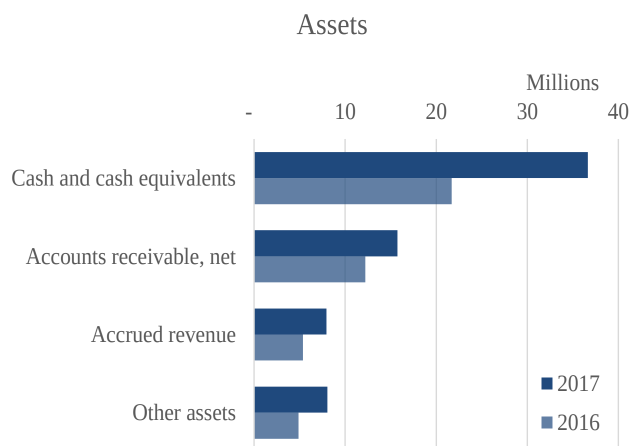
MCE's gross surplus, operating income, and various ratios are summarized as follows:

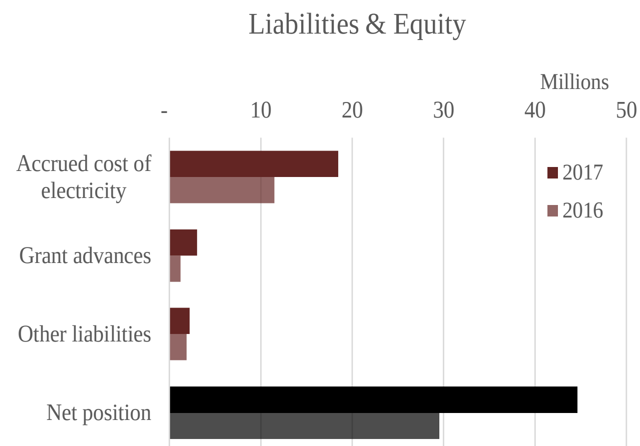
	2017	2016	2015
Gross surplus	$ 27,396,365	$ 25,390,718	$ 10,844,462
Public purpose program revenue	1,334,519	1,545,030	1,125,344
Other revenue	142,308	633,052	688,491
Total operating revenues less cost of electricity	28,873,192	27,568,800	12,658,297
Operating expenses, excluding cost of electricity	13,817,301	11,161,370	8,839,245
Operating income	$ 15,055,891	$ 16,407,430	$ 3,819,052
Operating expenses, excluding cost of electricity, over total operating revenues less cost of electricity:	47.9%	40.5%	69.8%
% increase in Gross surplus:	7.9%	134.1%	27.3%
% increase in operating expenses less cost of electricity:	23.8%	26.3%	15.4%
% increase in operating income:	-8.2%	329.6%	110.8%

FINANCIAL SUMMARY



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





	2017	2016
Cash and cash equivalents	$ 36,655,995	$ 21,696,949
Accounts receivable, net	15,740,298	12,217,586
Accrued revenue	7,938,840	5,356,608
Other assets	8,037,739	4,871,675
Total Assets	**$ 68,372,872**	**$ 44,142,818**

	2017	2016
Accrued cost of electricity	$ 18,477,359	$ 11,500,898
Grant advances	3,023,856	1,220,909
Other liabilities	2,211,940	1,889,941
Net position	44,659,717	29,531,070
Total liabilities & net position	**$ 68,372,872**	**$ 44,142,818**

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. MCE enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products as described in its Integrated Resource Plans. California law established a Renewable Portfolio Standard (RPS) that requires load-serving entities, such as MCE, to gradually increase the amount of renewable energy they deliver to their customers. In October 2015, the California Governor signed SB 350, the Clean Energy and Pollution Reduction Act of 2015 into law. SB 350 became effective January 1, 2016, and increases the amount of renewable energy that must be delivered by most load-serving entities, including MCE, to their customers from 33% of their total annual retail sales by the end of the 2017-2020 compliance period, to 50% of their total annual retail sales by the end of the 2028-2030 compliance period, and in each three-year compliance period thereafter, unless changed by legislative action. SB 350 provides compliance flexibility and waiver mechanisms, including increased flexibility to apply excess renewable energy procurement in one compliance period to future compliance periods. Beginning January 1, 2021, at least 65 percent of the procurement a retail seller, such as MCE, counts toward the renewables portfolio standard requirement of each compliance period shall be from its contracts of 10 years or more in duration.

MCE enters into long term purchase agreements to bring new solar, wind and other renewable energy generating facilities on-line, to meet its regulatory and voluntary RPS and GHG free targets and to accomplish its mission of providing renewable energy and reducing greenhouse gas emissions while ensuring retail rate stability by managing exposure to wholesale spot market prices.

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. Expected obligations under power purchase agreements totaled approximately $1.85 billion as of March 31, 2017.

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, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 36,655,995	$ 21,696,949
Accounts receivable, net of allowance	15,740,298	12,217,586
Energy settlements receivable	1,694,749	-
Other receivables	246,763	525,658
Accrued revenue	7,938,840	5,356,608
Prepaid expenses	940,342	1,261,373
Other current assets and deposits	1,551,646	62,929
Total current assets	64,768,633	41,121,103
Noncurrent assets		
Restricted cash	2,759,721	2,206,664
Capital assets, net of depreciation	571,666	542,199
Other noncurrent assets and deposits	272,852	272,852
Total noncurrent assets	3,604,239	3,021,715
Total assets	68,372,872	44,142,818
LIABILITIES		
Current liabilities		
Accounts payable	600,800	657,336
Accrued cost of electricity	18,477,359	11,500,898
Other accrued liabilities	546,048	305,054
Security deposits - energy suppliers	105,000	-
User taxes and energy surcharges due to other governments	960,092	927,551
Advances from public purpose programs	3,023,856	1,220,909
Total current liabilities	23,713,155	14,611,748
NET POSITION		
Net position		
Net investment in capital assets	571,666	542,199
Restricted for line of credit collateral	2,212,221	1,659,164
Unrestricted	41,875,830	27,329,707
Total net position	$ 44,659,717	$ 29,531,070

MARIN CLEAN ENERGY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Electricity sales, net	$ 179,689,662	$ 149,486,696
Public purpose program revenue	1,334,519	1,545,030
Other revenue	142,308	633,052
Total operating revenues	181,166,489	151,664,778
OPERATING EXPENSES		
Cost of electricity	152,293,297	124,095,978
Contract services	7,764,638	6,584,384
Staff compensation	4,858,587	3,405,416
General and administration	1,101,430	1,094,963
Depreciation	92,646	76,607
Total operating expenses	166,110,598	135,257,348
Operating income	15,055,891	16,407,430
NONOPERATING REVENUES (EXPENSES)		
Interest income	105,271	12,179
Interest and related expenses	(32,515)	(144,858)
Total nonoperating revenues (expenses)	72,756	(132,679)
CHANGE IN NET POSITION	15,128,647	16,274,751
Net position at beginning of period	29,531,070	13,256,319
Net position at end of period	$ 44,659,717	$ 29,531,070

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	$ 173,584,288	$ 146,949,614
Public purpose program receipts	3,370,343	291,375
Tax and surcharge receipts from customers	4,209,577	4,081,848
Payments received from other revenue sources	303,770	926,607
Payments received from security deposits with energy suppliers	525,000	-
Payments to purchase electricity	(147,416,447)	(122,324,217)
Payments for contract services	(7,660,258)	(6,560,471)
Payments for staff compensation	(4,742,015)	(3,312,945)
Payments for general and administration	(1,117,386)	(1,080,328)
Tax and surcharge payments to other governments	(4,177,036)	(3,765,527)
Return of security deposits to energy suppliers	(420,000)	-
Other cash payments	-	(41,598)
Net cash provided (used) by operating activities	16,459,836	15,164,358
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Return of financing reserve	-	598,200
Transfer to restricted cash	(553,057)	(1,659,164)
Principal payments of notes payable to bank	-	(2,024,036)
Interest and related expenses	(32,515)	(144,858)
Net cash provided (used) by non-capital financing activities	(585,572)	(3,229,858)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of nondepreciable assets	(901,806)	-
Acquisition of capital assets	(119,824)	(421,261)
Net cash provided (used) by capital and related financing activities	(1,021,630)	(421,261)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	106,412	9,895
Net change in cash and cash equivalents	14,959,046	11,523,134
Cash and cash equivalents at beginning of year	21,696,949	10,173,815
Cash and cash equivalents at end of period	$ 36,655,995	$ 21,696,949

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS
(CONTINUED)

FISCAL YEARS ENDED MARCH 31, 2017 AND 2016

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

	2017	2016
Operating income	$ 15,055,891	$ 16,407,430
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	92,646	76,607
Revenue reduced for uncollectible accounts	1,112,000	740,000
(Increase) decrease in net accounts receivable	(4,634,712)	(2,428,706)
(Increase) decrease in energy settlements receivable	(1,694,749)	-
(Increase) decrease in other receivables	377,754	59,811
(Increase) decrease in accrued revenue	(2,582,232)	(854,376)
(Increase) decrease in prepaid expenses	321,032	(893,221)
(Increase) decrease in other assets and deposits	(685,571)	(54,327)
Increase (decrease) in accounts payable	(60,165)	(15,240)
Increase (decrease) in accrued cost of electricity	6,976,461	2,692,544
Increase (decrease) in other accrued liabilities	240,994	105,697
Increase (decrease) in security deposits from energy suppliers	105,000	-
Increase (decrease) in user taxes due to other governments	32,541	316,321
Increase (decrease) in advances from public purpose programs	1,802,946	(988,182)
Net cash provided (used) by operating activities	$ 16,459,836	$ 15,164,358

The accompanying notes are an integral part of these financial statements

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, 2017 parties to its Joint Powers Agreement consist of the following local governments: the Counties of Marin and Napa, the cities of American Canyon, Belvedere, Benicia, Calistoga, El Cerrito, Lafayette, Larkspur, Mill Valley, Napa, Novato, Richmond, San Pablo, San Rafael, Sausalito, St. Helena, and Walnut Creek and the towns of Corte Madera, Fairfax, Ross, San Anselmo, Tiburon, and Yountville (collectively, "the Parties"). MCE is separate from and derives no financial support from its members. 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 rate-payer funds regulated by the California Public Utilities Commission.

BASIS OF ACCOUNTING

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – net investment in capital assets, restricted, and unrestricted.

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 defines 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 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 reporting 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business MCE purchases electrical power from numerous suppliers. Electricity costs include the cost of energy and ancillary services arising from bilateral contracts with energy suppliers as well as generation credits, and load and other charges arising from MCE's participation in the California Independent System Operator's centralized market. 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.

2. CASH AND CASH EQUIVALENTS

MCE maintains its cash in both interest-bearing 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 (LAIF) program operated by the California State Treasury.

3. ACCOUNTS RECEIVABLE

Accounts receivable balances were as follows:

	2017	2016
Accounts receivable from customers	$ 19,952,298	$ 15,317,586
Allowance for uncollectible accounts	(4,212,000)	(3,100,000)
Net accounts receivable	$ 15,740,298	$ 12,217,586

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. ENERGY SETTLEMENTS RECEIVABLE

During fiscal 2016/17 MCE entered into a contract to receive generation scheduling and other services from a registered, California Independent System Operator (CAISO) scheduling coordinator. Generation scheduling had previously been performed under a full services contract with an energy supplier and accrued settlements receivable were netted from accrued liabilities as of March 31, 2016 in accordance with the contract terms. Energy settlements due from the scheduling coordinator were $1.7 million as of March 31, 2017.

5. OTHER CURRENT ASSETS AND DEPOSITS

During fiscal 2016/17 MCE acquired assets to support the development of a local renewable energy project located in Richmond, California (MCE Solar One). These assets were reported in other current assets and deposits in the Statements of Net Position and in the Statements of Cash Flows as an acquisition of nondepreciable capital assets. These assets were sold to a developer in May 2017 who will build, own and operate MCE Solar One and sell power to MCE once the project achieves commercial operation. Also included in this account are security deposits paid by MCE pursuant to agreements that expire in less than twelve months.

6. CAPITAL ASSETS

Changes in depreciable capital assets were as follows:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
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	237,843	456,981	(152,625)	542,199
Additions	96,983	25,130	(92,646)	29,467
Balances at March 31, 2017	$ 334,826	$ 482,111	$ (245,271)	$ 571,666

7. PUBLIC PURPOSE PROGRAMS

MCE administers ratepayer-funded energy efficiency programs regulated by the Public Utilities Commission of the State of California (CPUC). Funds received are not recognized as revenue until they are expended for designated purposes. Total funding received for this Program during the fiscal year 2017 was $2,722,000, and $1,066,000 was spent and earned. In fiscal year 2016, funding received was $172,000 and $1,213,000 was spent and earned. The Energy Efficiency Program receives additional funding under the Gas Public Purpose Program that is not received in advance. Revenue of $268,000 and $332,000 was recognized under the Gas Public Purpose Program in fiscal years 2017 and 2016, respectively.

8. DEBT

NOTES PAYABLE

During the fiscal year 2015/16, MCE retired bank notes of $2,024,036 ahead of schedule. MCE incurred no debt during fiscal 2016/17 and had no debt as of March 31, 2017.

LINE OF CREDIT AND LETTERS OF CREDIT

MCE entered into a non-revolving, $15,000,000 credit agreement with River City Bank (RCB) in August 2015 that may be used for short term borrowing and to issue standby Letters of Credit used for performance security. The credit agreement was amended in May 2016 to a revolving credit agreement and the borrowing limit was increased to $20,000,000. RCB requires collateral for the line of credit of $2.2 million which is reported as restricted cash and restricted net position. The agreement expires on August 30, 2017. Management is currently negotiating an amendment to the credit agreement that would extend the term of the agreement and include other changes.

During fiscal 2015/16, MCE arranged to post performance security in the form of standby Letters of Credit totaling $7,300,000 to two suppliers. As of March 31, 2016, MCE had not drawn any cash on the line of credit. During fiscal 2016/17 suppliers returned all issued and outstanding standby Letters of Credit to MCE. MCE arranged to issue no new Letters of Credit in fiscal 2016/17 and has no standby Letters of Credit or amounts outstanding under its credit agreement as of March 31, 2017.

Fees related to opening and renewal of the line of credit and posting the letters of credit are reported as interest and related expenses.

9. 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, 2017, there were 43 plan members. MCE is required to contribute 10% of annual covered payroll to the Plan and contributed $394,000 and $257,000 during the years ended March 31, 2017 and 2016, 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.

10. 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.

MCE maintains risk management guidelines, 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, MCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counter parties.

11. 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 hydro-electric facilities.

MCE 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.

11. PURCHASE COMMITMENTS (continued)

The following table represents the expected, undiscounted, contractual obligations outstanding as of March 31, 2017:

Year ended March 31,	
2018	$ 146,200,000
2019	126,800,000
2020	114,300,000
2021	97,000,000
2022	98,500,000
2023-42	1,263,100,000
	$ 1,845,900,000

As of March 31, 2017, 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 $7.6 million.

12. OPERATING LEASE

Rental expense for MCE's office space was $321,000 and $179,000 for the years ended March 31, 2017 and 2016, 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,	
2018	$ 417,000
2019	430,000
2020	443,000
2021	460,000
2022	479,000
2023-25	1,554,000
	$ 3,783,000