



FINANCIAL STATEMENTS

Years Ended March 31, 2020 & 2019
with Report of Independent Auditors



mceCleanEnergy.org

MARIN CLEAN ENERGY
YEARS ENDED MARCH 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Marin Clean Energy
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of Marin Clean Energy, as of and for the years ended March 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Marin Clean Energy'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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Marin Clean Energy'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 Marin Clean Energy'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, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management 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.

Baker Tilly US, LLP

Madison, Wisconsin
August 6, 2020

MARIN CLEAN ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED MARCH 31, 2020 AND 2019

The Management's Discussion and Analysis provides an overview of Marin Clean Energy's (MCE) financial activities as of and for the years ended March 31, 2020 and 2019. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of MCE was made possible by the passage, in 2002, of California Assembly Bill 117, enabling communities to purchase power on behalf of their residents and businesses and creating competition in power generation.

MCE was created as a California Joint Powers Authority (JPA) on December 19, 2008. MCE was established to provide electric power and related benefits within MCE's service area, including developing a wide range of renewable energy sources and energy efficiency programs. Governed by an appointed board of directors, MCE 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 is responsible for the acquisition of electric power for its service area.

Financial Reporting

MCE 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).

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2020 AND 2019

(Continued)

Contents of this Report

This report is divided into the following sections:

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

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2020 AND 2019

(Continued)

FINANCIAL HIGHLIGHTS

The following table is a summary of MCE's assets, liabilities, deferred inflows or resources and net position and a discussion of significant changes for the years ending March 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 211,708,945	\$ 127,633,995	\$ 64,627,008
Noncurrent assets			
Capital assets, net	1,142,836	1,127,966	667,482
Other noncurrent assets	10,881,417	2,840,511	2,804,092
Total noncurrent assets	<u>12,024,253</u>	<u>3,968,477</u>	<u>3,471,574</u>
Total assets	<u>223,733,198</u>	<u>131,602,472</u>	<u>68,098,582</u>
Current liabilities	51,359,862	39,994,907	17,367,279
Noncurrent liabilities	67,796	30,950	-
Total liabilities	<u>51,427,658</u>	<u>40,025,857</u>	<u>17,367,279</u>
Deferred inflows of resources	10,500,000	-	-
Net position:			
Investment in capital assets	1,142,836	1,127,966	667,482
Restricted	-	2,500,000	2,500,000
Unrestricted	160,662,704	87,948,649	47,563,821
Total net position	<u>\$ 161,805,540</u>	<u>\$ 91,576,615</u>	<u>\$ 50,731,303</u>

Current assets

Current assets were approximately \$214,700,000 at the end of 2020 and are mostly comprised of \$156,700,000 in cash, \$29,800,000 in accounts receivable, and \$15,758,000 in accrued revenue, each of which mark an increase from 2019 to 2020. Most notably, cash increased each year as a result of operating surpluses. Accounts receivable and accrued revenue experienced moderate increases mostly attributable to territory expansion. Accrued revenue differs from accounts receivable in that it is the result of electricity use by MCE customers before invoicing to those customers has occurred.

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2020 AND 2019

(Continued)

Capital assets

Capital assets are reported net of depreciation. Each year, the increase is mostly due to leasehold improvements at MCE's offices. Capital assets held by MCE are comprised of leasehold improvements, furniture and equipment. MCE does not own assets used for electric generation or distribution.

Other noncurrent assets

Other noncurrent assets increased in 2020 primarily due to a transfer of \$10,500,000 to an Operating Reserve Fund to defer revenue for later years when financial results may not be as strong or are stressed. Deferring revenue to be used in future years will allow MCE to avoid sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances.

Current liabilities

Current liabilities consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by MCE. Current liabilities increased each year mostly due to cost of energy related to customer expansions. Other components include trade accounts payable, taxes and surcharges due to governments, advances from grantors, and various other accrued liabilities.

The following table is a summary of MCE's results of operations and a discussion of significant changes for years ending March 31:

	2020	2019	2018
Operating revenues	\$ 416,119,323	\$ 362,292,027	\$ 205,752,830
Interest income	2,957,808	943,712	325,492
Total income	<u>419,077,131</u>	<u>363,235,739</u>	<u>206,078,322</u>
Operating expenses	348,716,887	322,343,205	199,966,736
Nonoperating expenses	131,319	47,222	40,000
Total expenses	<u>348,848,206</u>	<u>322,390,427</u>	<u>200,006,736</u>
Change in net position	<u>\$ 70,228,925</u>	<u>\$ 40,845,312</u>	<u>\$ 6,071,586</u>

**MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2020 AND 2019**

(Continued)

Operating revenues

Operating revenues increased each year, primarily driven by rate changes as well as electricity sales from the inclusion of new communities beginning in April 2018. This expansion covered unincorporated Contra Costa county, as well as the cities and towns of Concord, Martinez, Oakley, Pinole, Pittsburg, San Ramon, Danville and Moraga.

MCE also receives revenues from sources other than retail customer sales. These sources include wholesale energy sales to other suppliers, as well as grant income used to assist with various customer programs.

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

Operating expenses

Operating expenses increased each year, primarily due to increasing pricing for certain products in the energy market as well as the result of an expansion in April 2018 and the need to increase the quantity of energy purchases to provide for the new customer base. MCE procures energy from a variety of sources to minimize this risk and maintain a balanced renewable power portfolio.

MARIN CLEAN ENERGY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED MARCH 31, 2020 AND 2019

(Continued)

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 elevated 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 ("LSEs"), such as MCE, to gradually increase the amount of renewable energy they deliver to their customers. Senate Bill ("SB") 100, signed by California's Governor in September 2018, directs LSEs to supply 60% of their retail sales with RPS-eligible resources by 2030. MCE began supplying its retail sales with 60% RPS-eligible resources in 2017, 13 years ahead of the SB 100 schedule. In addition, pursuant to California SB 350 (signed into law in October 2015), at least 65 percent of the procurement a retail seller, such as MCE, counts toward its renewables portfolio standard requirement for each compliance period shall be from contracts of ten years or more in duration ("long-term contracts"), starting with compliance period 4 (which begins January 1, 2021). As of March 31, 2020, MCE has executed RPS contracts of ten years or more in duration that are projected to meet MCE's SB 350 long-term contracting requirement through 2027, and MCE is planning to continue its long-term RPS procurement as opportunities arise.

MCE manages risks associated with these commitments by aligning purchase commitments with expected demand for electricity and by securing a diversity of technologies, geographical locations, and suppliers. Expected obligations under power purchase agreements totaled approximately \$2.23 billion as of March 31, 2019 and \$2.32 billion as of March 31, 2020.

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

REQUEST 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 the Director of Finance, 1125 Tamalpais Avenue, San Rafael, CA 94901.

BASIC FINANCIAL STATEMENTS

MARIN CLEAN ENERGY
STATEMENTS OF NET POSITION
MARCH 31, 2020 AND 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 144,607,424	\$ 54,426,942
Accounts receivable, net of allowance	29,801,063	27,525,151
Accrued revenue	15,758,273	11,960,984
Market settlements receivable	-	5,828,255
Other receivables	2,879,452	3,422,518
Prepaid expenses	1,455,435	1,465,199
Investments	-	10,000,000
Deposits	8,091,551	6,642,817
Restricted cash	9,115,747	6,362,129
Total current assets	<u>211,708,945</u>	<u>127,633,995</u>
Noncurrent assets		
Unrestricted cash in Operating Reserve Fund	10,500,000	-
Restricted cash	-	2,500,000
Capital assets, net of depreciation	1,142,836	1,127,966
Deposits	381,417	340,511
Total noncurrent assets	<u>12,024,253</u>	<u>3,968,477</u>
Total assets	<u>223,733,198</u>	<u>131,602,472</u>
LIABILITIES		
Current liabilities		
Accounts payable	2,266,392	1,807,129
Accrued cost of electricity	32,995,146	29,693,302
Other accrued liabilities	1,096,341	894,468
User taxes and energy surcharges due to other governments	1,336,236	1,237,879
Security deposits from energy suppliers	4,550,000	-
Advances from grantors	9,115,747	6,362,129
Total current liabilities	<u>51,359,862</u>	<u>39,994,907</u>
Noncurrent liabilities		
Contract retention	67,796	30,950
Total liabilities	<u>51,427,658</u>	<u>40,025,857</u>
DEFERRED INFLOWS OF RESOURCES		
Operating Reserve Fund	<u>10,500,000</u>	<u>-</u>
NET POSITION		
Net position		
Investment in capital assets	1,142,836	1,127,966
Restricted for line of credit collateral	-	2,500,000
Unrestricted	160,662,704	87,948,649
Total net position	<u>\$ 161,805,540</u>	<u>\$ 91,576,615</u>

MARIN CLEAN ENERGY

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Electricity sales, net	\$ 413,996,865	\$ 353,959,271
Revenue transferred to Operating Reserve Fund	(10,500,000)	-
Grant revenue	3,414,529	2,285,626
Wholesale resource sales	5,428,151	5,399,080
Liquidated damages	3,750,000	437,253
Other revenue	29,778	210,797
Total operating revenues	<u>416,119,323</u>	<u>362,292,027</u>
OPERATING EXPENSES		
Cost of electricity	322,052,462	299,406,063
Contract services	13,396,517	12,126,677
Staff compensation	9,365,433	7,904,309
General and administration	3,642,487	2,716,666
Depreciation	259,988	189,490
Total operating expenses	<u>348,716,887</u>	<u>322,343,205</u>
Operating income	<u>67,402,436</u>	<u>39,948,822</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,957,808	943,712
Loan fee expense	(131,319)	(47,222)
Total nonoperating revenues (expenses)	<u>2,826,489</u>	<u>896,490</u>
CHANGE IN NET POSITION	70,228,925	40,845,312
Net position at beginning of year	91,576,615	50,731,303
Net position at end of year	<u>\$ 161,805,540</u>	<u>\$ 91,576,615</u>

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 420,801,354	\$ 346,828,777
Receipts from market settlements	5,015,042	12,977,257
Receipts from grantors	6,353,753	3,881,097
Receipts from liquidated damages	3,750,000	197,253
Other operating receipts	3,134,180	406,891
Payments to suppliers for electricity	(319,314,339)	(301,509,357)
Payments for other goods and services	(16,577,025)	(13,966,296)
Payments for staff compensation	(9,351,367)	(7,706,516)
Tax and surcharge payments to other governments	(5,441,790)	(4,969,458)
Net cash provided by operating activities	<u>88,369,808</u>	<u>36,139,648</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan fee expense	<u>(143,819)</u>	<u>(34,722)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments to acquire capital assets	<u>(349,927)</u>	<u>(544,123)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Certificate of deposit redemption	10,000,000	(10,000,000)
Interest received	3,058,038	843,482
Net cash provided (used) by investing activities	<u>13,058,038</u>	<u>(9,156,518)</u>
Net change in cash and cash equivalents	100,934,100	26,404,285
Cash and cash equivalents at beginning of year	63,289,071	36,884,786
Cash and cash equivalents at end of year	<u><u>\$ 164,223,171</u></u>	<u><u>\$ 63,289,071</u></u>
Reconciliation to the Statement of Net Position		
Current assets		
Cash and cash equivalents (unrestricted)	\$ 144,607,424	\$ 54,426,942
Restricted cash	9,115,747	8,862,129
Noncurrent assets		
Cash and cash equivalents (unrestricted)	10,500,000	-
Cash and cash equivalents	<u><u>\$ 164,223,171</u></u>	<u><u>\$ 63,289,071</u></u>

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 67,402,436	\$ 39,948,822
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	259,988	189,490
Revenue adjusted for allowance for uncollectible accounts	3,939,401	2,477,987
(Increase) decrease in:		
Accounts receivable	(6,215,313)	(15,171,137)
Market settlements receivable	5,828,255	(5,290,369)
Other receivables	442,836	(628,234)
Accrued revenue	(3,797,289)	(4,117,765)
Prepaid expenses	9,765	95,286
Deposits	(1,489,640)	(3,956,190)
Increase (decrease) in:		
Accounts payable	546,831	773,984
Accrued cost of electricity	3,301,844	20,021,892
Other accrued liabilities	238,719	426,344
Security deposits from energy suppliers	4,550,000	(240,000)
User taxes due to other governments	98,357	278,729
Operating Reserve Fund	10,500,000	-
Advances from grantors	2,753,618	1,330,809
Net cash provided by operating activities	<u>\$ 88,369,808</u>	<u>\$ 36,139,648</u>

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

1. REPORTING ENTITY

Marin Clean Energy (MCE) is a California joint powers authority created on December 19, 2008. As of March 31, 2020, parties to its Joint Powers Agreement consist of the following local governments:

<u>Counties</u>	<u>Cities and Towns</u>		
Contra Costa	Belvedere	Martinez	San Anselmo
Marin	Benicia	Mill Valley	San Pablo
Napa	Concord	Moraga	San Rafael
Solano	Corte Madera	Novato	San Ramon
	Danville	Oakley	Sausalito
	El Cerrito	Pinole	Tiburon
	Fairfax	Pittsburg	Walnut Creek
	Lafayette	Richmond	
	Larkspur	Ross	

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 one or more 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.

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

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 – investment in capital assets, restricted, and unrestricted.

When both restricted and unrestricted resources are available for use, it is 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 with an original maturity of three months or less. For the purpose of the Statement of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements of Net Position includes cash advanced from grantors.

MARKET SETTLEMENTS RECEIVABLE

MCE receives generation scheduling and other services from a registered, California Independent System Operator (CAISO) scheduling coordinator. Market settlements due from the scheduling coordinator were \$0 and \$5,828,000 as of March 31, 2020 and 2019, respectively.

DEPOSITS

Various energy contracts entered into by MCE require MCE to provide a supplier with a security deposit. These deposits are generally held for the term of the contract. Deposits are classified as current or noncurrent depending on the length of the time the deposits will be held. While these energy contract related deposits make up the majority of this item, other components of deposits include those for regulatory and other operating purposes.

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 RESERVE FUND

In March 2020, MCE created an Operating Reserve Fund to allow MCE to defer revenue in years when financial results are strong to be used in future years when financial results are not as strong or stressed. In accordance with GASB 62, the amount deposited into the fund is shown as a reduction of operating revenues and reported on the statements of net position as a deferred inflow of resources.

MCE transferred \$10,500,000 to the Operating Reserve Fund for the year ended March 31, 2020.

NET POSITION

Net position is presented in the following components:

Investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. MCE did not have any outstanding borrowings as of March 31, 2020, and 2019

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

Unrestricted: This component of net position consists of net position that does not meet the definition of "investment in capital assets" or "restricted".

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING AND NON-OPERATING REVENUE

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers, grant revenue earned from the delivery of program activities, and liquidated damages from suppliers that fail to meet delivery commitments. Operating revenues are affected by contributions to or distributions from the Operating Reserve Fund.

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 be uncollectible. Accordingly, an allowance for uncollectible accounts has been recorded.

OPERATING AND NONOPERATING EXPENSES

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

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

2. 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 capacity 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 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) 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 with a profit motive. An expense is recognized at the point that the cost of the Certificate is due and payable to the supplier. MCE purchases capacity commitments from qualifying generators to comply with the California Energy Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future. 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. MCE provides compensated time off, and the related liability is recorded in these financial statements.

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SECURITY DEPOSITS FROM ENERGY SUPPLIERS

Various energy contracts entered into by MCE require the supplier to provide MCE with a security deposit. These deposits are generally held for the term of the contract or until the completion of certain benchmarks. Deposits are classified as current or noncurrent depending on the length of the time the deposits will be held.

ADVANCES FROM GRANTORS

MCE received grant funding from various grantors. The amount in this category represents funds received by MCE, but not yet expended to carry out specific goals.

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

MARIN CLEAN ENERGY

NOTES TO THE BASIC FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2020 AND 2019

3. 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 Federal Deposit Insurance Corporation 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, United States Treasury obligations, Federal Agency Securities, commercial paper, money market funds and FDIC insured placement service deposits.

At March 31, 2019, MCE had restricted cash of \$2,500,000 that was held as collateral for a bank line of credit agreement. During the year ended March 31, 2020, that agreement expired and the cash is no longer considered restricted.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	2020	2019
Accounts receivable from customers	\$ 38,308,451	\$ 32,093,138
Allowance for uncollectible accounts	(8,507,388)	(4,567,987)
Net accounts receivable	<u>\$ 29,801,063</u>	<u>\$ 27,525,151</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.

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5. INVESTMENTS

During 2018-19, MCE purchased Certificates of Deposits (CDs) utilizing a Certificate of Deposit Account Registry Service (CDARS). The purpose of CDARS is for institutions, such as MCE, to invest in CDs in order to stay below the Federal Deposit Insurance Corporation (FDIC) insurance limits at any given bank.

Below is a summary of accounts reflecting placements through CDARS at River City Bank as of March 31, 2019. The CDARS matured during 2019-20 and were not renewed during the year ended March 31, 2020.

Effective date	Maturity date	Interest rate	Amount
11/1/2018	5/2/2019	2.32289%	\$ 4,000,000
11/1/2018	10/31/2019	2.46936%	6,000,000
Total investments			<u>\$ 10,000,000</u>

6. CAPITAL ASSETS

Capital asset activity for the years ended March 31, 2019 and 2020 was as follows:

	Furniture & Equipment	Leasehold Improvements	Construction in Progress	Accumulated Depreciation	Total
Balances at March 31, 2018	\$ 432,965	\$ 537,053	\$ 56,404	\$ (358,940)	\$ 667,482
Additions	399,993	230,702	19,279	(189,490)	460,484
Dispositions	(54,146)	(5,881)	-	60,027	-
Balances at March 31, 2019	778,812	761,874	75,683	(488,403)	1,127,966
Additions	79,198	195,660	-	(259,988)	14,870
Transfers	-	75,683	(75,683)	-	-
Balances at March 31, 2020	<u>\$ 858,010</u>	<u>\$ 1,033,217</u>	<u>\$ -</u>	<u>\$ (748,391)</u>	<u>\$ 1,142,836</u>

Construction in progress reported as of March 31, 2019, includes costs to build a solar carport at MCE's San Rafael office. This project was completed during the fiscal year ended March 31, 2020.

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7. DEBT

LINE OF CREDIT AND LETTERS OF CREDIT

MCE entered into a non-revolving 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. In July 2017, the agreement was amended to increase the limit to \$25 million, reduce borrowing rates and fees and allow cash advances for working capital needs. RCB requires collateral for the line of credit of \$2.5 million which is reported as restricted cash and restricted net position. The agreement with RCB was terminated during the year ended March 31, 2020.

In November 2019, MCE entered into a revolving credit agreement with JPMorgan Chase Bank. The available credit line under this agreement is \$40,000,000 and enhances MCE's overall liquidity for potential working capital needs, collateral requirements, and enhances MCE's investment credit grade rating. This agreement terminates in November 2022.

MCE had no standby Letters of Credit or amounts outstanding under its line of credit agreements as of March 31, 2019 or 2020.

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

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8. GRANTS

MCE administers various grants, including ratepayer-funded energy efficiency programs regulated by the Public Utilities Commission of the State of California (CPUC). The CPUC also allocated funds to MCE to conduct a Low-Income Family and Tenants (LIFT) pilot program to better serve income-qualified multifamily communities with energy efficiency programs. These grant revenues are recognized when a corresponding eligible expense is incurred, not when funds are received.

MCE also administers grants from the Bay Area Air Quality Management District, California Energy Commission and Marin Community Foundation.

Amounts earned for 2020 and 2019 under these programs were approximately \$3,415,000 and \$2,286,000.

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, 2020, there were 64 plan members. MCE is required to contribute 10% of annual covered payroll to the Plan and contributed \$654,000 and \$604,000 during the years ended March 31, 2020 and 2019, 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 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, MCE enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counter parties.

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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.

The following table represents the expected, undiscounted, contractual obligations outstanding as of March 31, 2020:

Year ended March 31,	
2021	\$ 310,000,000
2022	270,000,000
2023	220,000,000
2024	150,000,000
2025	120,000,000
2026-41	<u>1,250,000,000</u>
	<u>\$ 2,320,000,000</u>

As of March 31, 2020, MCE had noncancelable contractual commitments to professional service providers through December 31, 2022, for services yet to be performed. Fees associated with these contracts are based on volumetric activity and are expected to be approximately \$17 million.

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12. OPERATING LEASE

Rental expense for MCE's office space was \$779,000 and \$541,000 for the years ended March 31, 2020 and 2019, respectively. On March 9, 2015, MCE entered into a ten-year non-cancelable lease for its San Rafael office premise. The rental agreement includes an option to renew the lease for five additional years. On December 12, 2017, MCE entered into a 68-month non-cancelable lease for its Concord office premise.

Future minimum lease payments under these leases are as follows:

Year ended March 31,	
2021	\$ 807,000
2022	836,000
2023	866,000
2024	799,000
2025	539,000
	<u>\$ 3,847,000</u>

13. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for future fiscal years ending after March 31, 2020:

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. When they become effective, application of these standards may restate portions of these financial statements.

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14. SUBSEQUENT EVENT

Covid-19

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