MCE Empowering Our Clean Energy Future

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# Financial Statements

Years Ended March 31, 2023 & 2022 with Report of Independent Auditors

mceCleanEnergy.org

**MARIN CLEAN ENERGY**
**YEARS ENDED MARCH 31, 2023 AND 2022**

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# Independent Auditors' Report

To the Board of Directors of
Marin Clean Energy

**Opinion**

We have audited the accompanying financial statements of Marin Clean Energy (MCE), as of and for the years ended March 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the MCE's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of MCE as of March 31, 2023 and 2022, 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.

**Basis for Opinion**

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

**Emphasis of Matter**

As discussed in Note 11, MCE adopted the provisions of GASB Statement No. 87, *Leases*, effective April 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the MCE's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 MCE's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the MCE's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Madison, Wisconsin
August 30, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## YEARS ENDED MARCH 31, 2023 AND 2022

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, 2023, and 2022. 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).

**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 and investing activities.

  - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

## FINANCIAL HIGHLIGHTS

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

| | 2023 | 2022 (Restated) | 2021 (Restated) |
|---|---|---|---|
| Current assets | $ 287,116,314 | $ 271,986,377 | $ 252,069,094 |
| Noncurrent assets | | | |
| Capital and lease assets, net | 1,818,709 | 2,049,223 | 3,837,126 |
| Other noncurrent assets | 75,742,193 | 15,969,822 | 15,360,190 |
| Total noncurrent assets | 77,560,902 | 18,019,045 | 19,197,316 |
| Total assets | 364,677,216 | 290,005,422 | 271,266,410 |
| Current liabilities | 89,968,725 | 70,434,083 | 64,794,643 |
| Noncurrent liabilities | 536,645 | 1,364,363 | 2,121,460 |
| Total liabilities | 90,505,370 | 71,798,446 | 66,916,103 |
| Deferred inflows of resources | 30,000,000 | 15,000,000 | 15,000,000 |
| Net position: | | | |
| Net investment in capital assets | 508,444 | 693,493 | 958,569 |
| Unrestricted | 243,663,402 | 202,513,483 | 188,391,738 |
| Total net position | $ 244,171,846 | $ 203,206,976 | $ 189,350,307 |

### Current assets

Current assets modestly increased from $272,000,000 at the end of 2022 to $287,000,000 at the end of 2023. Current assets at the end of 2023 and were primarily comprised of cash and investments of $173,00,000, accounts receivable of $66,000,000, and accrued revenue of $31,000,000. Accrued revenue differs from accounts receivable in that it represents electricity provided to MCE customers that has not yet been invoiced.

**Noncurrent assets**

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

Leased assets are reported in accordance with Governmental Accounting Standards Board No. 87 (GASB 87) that was implemented during 2023, including a restatement back to 2021. According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that previously were not reported.

Other noncurrent assets primarily include investments of $48,000,000 as well as $30,000,000 in an Operating Reserve Fund to defer revenue for later years when financial results may not be as strong or are stressed. By postponing revenue recognition to future years, MCE will be positioned to avoid sudden rate increases to address unanticipated spikes in energy costs and other unforeseen circumstances.

The increase in 2023 is a result of MCE's operating surplus which was used to purchase various investments, primarily U.S. Treasury securities.

**Current liabilities**

The largest components of current liabilities is the cost of electricity delivered to customers that is not yet paid by MCE and unexpended program advances from grantors. Current liabilities increased each year due to the increased demand from new customers, as well as price increases of certain energy products, and funds received from grantors.

**Noncurrent liabilities**

Included in this category is the long-term portion of lease payments for MCE's office premises. The reduction each year relates to amortization of the liability.

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

| | 2023 | 2022 (Restated) | 2021 (Restated) |
|---|---|---|---|
| Operating revenues | $ 636,588,526 | $ 469,123,209 | $ 439,262,151 |
| Nonoperating revenues | 4,226,302 | 6,216,069 | - |
| Investment income | 4,007,603 | 584,054 | 1,784,590 |
| Total income | 644,822,431 | 475,923,332 | 441,046,741 |
| | | | |
| Operating expenses | 603,621,093 | 461,805,695 | 413,306,149 |
| Nonoperating expenses | 236,468 | 260,968 | 195,825 |
| Total expenses | 603,857,561 | 462,066,663 | 413,501,974 |
| Change in net position | $ 40,964,870 | $ 13,856,669 | $ 27,544,767 |

**Operating revenues**

Operating revenues increased each year from 2021 to 2023, primarily from territory expansion and increases in customer rates. In 2023, an increase in the number of customer accounts by 6.5% related to the enrollment of Fairfield, produced approximately $30,000,000 in additional revenue and a 32% increase in average customer retail rates produced approximately $145,000,000 in additional revenue. 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.

**Nonoperating revenues**

Grant income from the California Arrearage Payment Plan (CAPP) is included in nonoperating revenues. This grant first became available in 2022.

**Investment income**

Investment income fluctuated each year due to changes in market interest rates as well as the amount available to be invested.

**Operating expenses**

For all the years presented, the largest expense was the cost of electricity. Operating expenses increased each year, primarily due to increased prices for certain products in the energy markets.

MCE procures energy from a variety of sources to minimize this risk and maintain a balanced renewable power portfolio.

## ECONOMIC OUTLOOK

In the normal course of business, MCE enters into various agreements, including for renewable energy agreements, the procurement of power and electrical capacity and other power purchase agreements. MCE enters into power purchase agreements 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. MCE has been supplying 90% GHG free energy since 2017 and anticipates reaching 95% in calendar year 2023 and continuing to do so into the future 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 began January 1, 2021). As of March 31, 2021, 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 $4.2 billion as of March 31, 2023 and $2.7 billion as of March 31, 2022.

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 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 Chief Financial Officer, 1125 Tamalpais Avenue, San Rafael, CA 94901.

# BASIC FINANCIAL STATEMENTS

# MARIN CLEAN ENERGY

# STATEMENTS OF NET POSITION

# MARCH 31, 2023 AND 2022

| | 2023 | 2022 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents - unrestricted | $ 73,348,263 | 169,627,430 |
| Accounts receivable, net of allowance | 66,401,473 | 46,297,848 |
| Accrued revenue | 31,180,447 | 20,513,811 |
| Other receivables | 1,985,508 | 2,317,347 |
| Prepaid expenses | 651,310 | 4,814,302 |
| Restricted cash | 33,782,947 | 16,052,232 |
| Investments | 68,841,532 | - |
| Deposits | 10,924,834 | 12,363,407 |
| Total current assets | 287,116,314 | 271,986,377 |
| Noncurrent assets | | |
| Cash and cash equivalents - restricted | 30,000,000 | 15,000,000 |
| Investments | 45,538,694 | - |
| Lease assets, net of amortization | 1,219,882 | 2,049,223 |
| Capital assets, net of depreciation | 598,827 | 765,730 |
| Deposits | 203,499 | 204,092 |
| Total noncurrent assets | 77,560,902 | 18,019,045 |
| Total assets | 364,677,216 | 290,005,422 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accrued cost of electricity | 45,803,423 | 41,701,034 |
| Accounts payable | 4,071,832 | 3,010,634 |
| Other accrued liabilities | 1,845,922 | 1,748,318 |
| User taxes and energy surcharges due to other governments | 3,112,581 | 2,151,268 |
| Security deposits - energy suppliers | 578,400 | 5,013,500 |
| Lease liabilities | 773,620 | 757,097 |
| Advances from grantors - restricted | 33,782,947 | 16,052,232 |
| Total current liabilities | 89,968,725 | 70,434,083 |
| Noncurrent liabilities | | |
| Lease liabilities | 536,645 | 1,364,363 |
| Total liabilities | 90,505,370 | 71,798,446 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Operating Reserve Fund | 30,000,000 | 15,000,000 |
| **NET POSITION** | | |
| Net position | | |
| Net investment in capital assets | 508,444 | 693,493 |
| Unrestricted | 243,663,402 | 202,513,483 |
| Total net position | $ 244,171,846 | 203,206,976 |



The accompanying notes are an integral part of these financial statements

# MARIN CLEAN ENERGY

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

## YEARS ENDED MARCH 31, 2023 AND 2022

| | 2023 | 2022 (Restated) |
|---|---|---|
| **OPERATING REVENUES** | | |
| Electricity sales, net | $ 633,836,160 | $ 458,935,624 |
| Rate stabilization | (15,000,000) | - |
| Grant revenue | 10,532,421 | 9,830,732 |
| Other revenue | 7,219,945 | 356,853 |
| Total operating revenues | 636,588,526 | 469,123,209 |
| **OPERATING EXPENSES** | | |
| Cost of electricity | 559,107,368 | 421,522,767 |
| Contract services | 19,389,252 | 19,777,790 |
| Staff compensation | 17,193,096 | 14,263,357 |
| Other operating expenses | 6,935,136 | 5,204,378 |
| Depreciation and amortization | 996,241 | 1,037,403 |
| Total operating expenses | 603,621,093 | 461,805,695 |
| Operating income | 32,967,433 | 7,317,514 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Grant revenue | 4,226,302 | 6,216,069 |
| Investment income | 4,007,603 | 584,054 |
| Finance costs | (236,468) | (260,968) |
| Nonoperating revenues (expenses), net | 7,997,437 | 6,539,155 |
| **CHANGE IN NET POSITION** | 40,964,870 | 13,856,669 |
| Net position at beginning of year | 203,206,976 | 189,350,307 |
| Net position at end of year | $ 244,171,846 | $ 203,206,976 |



The accompanying notes are an integral part of these financial statements

# MARIN CLEAN ENERGY

# STATEMENTS OF CASH FLOWS

# YEARS ENDED MARCH 31, 2023 AND 2022

| | 2023 | 2022 (Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 615,120,232 | $ 462,539,471 |
| Receipts from grantors | 35,646,753 | 22,277,682 |
| Other operating receipts | 47,962,860 | 1,158,411 |
| Payments to suppliers for electricity and collateral | (594,359,829) | (446,651,804) |
| Payments for other goods and services | (32,597,611) | (31,732,757) |
| Payments for staff compensation | (16,961,121) | (13,990,493) |
| Payments of tax and surcharges to other governments | (9,533,701) | (7,180,093) |
| Net cash provided (used) by operating activities | 45,277,583 | (13,579,583) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| Grant revenue | 4,226,302 | 6,216,069 |
| Finance costs paid | (182,127) | (180,910) |
| Net cash provided by non-capital financing activities | 4,044,175 | 6,035,159 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Payments of lease liabilities | (952,165) | (937,240) |
| Payment to acquire capital assets | - | (22,218) |
| Net cash used by capital and related financing activities | (952,165) | (959,458) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment income received | 2,475,425 | 582,529 |
| Proceeds from investment sales | 16,100,000 | - |
| Purchase of investments | (130,493,470) | - |
| Net cash provided (used) by investing activities | (111,918,045) | 582,529 |
| Net change in cash and cash equivalents | (63,548,452) | (7,921,353) |
| Cash and cash equivalents at beginning of year | 200,679,662 | 208,601,015 |
| Cash and cash equivalents at end of year | 137,131,210 | 200,679,662 |
| **Reconciliation to the Statement of Net Position** | | |
| **Current assets** | | |
| Cash and cash equivalents (unrestricted) | 73,348,263 | 169,627,430 |
| Restricted cash | 33,782,947 | 16,052,232 |
| **Noncurrent assets** | | |
| Cash and cash equivalents (unrestricted) | 30,000,000 | 15,000,000 |
| Cash and cash equivalents | $ 137,131,210 | $ 200,679,662 |



The accompanying notes are an integral part of these financial statements

# MARIN CLEAN ENERGY

## STATEMENTS OF CASH FLOWS
## (CONTINUED)

## YEARS ENDED MARCH 31, 2023 AND 2022

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

| | 2023 | 2022 (Restated) |
|---|---|---|
| Operating income | $ 32,967,433 | $ 7,317,514 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | |
| Depreciation and amortization expense | 996,241 | 1,037,403 |
| Provision for uncollectible accounts | 18,612,539 | 1,259,349 |
| (Increase) decrease in: | | |
| Accounts receivable | (38,716,164) | (13,182,724) |
| Other receivables | 1,656,337 | 239,002 |
| Accrued revenue | (10,666,636) | (4,381,061) |
| Prepaid expenses | 4,162,992 | (3,763,177) |
| Deposits | 1,660,093 | (7,852,402) |
| Increase (decrease) in: | | |
| Accrued cost of electricity | 4,102,389 | (1,708,386) |
| Accounts payable | 1,061,198 | 105,228 |
| Other accrued liabilities | 184,233 | 518,818 |
| Security deposits from energy suppliers | (4,435,100) | 381,000 |
| User taxes due to other governments | 961,313 | 572,997 |
| Operating Reserve Fund | 15,000,000 | - |
| Advances from grantor - restricted | 17,730,715 | 5,876,856 |
| Net cash provided (used) by operating activities | $ 45,277,583 | $ (13,579,583) |



The accompanying notes are an integral part of these financial statements

# MARIN CLEAN ENERGY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

## YEARS ENDED MARCH 31, 2023 AND 2022

### 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, 2023, parties to its Joint Powers Agreement consist of the following local governments:

| | **Cities and Towns** | | |
|---|---|---|---|
| Contra Costa | Belvedere | Martinez | Ross |
| Marin | Benicia | Mill Valley | San Anselmo |
| Napa | Concord | Moraga | San Pablo |
| Solano | Corte Madera | Napa | San Rafael |
| | Danville | Novato | San Ramon |
| | El Cerrito | Oakley | Sausalito |
| | Fairfax | Pinole | Tiburon |
| | Fairfield | Pittsburg | Vallejo |
| | Lafayette | Pleasant Hill | Walnut Creek |
| | Larkspur | Richmond | |

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 confront the climate crisis by eliminating fossil fuel greenhouse gas emissions, producing renewable energy, and creating equitable community. MCE provides electric service to retail customers as a Community Choice Aggregation Program (CCA) 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 that support the development, coordination, and implementation of energy efficiency projects in and around MCE’s service area. The funding for energy efficiency programs is provided from ratepayers and regulated by the California Public Utilities Commission.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 purposes 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. The Statement of Net Position presents restricted cash balances separately. Restricted cash reported on the Statements of Net Position includes funding advanced from grantors.

#### INVESTMENTS

Investments are stated at fair value based on prices listed on a national exchange for debt securities. Certificates of deposits are stated at cost. MCE intends to hold its securities to maturity. Investments with a maturity of less than one year are shown as current assets in the Statement of Net Position. Investments with a maturity of one year or more are shown as noncurrent assets in the Statement of Net Position.

MCE's Investment Policy permits the investment of funds in depository accounts, Local Agency Investment Fund (LAIF) program operated by the California State Treasury, United States Treasury obligations, federal agency securities, commercial paper, certificates of deposits, money market funds, corporate bonds and collateralized mortgage obligations.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### PREPAID EXPENSES AND DEPOSITS

Contracts to purchase energy may require MCE to provide the supplier with advanced payments or security deposits. Deposits are generally held for the term of the contract and are classified as current or noncurrent assets depending on the length of time the deposits will be outstanding. Also included are prepaid expenses and deposits for regulatory and other operating purposes.

### LEASE ASSETS AND LEASE LIABILITIES

MCE recognizes an asset and liability when it enters certain leasing arrangements. The leased assets are amortized over the term of the leases. The lease liabilities are established at the present value of payments expected to be paid to the lessors during the terms of the lease. MCE's only leased assets and liabilities relate to its office premises.

### CAPITAL ASSETS AND DEPRECIATION

MCE's policy is to capitalize furniture and equipment valued over $5,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment, seven years for furniture, and ten years for leasehold improvements.

### 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 for use in future years when financial results may decline. In accordance with GASB Statement No. 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. Transfers to this fund were $15,000,000 and $0 in 2023 and 2022, respectively.

### NET POSITION

Net position is presented in the following components:

*Investment in capital assets*: This component of net position consists of capital assets, lease assets, net of accumulated depreciation and amortization, and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted*: This component of net position consists of restraints 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. There was no restricted component on March 31, 2023 or 2022.

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

### GASB STATEMENT NO. 87 IMPLEMENTATION

MCE adopted GASB Statement No. 87, *Leases* effective April 1, 2022 for all material leases. The impact of the implementation did not affect net position, prior year balances were restated for the new standard. See Note 11 for further details.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### OPERATING AND NON-OPERATING REVENUE

Operating revenues include energy sales to retail customers, grant revenue earned from the delivery of program activities, and liquidated damages from suppliers that fail to meet delivery commitments. Operating revenues also include contributions to or distributions from the Operating Reserve Fund.

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

#### 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 NON-OPERATING EXPENSES

Operating expenses include the cost of sales and services, administrative expenses, depreciation of capital assets, and amortization of right-to-use assets. Expenses not meeting this definition are reported as non-operating expenses.

#### 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. 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### ELECTRICAL POWER PURCHASED (CONTINUED)

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 energy 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 as other accrued liabilities 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. These reclassifications did not result in any change in previously reported net position or change in net position.

## 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 provide collateral of 110% for public funds in excess of the Federal Deposit Insurance Corporation limit of $250,000. MCE monitors its risk exposure to River City Bank on an ongoing basis.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of March 31:

| | 2023 | 2022 |
|---|---|---|
| Accounts receivable from customers | $ 93,990,987 | $ 55,274,823 |
| Allowance for uncollectible accounts | (27,589,514) | (8,976,975) |
| Net accounts receivable | $ 66,401,473 | $ 46,297,848 |

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 receivable's age, 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. INVESTMENTS

During the year ended March 31, 2023, MCE purchased investments with original maturities of three months or more. MCE did not own any investments as of March 31, 2022. As of March 31, the fair value of investments was as follows:

| | 2023 | 2022 |
|---|---|---|
| **Current Investments:** | | |
| U.S. Treasury Securities | $ 2,840,387 | $ - |
| Collateralized Mortgage Obligations | - | - |
| Commercial Paper | 489,557 | - |
| Corporate Bonds | - | - |
| Certificates of Deposit | 65,511,588 | - |
| Total current investments | $ 68,841,532 | $ - |

| | 2023 | 2022 |
|---|---|---|
| **Noncurrent Investments:** | | |
| U.S. Treasury Securities | $ 30,239,426 | $ - |
| Collateralized Mortgage Obligations | 2,627,860 | - |
| Commercial Paper | - | - |
| Corporate Bonds | 12,671,408 | - |
| Certificates of Deposit | - | |
| Total noncurrent investments | $ 45,538,694 | $ - |

### FAIR VALUE MEASUREMENT

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into more than one level in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. MCE's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of March 31, 2023, all of MCE's investments are based on Level 1 inputs. Quoted prices in active markets were used for determining fair value measurement.

## 4. INVESTMENTS (CONTINUED)

### CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. As of March 31, 2023 and 2022, MCE's investments were rated as follows:

| | Standard & Poors | |
|---|---|---|
| | 2023 | 2022 |
| Commercial Paper | A-1 | - |
| Certificates of Deposit | NR to A-1 | - |
| Corporate Bonds | A- to AAA | - |

MCE's investment policy addresses this risk. MCE limits investments to those allowed by Section 53601 of the California Government code that addresses the risk allowable for each investment.

### CUSTODIAL CREDIT RISK

Cash and cash equivalents

Custodial credit risk is the risk that in the event of a financial institution failure, MCE's deposits my not be returned to MCE.

As of March 31. 2023 and 2022, none of MCE's bank balances are known to be individually exposed to credit risk.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MCE would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All of MCE's investments are exposed to credit risk.

MCE's investment policy addresses this risk. All investments owned by MCE shall be held in safekeeping by a third-party custodian, acting as an agent for MCE under the terms of a custody agreement.

## 4. INVESTMENTS (CONTINUED)

### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. MCE manages its exposure to declines in fair values by limiting the weighted average maturity of its investments.

Following is a summary of investment maturities as of March 31, 2023:

| | | Investment Maturities | |
|---|---|---|---|
| **Investment Type** | **Fair Value** | **Less Than 1 Year** | **1-5 Years** |
| U.S. Treasury Securities | $ 33,079,813 | $ 2,840,387 | $ 30,239,426 |
| Collateralized Mortgage Obligations | 2,627,860 | - | 2,627,860 |
| Commercial Paper | 489,557 | 489,557 | - |
| Corporate Bonds | 12,671,408 | - | 12,671,408 |
| Certificates of Deposit | 65,511,588 | 65,511,588 | - |
| | $ 114,380,226 | $ 68,841,532 | $ 45,538,694 |

## 5. CAPITAL ASSETS AND LEASE ASSETS

Capital asset activity for the years ended March 31, 2023 and 2022, was as follows:

| | Furniture & Equipment | Leasehold Improvements | Accumulated Depreciation | Total |
|---|---|---|---|---|
| Balances at March 31, 2021 | $ 912,958 | $ 1,064,385 | $ (1,018,774) | $ 958,569 |
| Additions | 7,584 | 7,643 | (208,066) | (192,839) |
| Balances at March 31, 2022 | 920,542 | 1,072,028 | (1,226,840) | 765,730 |
| Additions | - | - | (166,903) | (166,903) |
| Dispositions | (56,168) | - | 56,168 | - |
| Balances at March 31, 2023 | $ 864,374 | $ 1,072,028 | $ (1,337,575) | $ 598,827 |

Lease asset activity for the years ended March 31, 2023 and 2022 was as follows:

| | **Lease Assets** | **Accumulated Amortization** | **Total** |
|---|---|---|---|
| Balances at March 31, 2021 | $ 2,878,560 | $ - | $ 2,878,560 |
| Additions | - | (829,337) | (829,337) |
| Balances at March 31, 2022 | 2,878,560 | (829,337) | 2,049,223 |
| Additions | - | (829,341) | (829,341) |
| Balances at March 31, 2023 | $ 2,878,560 | $ (1,658,678) | $ 1,219,882 |

## 6. DEBT

### LINE OF CREDIT AND LETTERS OF CREDIT

In November 2019, MCE entered into a revolving credit agreement with JPMorgan Chase Bank. The available credit line under this agreement is $40 million and enhances MCE's overall liquidity for potential working capital needs, collateral requirements, and enhances MCE's investment credit grade rating. This agreement was terminated in May 2023. In May 2023 MCE entered into a revolving credit agreement with Royal Bank of Canada for a credit line of $60 million that extents to May 2026.

MCE had no standby Letters of Credit or amounts outstanding under its lines of credit agreement as of March 31, 2023, and 2022. Any unused balance is subject to a 0.445% fee per annum. Fees related to opening and renewal of the line of credit and posting any letters of credit are reported as interest and related expenses.

## 7. GRANTS

MCE administers various grants from the California Public Utilities Commission (CPUC), California Energy Commission and Marin Community Foundation. Grant revenues are recognized when a corresponding eligible expense is incurred.

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

The following is a summary grant revenue for the years ended March 31:

| | 2023 | 2022 |
|---|---|---|
| CAPP | $ 4,226,302 | $ 6,216,069 |
| EE | 8,194,907 | 7,623,941 |
| DAC | 1,957,959 | 1,866,322 |
| Other | 379,555 | 340,469 |
| Total grant revenue | $ 14,758,723 | $ 16,046,801 |

| Legend | |
|---|---|
| CAPP | California Arrearage Payment Plan |
| EE | Energy Efficiency - Public Purpose Program (multiple programs) |
| DAC | Disadvantaged Community - Green Access |

## 8. 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, 2023, there were 81 plan members. MCE is required to contribute 10% of annual covered payroll to the Plan and contributed $1,270,000 and $1,007,000 during the years ended March 31, 2023 and 2022, 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.

## 9. 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 commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. There were no significant reductions in coverage compared to the prior year. From time to time, MCE may be party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and MCE's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on MCE's financial position or results of operations.

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 counterparties.

## 10. PURCHASE COMMITMENTS

### POWER AND ELECTRIC CAPACITY

In the ordinary course of business, MCE enters into various power purchase agreements to acquire renewable and other energy and electric capacity. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity at the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind and hydro-electric facilities.

MCE enters into power purchase agreements to comply with state law and voluntary targets for renewable and greenhouse gas free products and to ensure stable and competitive electric rates for its customers.

## 10. PURCHASE COMMITMENTS (continued)

The following table represents the expected, undiscounted, contractual obligations outstanding as of March 31, 2023:

| | |
|---|---|
| Year ended March 31, | |
| 2024 | $ 450,000,000 |
| 2025 | 360,000,000 |
| 2026 | 320,000,000 |
| 2027 | 260,000,000 |
| 2028 | 270,000,000 |
| 2029-47 | 2,550,000,000 |
| Total | $ 4,210,000,000 |

## 11. LEASE

In June 2017, GASB issued Statement No. 87, *Leases*. As amended, the effective date of the Statement was for fiscal years beginning after June 15, 2021. MCE implemented the Statement in these financial statements, including a restatement back to 2021. According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease assets and lease liabilities that previously were not reported. As a result of implementing the Statement, net position at March 31, 2022 has been reduced by approximately $72,000. Also, the following balances were restated:

| | As Originally Reported (4/1/2022) | Adjustment for GASB No. 87 | As Restated 4/1/2022 |
|---|---|---|---|
| Lease assets | $ - | $ 2,049,223 | $ 2,049,223 |
| Lease liabilities - current | - | 757,097 | 757,097 |
| Lease liabilities - noncurrent | | 1,364,363 | 1,364,363 |

On March 9, 2015, MCE entered into a ten-year non-cancelable lease for its San Rafael, California 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, California office location. Rental payments for MCE's office space were $886,000 and $850,000 for the years ended March 31, 2023 and 2022, respectively.

## 11. LEASE (continued)

As of March 31, 2023, future minimum lease payments under this lease were projected as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| **Years ending March 31,** | | | |
| 2024 | $ 773,620 | $ 28,624 | $ 802,244 |
| 2025 | 536,645 | 9,157 | 545,802 |
| Total | $ 1,310,265 | $ 37,781 | $ 1,348,046 |

## 12. JOINT VENTURE

MCE participates in a joint powers agreement (JPA) through the California Community Choice Financing Authority (CCCFA). CCCFA was formed as a conduit issuer to assist its members by undertaking the financing or refinancing of energy prepayments that can be financed with tax advantaged bonds on behalf of one or more of the members by, among other things, issuing or incurring bonds and entering into related contracts with its members. Any debt or liability incurred by CCCFA on behalf of a member to prepay for renewable energy is not a debt or liability of that member. Furthermore, the assets of CCCFA in the form of prepaid energy or reserves held by the respective bond trustees for any prepayment transaction undertaken on behalf of a member does not constitute an asset or reserve of that member.

In November 2021, CCCFA issued bonds in the amount of $602,655,000 excluding original issue premium, the proceeds of which to be used to finance energy purchases that will be delivered to MCE. No debt, liability, or obligation of CCCFA is a debt, liability, or obligation of MCE. MCE will purchase energy from CCCFA in the same manner as they purchase energy from other suppliers. MCE purchased approximately $26,500,000 from CCCFA during fiscal year 2023. The outstanding purchase commitments related to these financing facilities are included in Note 10.

Each member of CCCFA is responsible for paying an equal portion of CCCFA's general and administrative operating costs as determined by its board. During the years ended March 31, 2023, and 2022, MCE contributed approximately $18,000 and $40,000, respectively, to CCCFA to assist in its operating activities.

The financial statements of CCCFA are available online at http://www.cccfa.org/key-documents.html.

## 13. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for future fiscal years ending after March 31, 2023:

GASB has approved, GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* GASB 96, *Subscription-Based Information Technology Arrangements,* GASB No. 99, *Omnibus 2022*, GASB No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, and GASB No. 101, *Compensated Absences*. Management is evaluating the effect of implementation of these statements.

## 14. SUBSEQUENT EVENT

In May 2023 MCE entered into a revolving credit agreement with Royal Bank of Canada for a credit line of $60 million that extents to May 2026.