MCE Clean Energy
My community. My choice.

FINANCIAL STATEMENTS

Years Ended March 31, 2015 & 2014
with Report of Independent Auditors

MARIN CLEAN ENERGY
YEARS ENDED MARCH 31, 2015 AND 2014

TABLE OF CONTENTS

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marin Clean Energy
San Rafael, California

We have audited the accompanying financial statements of Marin Clean Energy ("MCE"), as of and for the years ended March 31, 2015 and 2014, which collectively comprise MCE's basic financial statements, including the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Marin Clean Energy, as of March 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
July 27, 2015

MARIN CLEAN ENERGY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Marin Clean Energy's (MCE) financial activities for the fiscal years ended March 31, 2015 and 2014. The information presented here should be considered in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

MCE began providing electrical power to customers in May 2010 and continues to experience increases in its number of customers. In 2014-15, the County of Napa, and the cities of Benicia, El Cerrito, and San Pablo joined MCE. MCE began servicing customers in the County of Napa in late 2014-15. Service to the cities of Benicia, El Cerrito, and San Pablo began in May 2015. Despite the growing volume of sales, MCE continues to put a priority on the efficient use of financial resources to meet the goal of providing competitive pricing to its entire customer base. During the year we were able to align our costs closely with revenues. This enabled us to keep margins at reasonably low levels as demonstrated by a change in net position from the prior year of $3,698,000, or approximately 3.7% of revenues. This increase caused net position to climb from approximately $9,558,000 to $13,256,000, providing reserves to weather future uncertainties.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to MCE's basic financial statements. MCE's basic financial statements comprise two components: (1) government-wide financial statements and (2) notes to the financial statements.

MCE is a single-purpose entity that reports as an enterprise fund under governmental accounting standards. The financial statements are designed to provide readers with a broad overview of MCE's finances, similar to a private-sector business.

The Statements of Net Position present information on all of MCE's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MCE is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how MCE's net position changed during the fiscal period. All changes in net position are recognized at the date the underlying event that gives rise to the change occurs, regardless of the timing of the related cash flows.

The Statements of Cash Flows present information about MCE's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. These statements show the sources and uses of cash, as well as the change in the cash balances during the fiscal years.

The following table is a summary of MCE's assets, liabilities, and net position.

	2015	2014	2013
Current and other assets	$ 27,579,728	$ 22,433,441	$ 18,007,926
Capital assets	407,626	58,807	68,679
Total assets	27,987,354	22,492,248	18,076,605
Current liabilities	13,742,408	10,909,904	7,079,985
Noncurrent liabilities	988,627	2,024,308	3,083,746
Total liabilities	14,731,035	12,934,212	10,163,731
Net position:			
Net investment in capital assets	407,626	58,807	68,679
Restricted	598,200	598,200	598,200
Unrestricted	12,250,493	8,901,029	7,245,995
Total net position	$ 13,256,319	$ 9,558,036	$ 7,912,874

During 2014-2015, MCE continued to expand its territory beyond Marin County and the City of Richmond when it began servicing the County of Napa in February 2015. The number of active customer accounts grew from approximately 130,000 to 143,000 during the year. This increased customer base resulted in a growing level of accounts receivable and accrued revenue over the prior year. Related to this rise in demand for electricity from our customers, we have procured additional energy, resulting in the increase in trade liabilities.

The increase in capital assets from 2014 seen above is largely the result of capital improvements made at MCE's office.

Long term debt from two promissory notes decreased from 2014 as a result of scheduled payments.

MCE's results of operations are summarized as follows:

	2015	2014	2013
Operating revenues	$ 100,654,696	$ 85,561,759	$ 52,579,310
Contributions received	-	-	20,000
Interest income	3,716	8,965	900
Total income	100,658,412	85,570,724	52,600,210
Operating expenses	96,835,644	83,749,875	48,429,076
Interest expense	124,485	175,687	176,185
Total expenses	96,960,129	83,925,562	48,605,261
Increase in net position	$ 3,698,283	$ 1,645,162	$ 3,994,949

MCE's expansion into the County of Napa, combined with servicing the City of Richmond for its first full fiscal year, resulted in an increase in electricity sales, which was accompanied by increases in costs directly related to acquiring energy and servicing customer accounts. Despite the growing customer base and the associated costs of serving them, MCE experienced a greater increase in net position in 2015 than the prior year.

DEBT AND CAPITAL ASSET ADMINISTRATION

MCE continued to make payments on its existing debt. No new debt was incurred by MCE in 2014-15. Shortly after the fiscal year, MCE retired all of its debt ahead of schedule. Note 6 to the financial statements provides details on debt activity.

MCE relocated its office during 2014-15, and capitalized costs to furnish and make leasehold improvements. Note 4 to the financial statements provides details on capital asset activity.

ECONOMIC OUTLOOK

Since commencing service to customers in 2010, MCE has entered into multiple power purchase agreements with various providers to serve MCE's projected power supply need. This process allows for price certainty as MCE continues to serve customers. In addition to increasing its customer base from approximately 130,000 to 143,000 in 2014-15, MCE will be serving several new territories in early 2015-16. Management intends to continue its conservative use of financial resources and expects ongoing operating surpluses.

REQUESTS FOR INFORMATION

This financial report is designed to provide MCE's customers and creditors with a general overview of the Organization'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 1125 Tamalpais Avenue, San Rafael, CA 94901.

BASIC FINANCIAL STATEMENTS

MARIN CLEAN ENERGY

STATEMENTS OF NET POSITION

AS OF MARCH 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,173,815	$ 8,248,488
Accounts receivable, net of allowance	10,528,880	9,096,571
Other receivables	583,185	55,916
Accrued revenue	4,502,232	3,722,283
Prepaid expenses	368,152	31,485
Total current assets	26,156,264	21,154,743
Noncurrent assets		
Capital assets, net of depreciation	407,626	58,807
Restricted cash	1,145,700	1,145,700
Other assets	277,764	132,998
Total noncurrent assets	1,831,090	1,337,505
Total assets	27,987,354	22,492,248
LIABILITIES		
Current liabilities		
Accounts payable	878,967	615,131
Accrued cost of electricity	8,403,170	6,409,847
Other accrued liabilities	604,541	515,618
User taxes and energy surcharges due to other governments	611,230	566,962
Advances from grantor	2,209,091	1,733,221
Notes payable to bank	1,035,409	1,069,125
Total current liabilities	13,742,408	10,909,904
Noncurrent liabilities		
Notes payable to bank	988,627	2,024,308
Total liabilities	14,731,035	12,934,212
NET POSITION		
Net position		
Net investment in capital assets	407,626	58,807
Restricted for debt service	598,200	598,200
Unrestricted	12,250,493	8,901,029
Total net position	$ 13,256,319	$ 9,558,036

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, 2015 AND 2014

	2015	2014
Operating revenues		
Electricity sales	$ 98,840,861	$ 84,605,751
Grant revenue for Energy Efficiency Program	1,125,344	917,947
Other revenue	688,491	38,061
Total operating revenues	100,654,696	85,561,759
Operating expenses		
Cost of electricity	87,996,399	76,088,268
Contract services	5,769,008	5,533,964
Staff compensation	2,216,199	1,660,945
General and administration	854,038	466,698
Total operating expenses	96,835,644	83,749,875
Operating income	3,819,052	1,811,884
Nonoperating revenues (expenses)		
Interest income	3,716	8,965
Interest expense	(124,485)	(175,687)
Total nonoperating revenues (expenses)	(120,769)	(166,722)
Changes in net position	3,698,283	1,645,162
Net position at beginning of period	9,558,036	7,912,874
Net position at end of period	$ 13,256,319	$ 9,558,036

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 96,757,280	$ 79,507,265
Grant received from Energy Efficiency Program	1,505,702	2,007,602
Cash received from other revenue sources	142,297	35,283
Cash payments to purchase electricity	(86,282,436)	(73,790,444)
Cash payments for contract services	(5,864,212)	(5,462,356)
Cash payments for staff compensation	(2,179,654)	(1,642,623)
Cash payments for general and administration	(795,836)	(428,344)
Net cash provided by operating activities	3,283,141	226,383
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Deposit for financing reserve	-	(547,500)
Principal payments of notes payable to bank	(1,069,397)	(1,063,407)
Interest expense	(124,485)	(186,097)
Net cash provided (used) by non-capital financing activities	(1,193,882)	(1,797,004)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(167,648)	(7,015)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	3,716	8,965
Net change in cash and cash equivalents	1,925,327	(1,568,671)
Cash and cash equivalents at beginning of year	8,248,488	9,817,159
Cash and cash equivalents at end of year	$ 10,173,815	$ 8,248,488

The accompanying notes are an integral part of these financial statements

MARIN CLEAN ENERGY

STATEMENTS OF CASH FLOWS
(CONTINUED)

YEARS ENDED MARCH 31, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 3,819,052	$ 1,811,884
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	28,528	16,887
(Increase) decrease in net accounts receivable	(1,432,309)	(4,523,775)
(Increase) decrease in other receivables	(527,269)	(55,916)
(Increase) decrease in accrued revenue	(779,949)	(865,071)
(Increase) decrease in prepaid expenses	(336,667)	(1,924)
(Increase) decrease in deposits	(144,766)	-
Increase (decrease) in accounts payable	54,137	83,386
Increase (decrease) in accrued cost of electricity	1,993,323	1,735,828
Increase (decrease) in other accrued liabilities	88,923	373,433
Increase (decrease) in user taxes due to other governments	44,268	561,996
Increase (decrease) in advances from grantor	475,870	1,089,655
Net cash provided by operating activities	$ 3,283,141	$ 226,383

The accompanying notes are an integral part of these financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Marin Clean Energy (MCE) is a California joint powers authority created on December 19, 2008 and its members consist of the following parties: the Counties of Marin and Napa, the cities of Belvedere, Benicia, El Cerrito, Larkspur, Mill Valley, Novato, Richmond, San Pablo, San Rafael, and Sausalito and the towns of Corte Madera, Fairfax, Ross, San Anselmo, and Tiburon (collectively, "the parties"). It is governed by a seventeen member Board of Directors appointed by each of the parties.

MCE was formed to reduce energy related greenhouse gas emissions and promote the development and use of a wide range of renewable energy sources and energy efficiency programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of MCE is to provide electric service that includes the use of renewable sources under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2.

MCE began its energy delivery operations in May 2010. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by the California Independent System Operator and Pacific Gas and Electric Company.

ACCOUNTING POLICIES

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING

The Organization's operations are accounted for as a governmental enterprise fund, and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

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

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, MCE has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments. Amounts restricted for debt service and collateral for energy efficiency loan program are not included. These restricted balances are presented separately in the statement of net position.

CAPITAL ASSETS AND DEPRECIATION

MCE's policy is to capitalize furniture and equipment valued over $500 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment and seven years for furniture. Leasehold improvements are depreciated over 10 years.

OPERATING AND NON-OPERATING REVENUE

Revenue from the sale of electricity to customers and grant revenue related to the Energy Efficiency Program (EE) are considered "operating" revenue. The EE program supports the development, implementation and coordination of energy efficiency activities in and around MCE's service area. Other revenues predominately consist of consideration from the cancellation of an operating lease and damages revenue from energy suppliers. Investment income is classified as "non-operating revenue.

REVENUE RECOGNITION

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased through numerous suppliers, with the primary supplier being Shell Energy North America. As part of the agreement with Shell Energy, MCE is required to maintain a cash balance of $1,350,000 to ensure funds are available to purchase electrical power. This cash balance is included in cash and cash equivalents as presented in the statement of net position. MCE has been steadily increasing its energy purchases from other sources to reduce its market exposure. The cost of power and related delivery costs have been recognized as “cost of electricity” in the statement of revenues, expenses and changes in net position.

MCE purchases Renewable Energy Certificates (REC) from a variety of sources to comply with external mandates and self-imposed benchmarks. MCE procures RECs with the intent to retire them, and neither engages in the activity of selling RECs or building a surplus of RECs. An expense is recognized at the point that the cost of the REC is due and payable to the supplier. MCE is in compliance with external mandates and self-imposed benchmarks.

STAFFING COSTS

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

INCOME TAXES

MCE is a joint powers authority under the provision of the California Government Code. As such it is not subject to federal or state income or franchise taxes.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

2. CASH AND CASH EQUIVALENTS

MCE maintains its cash in both interest and non-interest-bearing accounts at River City Bank of Sacramento, California. MCE has no other investments. MCE complies with California Government Code Section 16521. This code section requires that River City Bank collateralize amounts of public funds in excess of the FDIC limit of $250,000 by 110%. Accordingly, balances are not considered to be at risk. Risk is monitored on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Changes in accounts receivable were as follows:

	2015	2014	2013
Accounts receivable from customers	$ 12,888,880	$ 10,126,845	$ 5,413,646
Allowance for uncollectible accounts	(2,360,000)	(1,030,274)	(840,850)
Net accounts receivable	$ 10,528,880	$ 9,096,571	$ 4,572,796

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 some success collecting older accounts. Accordingly, accounts above *de minimis* balances are not written off. The result is that the allowance for uncollectible accounts at the end of a period includes both current and prior period allowances.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

Depreciable capital assets:

	Furniture & Equipment	Leasehold Improvements	Accumulated Depreciation	Net
Balances at March 31, 2013	$ 93,401	$ 5,881	$ (30,603)	$ 68,679
Additions	7,015	-	(16,887)	(9,872)
Balances at March 31, 2014	100,416	5,881	(47,490)	58,807
Additions	51,836	325,511	(28,528)	348,819
Balances at March 31, 2015	$ 152,252	$ 331,392	$ (76,018)	$ 407,626

5. ADVANCES FROM GRANTOR

MCE receives grant funding through the Public Utilities Commission of the State of California (CPUC) for its Energy Efficiency Program. Funds are received on a quarterly schedule and are not recognized as revenue until they are expended for the designated purpose. Total grant funding received for the fiscal year 2015 was $1,505,702, and $1,029,832 was spent and earned. In 2014, grant funding was $2,007,602 with $917,947 being spent and earned. The Energy Efficiency Program receives additional grant funding under the Gas Public Purpose Program that is not received in advance. Revenue of $95,512 was recognized under this grant in fiscal year 2015, the first year of this funding.

6. DEBT

NOTES PAYABLE TO RIVER CITY BANK

	Note A	Note B
Date of note	January 2011	July 2012
Original note amount	$ 2,300,000	$ 3,000,000
Approximate monthly payment	44,000	56,000
Reserve requirements	263,200	335,000
Maturity date	January 2016	October 2017
Interest rate	5.25%	4.50%
Balance at March 31, 2015	$ 427,481	$ 1,596,555

Note A is subject to a fixed interest rate of 5.25%. The Note B is subject to the Federal Home Loan Bank Five Year Fixed Rate plus 1.25%. MCE has agreed to maintain revenues in excess of maintenance and operating costs of 125% of the sum of annual debt service payments.

6. DEBT (continued)

Changes in notes payable were as follows:

	Beginning	Payments	Ending
Year ended March 31, 2014			
Note A	$ 1,380,712	$ (463,948)	$ 916,764
Note B	2,776,128	(599,459)	2,176,669
Totals	$ 4,156,840	$ (1,063,407)	3,093,433
Amounts due within one year			(1,069,125)
Amounts due after one year			$ 2,024,308
Year ended March 31, 2015			
Note A	$ 916,764	$ (489,283)	$ 427,481
Note B	2,176,669	(580,114)	1,596,555
Totals	$ 3,093,433	$ (1,069,397)	2,024,036
Amounts due within one year			(1,035,409)
Amounts due after one year			$ 988,627

Future minimum debt service requirements were as follows:

	Principal	Interest	Total
For the years ending March 31:			
2016	$ 1,035,409	$ 69,954	$ 1,105,363
2017	635,992	31,515	667,507
2018	352,635	4,965	357,600
Total	$ 2,024,036	$ 106,434	$ 2,130,470

Both notes were retired ahead of schedule in April, 2015.

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The Marin Clean Energy Plan (Plan) is a defined contribution retirement plan established by MCE to provide benefits at retirement to its employees. The Plan is administered by Nationwide Retirement Solutions. At March 31, 2015, there were 20 plan members. MCE is required to contribute 10% of annual covered payroll and contributed $177,000 and $128,000 during the years ended March 31, 2015 and 2014, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

8. RISK MANAGEMENT

MCE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, MCE purchased liability and property insurance from a commercial carrier. Coverage for property general liability, errors and omissions and non-owned automobile was $2,000,000 with a $1,000 deductible.

9. COMMITMENTS AND CONTINGENCIES

MCE has entered into multiple power purchase agreements to meet its near and long term needs. MCE had outstanding non-cancelable power purchase commitments of approximately $886.5 million for energy and related services through October 31, 2041 that have not yet been provided.

The following table is the approximated obligations on existing contracts:

Year ended March 31,	
2016	$ 118,056,805
2017	123,846,908
2018	103,491,169
2019	46,421,789
2020	32,657,163
2021-42	461,995,114
	$ 886,468,948

As of March 31, 2015, MCE had outstanding non-cancelable commitments to professional service providers for services yet to be performed of $12.8 million that continue through December 31, 2017.

10. OPERATING LEASE

Marin Clean Energy rents office space. Rental expense was $190,000 and $186,000 for the years ended March 31, 2015 and 2014, respectively. In 2014-15, MCE entered into a ten year non-cancelable lease for its office premises until March 8, 2025. The rental agreement includes an option to renew the lease for five additional years.

Future minimum lease payments under the lease are as follows:

Year ended March 31,		
2016	$	185,910
2017		329,458
2018		418,260
2019		430,818
2020		444,107
2021-25		2,499,840
	$	4,308,393