

FINANCIAL STATEMENTS

Periods Ended June 30, 2017
and June 30, 2016
With Report of Independent Auditors



PENINSULA CLEAN ENERGY AUTHORITY
PERIODS ENDED JUNE 30, 2017 AND 2016

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Independent Auditor's Report

To the Board of Directors
Peninsula Clean Energy Authority
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of Peninsula Clean Energy Authority (PCEA), as of and for the year ended June 30, 2017 and as of June 30, 2016 and for the period beginning February 29, 2016 (inception) through June 30, 2016, and the related notes to the financial statements, which collectively comprise PCEA'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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCEA as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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.

Perenti & Brinku LLP

Santa Rosa, California
December 11, 2017

PENINSULA CLEAN ENERGY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of Peninsula Clean Energy Authority's (PCE) financial activities as of and for the periods ended June 30, 2017, and from inception to June 30, 2016. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of PCE 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.

PCE was created as a California Joint Powers Authority (JPA) on February 29, 2016. PCE was established to provide electric power at competitive costs as well as to provide other benefits within San Mateo County, including reducing greenhouse gas emissions related to the use of power, procuring energy from a wide range of renewable energy sources, developing programs that reduce energy consumption, stimulating local job creation, and promoting long-term electric rate stability and energy reliability for residents and businesses. Governed by a board of directors (Board) consisting of elected representatives from each jurisdiction, PCE has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. PCE is responsible for the acquisition of electric power for its service area. PCE serves the unincorporated areas of San Mateo County and the cities and towns of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and Woodside.

Prior to the creation of Peninsula Clean Energy as a JPA, the County of San Mateo managed the financial and administrative activities related to the formation of this community choice aggregation program. Pursuant to the JPA, PCE accepted an obligation to reimburse the County of San Mateo for specified costs to initiate the entity and its programs which were incurred prior to the JPA agreement.

In October 2016, PCE began providing service to its first 79,000 customer accounts as part of its initial enrollment phase. PCE completed its customer enrollment in April 2017 and as of June 30, 2017, PCE serves approximately 292,000 customer accounts.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Financial Reporting

PCE presents its financial statements 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 reflects PCE activities that are funded through the sale of energy to its customers and is divided into the following sections:

- Management discussion and analysis, which provides an overview of operations.
- The Basic financial statements, which offer information on PCE’s financial status:
 - The *Statements of Net Position* includes all of PCE’s assets, liabilities, and net position using the accrual basis of accounting. The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.
 - The *Statements of Revenues, Expenses, and Changes in Net Position* report all of PCE’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 debt financing.
 - Notes to the Basic Financial Statements, which provide additional details and information related to the basic financial statements.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS

The following table is a summary of PCE’s assets, liabilities, and net position as of June 30:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 53,560,046	\$ 3,832,768
Noncurrent assets		
Capital assets, net	18,913	-
Other noncurrent assets	<u>1,720,611</u>	<u>1,500,000</u>
Total noncurrent assets	<u>1,739,524</u>	<u>1,500,000</u>
Total assets	<u>55,299,570</u>	<u>5,332,768</u>
Current liabilities	27,533,241	317,530
Noncurrent liabilities	<u>6,055,800</u>	<u>6,059,467</u>
Total liabilities	<u>33,589,041</u>	<u>6,376,997</u>
Net position		
Net investment in capital assets	18,913	-
Unrestricted (deficit)	<u>21,691,616</u>	<u>(1,044,229)</u>
Total net position	<u>\$ 21,710,529</u>	<u>\$ (1,044,229)</u>

Current Assets

2017 compared to 2016 Current assets reached \$53,560,000 by the end of 2017 and are mostly comprised of the following: \$18,882,000 in cash, \$21,125,000 in accounts receivable, \$11,870,000 in accrued revenue and \$1,425,000 in deposits. PCE did not start providing electricity to customers until October 2016, so at the end of fiscal year 2016 current assets consisted entirely of cash. Since service to customers began, PCE has operated at a surplus which has resulted in the growth of all categories of current assets. There were two phases of customer enrollments during the fiscal year, with the final occurring in April 2017. Accrued revenue differs from accounts receivable in that it is the result of electricity use by PCE customers before invoicing to those customers has occurred. Deposits primarily consist of cash deposits made with energy providers held as collateral for energy purchases. These deposits will be returned to PCE at the completion of the related contract or as other milestones are met.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Assets

2017 results Capital assets grew to \$19,000 in 2017 as a result of purchases of furniture and equipment. This amount is reported net of depreciation. PCE does not own assets used for electric generation or distribution.

Other Noncurrent Assets

2017 results Other noncurrent assets reached \$1,721,000 in 2017 and primarily consists of restricted cash used for debt collateral and various deposits for regulatory and other operating purposes.

Current Liabilities

2017 compared to 2016 Current liabilities at the end of 2017 consist mostly of the cost of electricity delivered to customers that is not yet due to be paid by PCE. Other components include trade accounts payable, taxes and surcharges due to governments, short-term portion of loans payable and various other accrued liabilities. At the end of 2016, the majority of the current liabilities consists of accounts payable, unrelated to electricity procurement.

Noncurrent Liabilities

2017 compared to 2016 During the fiscal year 2015-16, PCE borrowed approximately \$6,059,000 to provide for costs during the implementation period and for working capital needs in advance of collecting payments from customers. In 2017, an additional \$1,421,000 was borrowed bringing the total balance owed at the end of 2017 to \$7,481,000. In accordance with the loan agreements, no principal payments have been paid on this debt. A minor component of noncurrent liabilities at the end of 2017 is \$75,000 in security deposits received from energy suppliers. Similar to collateral, this will be held by PCE in the event the energy suppliers do not meet agreed upon milestones.

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following table is a summary of PCE’s results of operations.

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 93,128,916	-
Interest income	9,443	-
Total income	93,138,359	-
Operating expenses	70,103,766	\$ 1,040,967
Interest and related expense	279,835	3,262
Total expenses	70,383,601	1,044,229
Change in net position	<u>\$ 22,754,758</u>	<u>\$ (1,044,229)</u>

Operating Revenues

2017 results PCE’s customer base grew throughout fiscal year 2017, with its first approximately 79,000 customers enrolled in October 2016 and another 213,000 enrolled in April 2017. Accordingly, even though fiscal year 2017 was the first year of PCE revenues, it does not constitute an entire year with a full customer base. PCE’s gross margin for 2017 was approximately 31%, as operating revenues exceeded the cost of electricity by \$28,628,000. All of PCE’s operating revenue is from the sale of electricity to its customer base, which mostly consists of residential, commercial, industrial and agricultural customers.

Operating Expenses

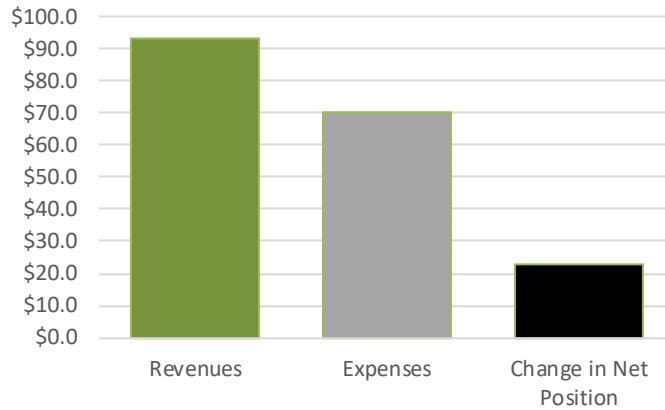
2017 compared to 2016 Expenses incurred during fiscal year 2016 were the result of the start-up and implementation of PCE. No expenses during the period were related to energy purchases. The increase in operating expenses from fiscal year 2016 to 2017, is largely as the result of energy purchases needed to provide for retail customer use. As seen in the chart to the right, these power supply costs greatly exceed all other operating expenses. PCE procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. Expenses for staff compensation, consulting, and other general and administrative expenses increased in 2017 as the organization grew to operational strength.



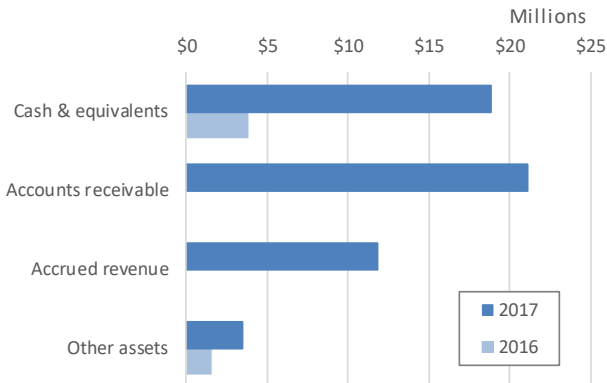
**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL SUMMARY (in millions)

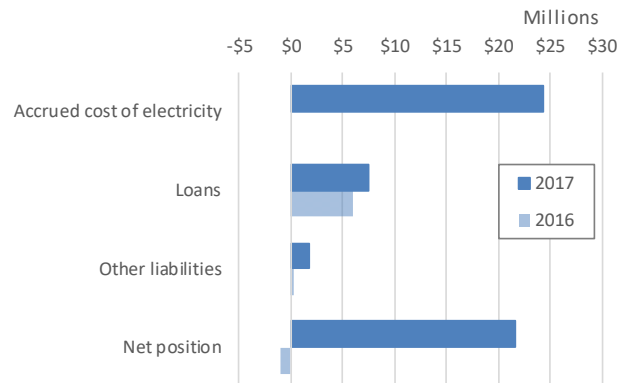
**REVENUE & EXPENSE
FISCAL YEAR ENDED JUNE 30, 2017**



**ASSETS
FISCAL YEAR ENDED JUNE 30**



**LIABILITIES AND NET POSITION FISCAL
YEAR ENDED JUNE 30**



Assets	2017	2016
Cash & equivalents	\$18.9	\$3.8
Accounts receivable	21.1	0.0
Accrued revenue	11.9	0.0
Other assets	3.4	1.5
Total Assets	\$55.3	\$5.3

Liabilities & net position	2017	2016
Accrued cost of electricity	\$24.4	\$0.0
Loans	7.5	6.0
Other liabilities	1.7	0.3
Net position	21.7	-1.0
Total liabilities & net position	\$55.3	\$5.3

**PENINSULA CLEAN ENERGY AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

ECONOMIC OUTLOOK

PCE looks to continue its objective of maintaining a high percentage of enrolled customers throughout the County of San Mateo. With the final expansion within the County being completed in fiscal year 2017, PCE will be focusing on limiting customer opt outs by keeping rates competitive, increasing brand recognition and providing a superior customer experience.

PCE will start developing programs that focus on the reduction of greenhouse gas emissions. Possible activities will include programs to build new local clean power resources, incentives to expand electric vehicle adoption, and outreach to disadvantaged segments of the community.

PCE will continue to design a power portfolio that includes a large mix of renewable energy. The portfolio will include a diversity of projects based on location, technology, term length and size to mitigate risk and align with PCE’s procurement goals.

Another objective of PCE is to build cash reserves and a strong net position. This will help reduce the potential effect of future energy market price volatility and create a stable environment for PCE and its ratepayers. In addition, a strong net position will help PCE achieve an investment grade rating which will reduce transaction costs of procuring energy and will likely result in more leverage during those negotiations.

REQUEST FOR INFORMATION

This financial report is designed to provide PCE’s customers and creditors with a general overview of the organization’s finances and to demonstrate PCE’s accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 2075 Woodside Rd, Redwood City, CA 94061.

Respectfully submitted,

Janis Pepper, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,881,698	\$ 3,832,768
Accounts receivable, net of allowance	21,124,838	-
Other receivables	33,817	-
Accrued revenue	11,870,119	-
Prepaid expenses	224,524	-
Deposits	1,425,050	-
Total current assets	53,560,046	3,832,768
Noncurrent assets		
Restricted cash	1,500,000	1,500,000
Capital assets, net of depreciation	18,913	-
Deposits	220,611	-
Total noncurrent assets	1,739,524	1,500,000
Total assets	55,299,570	5,332,768
LIABILITIES		
Current liabilities		
Accounts payable	756,809	288,622
Accrued cost of electricity	24,387,515	-
Accrued interest payable	34,130	3,262
Accrued payroll and related liabilities	116,005	25,646
Supplier security deposits	50,000	-
User taxes and energy surcharges due to other governments	688,782	-
Loan payable to County of San Mateo	1,500,000	-
Total current liabilities	27,533,241	317,530
Noncurrent liabilities		
Loan payable to bank	3,000,000	3,000,000
Loan payable to County of San Mateo	2,980,800	3,059,467
Supplier security deposits	75,000	-
Total noncurrent liabilities	6,055,800	6,059,467
Total liabilities	33,589,041	6,376,997
NET POSITION		
Net investment in capital assets	18,913	-
Unrestricted (deficit)	21,691,616	(1,044,229)
Total net position	\$ 21,710,529	\$ (1,044,229)

The accompanying notes are an integral part of these financial statements.

**PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PERIODS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>Inception through June 30, 2016</u>
OPERATING REVENUES		
Electricity sales, net	\$ 92,906,457	-
Green electricity premium	222,459	-
Total operating revenues	<u>93,128,916</u>	<u>-</u>
OPERATING EXPENSES		
Cost of electricity	64,500,795	-
Staff compensation and benefits	1,017,677	\$ 27,337
Data manager	1,471,147	-
Service fees - PG&E	481,301	-
Consultants and other professional fees	342,413	464,211
Legal	914,070	347,063
Communications and noticing	1,208,403	166,818
General and administration	164,227	35,538
Depreciation	3,733	-
Total operating expenses	<u>70,103,766</u>	<u>1,040,967</u>
Operating income (loss)	<u>23,025,150</u>	<u>(1,040,967)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	9,443	-
Interest and related expense	(279,835)	(3,262)
Total nonoperating revenues (expenses)	<u>(270,392)</u>	<u>(3,262)</u>
CHANGE IN NET POSITION	22,754,758	(1,044,229)
Net position at beginning of period	(1,044,229)	-
Net position at end of period	<u>\$ 21,710,529</u>	<u>\$ (1,044,229)</u>

The accompanying notes are an integral part of these financial statements.

**PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
PERIODS ENDED JUNE 30, 2017 AND 2016**

	2017	Inception through June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 60,414,492	-
Receipts from supplier security deposits	125,000	-
Tax and surcharge receipts from customers	1,066,953	-
Payments to purchase electricity	(40,345,139)	-
Payments for staff compensation and benefits	(929,318)	-
Payments for consultants and other professional fees	(2,848,604)	\$ (231,316)
Payments for communications and noticing	(1,125,252)	(159,787)
Payments for general and administration	(163,283)	(28,765)
Tax and surcharge payments to other governments	(658,703)	-
Net cash provided (used) by operating activities	15,536,146	(419,868)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Loan proceeds	1,421,333	4,252,636
Deposits and collateral paid	(1,645,821)	-
Interest and related expense payments	(248,967)	-
Net cash provided (used) by non-capital financing activities	(473,455)	4,252,636
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(22,646)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	8,885	-
Net change in cash and cash equivalents	15,048,930	3,832,768
Cash and cash equivalents at beginning of year	3,832,768	-
Cash and cash equivalents at end of period	\$ 18,881,698	\$ 3,832,768

Noncash Non-Capital Financing Activities during the period ended June 30, 2016:

- Loan proceeds of \$1,500,000 were distributed directly to a debt collateral account
- Expenses of \$306,831 were financed directly from loan proceeds

**PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
PERIODS ENDED JUNE 30, 2017 AND 2016**

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

	<u>2017</u>	<u>Inception through June 30, 2016</u>
Operating income (loss)	\$ 23,025,150	\$ (1,040,967)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	3,733	-
Revenue reduced for uncollectible accounts	327,096	-
Expenses paid directly from loan proceeds	-	306,831
(Increase) decrease in net accounts receivable	(21,451,934)	-
(Increase) decrease in other receivables	(33,259)	-
(Increase) decrease in accrued revenue	(11,870,119)	-
(Increase) decrease in prepaid expenses	(224,364)	-
Increase (decrease) in accounts payable	468,187	288,622
Increase (decrease) in accrued payroll and related liabilities	90,359	25,646
Increase (decrease) in accrued cost of electricity	24,387,515	-
Increase (decrease) in user taxes and energy surcharges due to other governments	688,782	-
Increase (decrease) in supplier security deposits	125,000	-
Net cash provided (used) by operating activities	<u>\$ 15,536,146</u>	<u>\$ (419,868)</u>

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Peninsula Clean Energy Authority (PCE) is a joint powers authority created on February 29, 2016 and its voting members consist of the County of San Mateo, the cities and towns of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and Woodside. At June 30, 2017, PCE is governed by a twenty-two member Board of Directors, one appointed by each of the members, and two appointed by the County of San Mateo.

PCE was formed to study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of PCE 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.

PCE began its energy delivery operations in October 2016. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Pacific Gas and Electric Company.

BASIS OF ACCOUNTING

PCE'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.

PCE'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.

CASH AND CASH EQUIVALENTS

For purpose of the statement of cash flows, PCE has defined cash and cash equivalents to include cash on hand and demand deposits. Amounts restricted for debt collateral are not considered cash and cash equivalents. These restricted balances are presented separately in the Statement of Net Position.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPOSITS

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

CAPITAL ASSETS AND DEPRECIATION

PCE's policy is to capitalize furniture and equipment valued over \$1,000 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 and seven years for furniture and leasehold improvements.

SUPPLIER SECURITY DEPOSITS

Certain energy contracts entered into by PCE require the supplier to provide PCE with security deposits. Similar to collateral, this will be held by PCE in the event the energy supplier cannot fulfill various agreed upon requirements. If the supplier satisfies these requirements, then PCE will return the deposit. At June 30, 2017, PCE held \$125,000 in these deposits.

OPERATING REVENUE

Revenue from the sale of electricity to customers is considered operating revenue. During the fiscal year ending June 30, 2017, this was PCE's only source of operating revenue.

REVENUE RECOGNITION

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

ELECTRICAL POWER PURCHASED

Electrical power sold to customers was purchased through several energy suppliers. The cost of power and related delivery costs has been recognized as "cost of electricity" in the Statements of Revenues, Expenses and Changes in Net Position. As part of the security agreement with its main suppliers, PCE is required to maintain a cash balance of \$2,500,000 to ensure funds are available to purchase electrical power. This cash balance is included in cash and cash equivalents as presented in the Statements of Net Position.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED JUNE 30, 2017 AND 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

PCE purchases renewable energy as a bundled product consisting of the energy and the associated Renewable Energy Certificates (REC) to comply with external mandates and self-imposed benchmarks. The RECs purchased by PCE are commonly called “bundled”, as they are purchased together with the associated renewable energy actually generated. PCE procures RECs with the intent to retire them and does not engage in the activity of 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.

STAFFING COSTS

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

INCOME TAXES

PCE 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.

2. CASH AND CASH EQUIVALENTS

PCE maintains its cash in interest and non-interest-bearing accounts in several banks. California Government Code Section 16521 requires that banks collateralize amounts of public funds in excess of the FDIC limit of \$250,000 by 110%. PCE has no deposit or investment policy that addressed a specific type of risk that would impose additional restrictions beyond this code. Accordingly, the amount of risk is not disclosed. Risk is monitored on an ongoing basis.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED JUNE 30, 2017 AND 2016**

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable from customers	\$ 21,451,934	\$ -
Allowance for uncollectible accounts	(327,096)	-
Net accounts receivable	<u>\$ 21,124,838</u>	<u>\$ -</u>

The majority of account collections occur within the first few months following customer invoicing. PCE continues collection efforts on delinquent accounts that exceed a minimum balance, otherwise the accounts are written off. For delinquent accounts that are not written off and are above a certain level, PCE will close the account to minimize further loss. PCE records reserves for its estimated uncollectible accounts as a reduction to the related operating revenue in the Statements of Revenues, Expenses and Changes in Net Position. Charges to reserve for uncollectible accounts for 2016-17 were \$327,000.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	<u>Furniture & Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Balances at June 30, 2016	-	-	-
Additions	\$ 22,646	\$ (3,733)	\$ 18,913
Balances at June 30, 2017	<u>\$ 22,646</u>	<u>\$ (3,733)</u>	<u>\$ 18,913</u>

5. DEBT

Loans payable to the County of San Mateo

In June 2016, PCE entered into two agreements with the County of San Mateo. The purpose of one of the agreements was to reimburse the County for services, costs, and expenses incurred to investigate the feasibility of implementing a community choice aggregation program as well as to provide for other working capital needs. The agreement allowed for the repayment to be in the form of a loan totaling \$2,980,800. Of this loan, \$300,000 bears no interest. The remainder, which was received in multiple draws, accrues interest based on the San Mateo County Pooled Investment Fund earnings rate. Principal and interest payments are not required until July 1, 2021. No principal or interest payments have been made through the year ended June 30, 2017.

**PENINSULA CLEAN ENERGY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
PERIODS ENDED JUNE 30, 2017 AND 2016**

5. DEBT (continued)

Loans payable to the County of San Mateo (continued)

The second agreement with the County of San Mateo is to provide for collateral needed to support a loan with Barclays Bank. The agreement allows for up to \$6,000,000 to be used as collateral, which is initially determined at 50% of the principal drawn from the Barclays Bank loan. In June 2016, PCE had drawn \$1,500,000 from this County of San Mateo loan for this purpose. This loan accrues interest at the greater of (1) the San Mateo County Pooled Investment Fund earnings rate or (2) the actual interest earned on the amount drawn. Principal payments, plus interest, are due on the earlier of (1) two years from the date each portion is received by PCE or (2) ten days after the release of collateral by Barclays Bank.

Loan payable to Barclays Bank

In June 2016, PCE arranged to borrow up to \$12 million from Barclays Bank to provide cash to pay for energy purchases and operating expense which are due before revenue is to be collected from customers. The loan is secured by cash deposits of fifty percent of the outstanding loan. Principal can be drawn as needed and interest accrues on the outstanding balance and is payable each month and computed at LIBOR plus 3.1%. Quarterly principal payments are required to begin in January 2019 and are computed based on the outstanding balance divided by the number of quarters until the final maturity date of June 24, 2021.

Loan principal activity and balances were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Ending</u>
Year ended June 30, 2016			
County of San Mateo (\$2.98M)	\$ -	\$ 1,559,467	\$ 1,559,467
County of San Mateo (\$6M)	-	1,500,000	1,500,000
Barclays PLC	-	3,000,000	3,000,000
Total	\$ -	\$ 6,059,467	\$ 6,059,467
Amounts due within one year			-
Amounts due after one year			<u>\$ 6,059,467</u>
Year ended June 30, 2017			
County of San Mateo (\$2.98M)	\$ 1,559,467	\$ 1,421,333	\$ 2,980,800
County of San Mateo (\$6M)	1,500,000	-	1,500,000
Barclays PLC	3,000,000	-	3,000,000
Total	\$ 6,059,467	\$ 1,421,333	\$ 7,480,800
Amounts due within one year			(1,500,000)
Amounts due after one year			<u>\$ 5,980,800</u>

**PENINSULA CLEAN ENERGY AUTHORITY
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5. DEBT (continued)

Future debt service requirements are as follows:

Year ended June 30,	
2018	\$ 1,500,000
2019	400,000
2020	800,000
2021	1,800,000
2022	<u>2,980,800</u>
Total	<u>\$ 7,480,800</u>

6. DEFINED CONTRIBUTION RETIREMENT PLAN

PCE provides retirement benefits through the County of San Mateo 401(a) Retirement Plan (Plan). The Plan is a defined contribution (IRC 401(a)) retirement plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by the Massachusetts Mutual Life Insurance Company. At June 30, 2017, PCE had 9 plan participants. PCE is required to contribute 6% of covered payroll and up to an additional 4% of covered payroll as a match to employee contributions. PCE contributed \$77,000 during the year ended June 30, 2017. Plan provisions and contribution requirements as they apply to PCE are established and may be amended by the Board of Directors.

7. RISK MANAGEMENT

PCE 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 ended June 30, 2017, PCE purchased liability and property insurance from a commercial carrier. Coverage for property, general liability, errors and omissions and non-owned automobile was \$1,000,000 with a \$1,000 deductible.

**PENINSULA CLEAN ENERGY AUTHORITY
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8. PURCHASE COMMITMENTS

PCE had outstanding non-cancelable power purchase-related commitments of approximately \$943 million for energy that has not yet been provided under power purchase agreements that continue to November 2044. Some of these purchase commitments are contingent upon the construction of solar generation facilities. PCE will not own the facility upon construction or have an option to buy the facility after the contract period.

The following table is the approximated obligations on existing energy and renewable contracts as of June 30, 2017.

Year Ended June 30,	
2018	\$ 149,100,000
2019	97,800,000
2020	64,700,000
2021	61,500,000
2022	48,300,000
2023-2044	521,500,000
Total	<u>\$ 942,900,000</u>

As of June 30, 2017, PCE had outstanding non-cancelable commitments to professional service providers for services yet to be performed of approximately \$4 million through June 2018.

9. OPERATING LEASE

During 2017, PCE entered into an 86-month non-cancelable lease for its office premises. The lease commencement date was August 1, 2017. The rental agreement includes an option to renew the lease for two additional five-year terms. Prior to this lease taking effect, PCE rented temporary office space under a lease with a term of less than one year. Rental expense under this lease was \$61,000 for the year ended June 30, 2017.

Future minimum lease payments under the lease are as follows:

Year ended June 30,	
2018	\$ 268,560
2019	367,927
2020	378,965
2021	390,334
2022	402,044
2023-2025	949,663
Total	<u>\$ 2,757,493</u>

**PENINSULA CLEAN ENERGY AUTHORITY
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10. SUBSEQUENT EVENT

In December 2017, PCE repaid its loans with the County of San Mateo as well as its loan with Barclays Bank.