

SAN DIEGO COMMUNITY POWER
FINANCIAL STATEMENTS
FISCAL PERIOD ENDED JUNE 30, 2020
WITH REPORT OF
INDEPENDENT AUDITORS

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Independent Auditor's Report

To the Board of Directors
San Diego Community Power
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Community Power (SDCP), which comprise the statement of net position as of June 30, 2020, the related statement of revenues, expenses and changes in net position and cash flows for the period from October 1, 2019 (inception date) to June 30, 2020, and the related notes to the financial statements.

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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Community Power as of June 30, 2020 and the results of the financial position and cash flows for the period 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.

Parent & Brink LLP

Santa Rosa, California
January 22, 2021

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD ENDED JUNE 30, 2020**

The Management's Discussion and Analysis provides an overview of San Diego Community Power's (SDCP) financial activities from inception to June 30, 2020. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

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

SDCP was created as a California Joint Powers Authority (JPA) effective October 1, 2019, and was established to provide electric power at competitive costs as well as to provide other benefits to the cities of Chula Vista, Encinitas, Imperial Beach, La Mesa and San Diego, including reducing greenhouse gas emissions related to the use of power, procuring energy with a priority on the use and development of local renewable resources, stimulating local job creation through various programs and development, promote personal and community ownership of renewable resources, as well as 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, SDCP has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds or other obligations. SDCP will be responsible for the acquisition of electric power for its service area.

Prior to the creation of SDCP as a JPA, the City of San Diego managed the financial and administrative activities related to the formation of this community choice aggregation program. Pursuant to a cooperation agreement with the City of San Diego, SDCP accepted an obligation to reimburse the City of San Diego for specified costs to initiate the entity and its programs which were incurred prior to the JPA agreement, as well as for costs incurred during the start-up phase of SDCP.

SDCP will begin providing electricity to customers in 2021.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD ENDED JUNE 30, 2020**

Financial Reporting

SDCP 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, which provides an overview of the financial operations.

- The basic financial statements:
 - The *Statement of Net Position* includes all of SDCP's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.

 - The *Statement of Revenues, Expenses, and Changes in Net Position* report all of SDCP's revenue and expenses for the period shown.

 - The *Statement 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.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD ENDED JUNE 30, 2020**

FINANCIAL HIGHLIGHTS

The following table is a summary of SDCP's assets, liabilities, and net position as of June 30, 2020:

Current assets	\$ 363,982
Noncurrent assets	<u>5,600,000</u>
Total assets	<u>5,963,982</u>
Current liabilities	566,834
Noncurrent liabilities	<u>6,467,258</u>
Total liabilities	<u>7,034,092</u>
Net position	
Unrestricted (deficit)	<u>(1,070,110)</u>
Total net position	<u>\$ (1,070,110)</u>

Current and noncurrent assets

Current assets and noncurrent assets are mostly comprised of cash. SDCP holds cash of \$5,500,000 that is restricted as collateral for a bank line of credit. Other noncurrent assets represent deposits in SDCP's name held by other parties.

Current liabilities

Current liabilities consist of trade accounts payable for services and general and administrative costs.

Noncurrent liabilities

During 2019-20, SDCP borrowed \$990,082 from River City Bank and \$5,000,000 from private parties. The River City Bank debt represents draws from a \$35,000,000 revolving line of credit. This line of credit was established to provide for working capital during SDCP's start up period and will also provide resources for the procurement of electricity during the early phases of its customer launch, as certain payments and deposits to suppliers are required in advance of the collection of revenues from customers. The \$5,000,000 private debt was incurred to provide for the cash collateral requirement of the River City Bank revolving line of credit.

Also included in noncurrent liabilities is \$477,000 for start-up related costs owed primarily to the City of San Diego.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT’S DISCUSSION AND ANALYSIS
PERIOD ENDED JUNE 30, 2020**

The following table is a summary of SDCP’s results of operations from inception (October 1, 2019) through June 30, 2020:

Operating revenues	\$ -
Operating expenses	1,006,369
Nonoperating expenses	<u>63,741</u>
Total expenses	<u>1,070,110</u>
Change in net position	<u>\$ (1,070,110)</u>

Operating expenses

Expenses for contracting services and other general and administrative expenses are included in operating expenses.

Nonoperating expenses

Interest expense on borrowings during 2019-20 are included as nonoperating expenses.

ECONOMIC OUTLOOK

SDCP will begin to provide electricity to customers in early 2021. Customer groups will be added during multiple phases throughout the year. This will result in a large increase in expenses, as SDCP will begin to procure the electric resources needed to sell to its customers. While this will mark the first period of revenue recognition, SDCP plans to utilize its revolving line of credit to provide for working capital needs until sufficient customer receipts are collected.

REQUEST FOR INFORMATION

This financial report is designed to provide SDCP’s customers and creditors with an overview of the SDPC’s finances and to demonstrate SDCP’s accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 815 E Street, Unit 12716, San Diego, CA 92101.

Respectfully submitted,

Bill Carnahan, CEO

BASIC FINANCIAL STATEMENTS

**SAN DIEGO COMMUNITY POWER
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020**

ASSETS

Current assets	
Cash and cash equivalents	\$ 338,982
Prepaid expenses	25,000
Total current assets	363,982
Noncurrent assets	
Restricted cash	5,500,000
Deposits	100,000
Total noncurrent assets	5,600,000
Total assets	5,963,982

LIABILITIES

Current liabilities	
Accounts payable	330,042
Other accrued liabilities	223,133
Interest payable	13,659
Total current liabilities	566,834
Noncurrent liabilities	
Other noncurrent liabilities	477,176
Bank note payable	990,082
Loans payable	5,000,000
Total noncurrent liabilities	6,467,258
Total liabilities	7,034,092

NET POSITION

Unrestricted (deficit)	(1,070,110)
Total net position	\$ (1,070,110)

**SAN DIEGO COMMUNITY POWER
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INCEPTION (OCTOBER 1, 2019) THROUGH JUNE 30, 2020**

	Inception through June 30, 2020
OPERATING REVENUES	\$ -
OPERATING EXPENSES	
Contract services	529,193
General and administration	477,176
Total operating expenses	<u>1,006,369</u>
Operating loss	<u>(1,006,369)</u>
NONOPERATING EXPENSES	
Interest and financing expenses	<u>63,741</u>
CHANGE IN NET POSITION	(1,070,110)
Net position at beginning of period	<u>-</u>
Net position at end of period	<u><u>\$ (1,070,110)</u></u>

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

**SAN DIEGO COMMUNITY POWER
STATEMENT OF CASH FLOWS
INCEPTION (OCTOBER 1, 2019) THROUGH JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for goods and services	\$ (101,018)
Net cash used by operating activities	<u>(101,018)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from loans	5,000,000
Proceeds from bank note	<u>940,000</u>
Net cash provided by non-capital financing activities	<u>5,940,000</u>

Net change in cash and cash equivalents	5,838,982
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u><u>\$ 5,838,982</u></u>

Reconciliation to the Statement of Net Position

Cash and cash equivalents (unrestricted)	\$ 338,982
Restricted cash	<u>5,500,000</u>
Cash and cash equivalents	<u><u>\$ 5,838,982</u></u>

Noncash Non-capital Financing Activities:

Expenses of \$50,082 related to the acquisition of debt were financed from loan proceeds.

**SAN DIEGO COMMUNITY POWER
STATEMENT OF CASH FLOWS (CONTINUED)
INCEPTION (OCTOBER 1, 2019) THROUGH JUNE 30, 2020**

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (1,006,369)
Adjustments to reconcile operating loss to net cash used by operating activities	
(Increase) decrease in:	
Prepaid expenses	(25,000)
Deposits	(100,000)
Increase (decrease) in:	
Accounts payable	330,042
Other accrued liabilities	700,309
Net cash used by operating activities	<u>\$ (101,018)</u>

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

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

San Diego Community Power (SDCP) is a California joint powers authority created on October 1, 2019. As of June 30, 2020, parties to its Joint Powers Agreement consist of the following local governments:

<u>Cities</u>	
Chula Vista	Imperial Beach
Encinitas	San Diego
La Mesa	

SDCP is separate from and derives no financial support from its members. SDCP is governed by a Board of Directors whose membership is composed of elected officials or other representatives of the member governments.

A core function of SDCP 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.

BASIS OF ACCOUNTING

SDCP'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.

SDCP'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, if applicable – investment in capital assets, restricted and unrestricted.

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

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For purpose of the Statement of Cash Flows, SDCP has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. For the purpose of the Statement of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statement of Net Position includes collateral on a bank loan, as well as a required minimum balance to be maintained in one of its bank accounts.

DEPOSITS

SDCP's assets include deposits held by others for regulatory and other operating purposes.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of services and administrative expenses. Expenses not meeting this definition are reported as nonoperating expenses.

INCOME TAXES

SDCP 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.

2. CASH AND CASH EQUIVALENTS

SDCP maintains its cash in accounts at River City Bank in Sacramento, California. SDCP's deposits with River City Bank are subject to California Government Code Section 16521 which requires that River City Bank collateralize public funds in excess of the Federal Deposit Insurance Corporation limit of \$250,000 by 110%. SDCP has no deposit or investment policy that addresses a specific type of risk that would impose restrictions beyond this code. Accordingly, the amount of risk is not disclosed. SDCP monitors its risk exposure to River City Bank on an ongoing basis.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

3. OTHER NONCURRENT LIABILITIES

Included in noncurrent liabilities are amounts advanced by the Cities of San Diego, La Mesa, and Encinitas (the Cities) to SDCP for start-up related costs. SDCP will reimburse the Cities as soon as practically possible and no later than the earlier of five years after SDCP’s formation date of October 1, 2019, or two years after initial loans and lines of credit are repaid. Interest does not accrue on the liabilities to the Cities.

The following is a schedule of changes in other noncurrent liabilities during the period:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Period ended June 30, 2020				
Start-up funds				
advanced from Cities	\$ -	\$ 477,176	\$ -	\$ 477,176
Amounts due within one year				-
Amounts due after one year				<u>\$ 477,176</u>

4. DEBT

Bank note payable

In May 2020, SDCP arranged to borrow up to \$35,000,000 through a revolving credit agreement from River City Bank to provide cash for working capital before sufficient revenue is to be collected from customers. The amount available to SDCP “steps up” throughout fiscal year 2021 and will be fully available prior to the end of that year. At June 30, 2020, SDCP borrowed a total of \$990,082, leaving \$34,010,000 available to be drawn after the final “step up” period has occurred. As security, SDCP assigned a security interest in all accounts, revenues, resource adequacy contracts, debt service reserve accounts and cash collateral accounts. Principal can be drawn as needed and interest is accrued on the outstanding balance. Additionally, the bank requires \$5,000,000 cash collateral to be held during the term of the agreement. The stated maturity date is May 31, 2022, with interest payable each month commencing on July 1, 2020. The interest rate at June 30, 2020, was computed at one-month LIBOR plus a rate of 2.00%, for a total rate of 2.18% per annum. In the event of default, the note becomes immediately due and payable.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

4. DEBT (continued)

Loans payable

In May 2020, SDCP borrowed \$5,000,000 in total from two private lenders for the purpose of funding a collateral account to be held by River City Bank. Each loan is due on May 21, 2023. The notes bear interest equal to the one-month LIBOR rate plus 2% per annum at June 30, 2020. Interest payments are due quarterly, commencing when SDCP begins selling electricity to customers. In the event of default, the lender has the right to pursue all remedies available at law or equity against SDCP.

Note and loan principal activity and balances were as follows for the following direct borrowings:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Period ended June 30, 2020				
Bank note payable	\$ -	\$ 990,082	\$ -	\$ 990,082
Private loans payable	-	5,000,000	-	5,000,000
Total	<u>\$ -</u>	<u>\$ 5,990,082</u>	<u>\$ -</u>	<u>5,990,082</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 5,990,082</u>

The following is a summary of SDCP's future annual payment obligations:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2021	\$ -	\$ 130,584	\$ 130,584
2022	990,082	128,785	1,118,867
2023	5,000,000	98,403	5,098,403
Total	<u>\$ 5,990,082</u>	<u>\$ 357,772</u>	<u>\$ 6,347,854</u>

Other lines of credit

In April 2020, SDCP entered into a professional services agreement with a service provider that includes a provision that allows SDCP to borrow up to \$2,000,000 to cover certain working capital needs. All borrowing requests must occur prior to SDCP's initial customer launch date, and repayments of amounts borrowed will occur in twelve equal monthly installments beginning ninety days after the initial launch date. The borrowed amounts will be subject to interest at one-month LIBOR plus a rate of 2.00% per annum. At June 30, 2020, there were no borrowings related to this agreement.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

5. RISK MANAGEMENT

SDCP is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the period ended June 30, 2020, SDCP did not have liability and property insurance from a commercial carrier. In July 2020, SDCP purchased coverage for property, general liability, errors and omissions and non-owned automobile with a limit of \$2,000,000 with a \$1,000 deductible.

6. COMMITMENTS

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

The following table details the obligations to purchase existing energy, renewable, and resource adequacy (RA) contracts as of June 30, 2020:

Year ending June 30,	
2021	\$ 18,000,000
2022	39,000,000
2023	31,000,000
2024	10,500,000
Total	<u><u>\$ 98,500,000</u></u>

7. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2020:

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

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
PERIOD ENDED JUNE 30, 2020**

8. SUBSEQUENT EVENT

Covid-19

In December 2019, a novel strain of coronavirus disease (“COVID-19”) was first reported. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent to which the ongoing response to and impacts of COVID-19 will affect SDCP’s operational and financial performance is unknown at this time and will be monitored by management.