

SAN DIEGO COMMUNITY POWER

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

AND 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), as of and for the year ended June 30, 2021 and the period from October 1, 2019 (inception date) through June 30, 2020, and the related notes to the financial statements, which collectively comprise SDCP's 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 San Diego Community Power as of June 30, 2021 and 2020 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.

Pesenti & Brinku LLP

Santa Rosa, California
December 16, 2021

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

The Management's Discussion and Analysis provides an overview of San Diego Community Power's (SDCP) financial activities as of and for the year ended June 30, 2021, and from inception (October 1, 2019) through 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 its members (County of San Diego and 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.

SDCP began providing electricity to municipal customers in March 2021 and commercial customers in June 2021.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO 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 *Statements of Net Position* include all of SDCP's assets, liabilities, and net position and 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 SDCP's revenue and expenses for the year and period 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 provide additional details and information related to the basic financial statements.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

FINANCIAL HIGHLIGHTS

The following table is a summary of SDCP's assets, liabilities, and net position and a discussion of significant changes for the year ended June 30 2021 and the period from inception to June 30, 2020:

	<u>2021</u>	<u>2020</u>
Current assets	\$ 20,750,268	\$ 363,982
Noncurrent assets	<u>11,250,000</u>	<u>5,600,000</u>
Total assets	<u>32,000,268</u>	<u>5,963,982</u>
Current liabilities	40,531,164	566,834
Noncurrent liabilities	<u>5,517,741</u>	<u>6,467,258</u>
Total liabilities	<u>46,048,905</u>	<u>7,034,092</u>
Net position		
Unrestricted (deficit)	<u>(14,048,637)</u>	<u>(1,070,110)</u>
Total net position	<u>\$ (14,048,637)</u>	<u>\$ (1,070,110)</u>

Current assets

Current assets were approximately \$20,750,000 at the end of 2020-21 and were primarily comprised of cash of \$1,721,000, accounts receivable from retail customers of \$1,116,000, and accrued revenue of \$12,220,000, each of which mark an increase from 2019-20. SDCP did not start providing electricity to customers until March 2021, so at the end of fiscal year 2019-20 current assets mostly consisted of cash. Accrued revenue differs from accounts receivable in that it is the result of electricity use by SDCP customers before invoicing to those customers has occurred.

Noncurrent assets

Noncurrent assets are comprised of restricted cash and deposits in SDCP's name held by other parties, primarily as collateral on debt. As SDCP began securing electricity to sell to customers, various energy contracts required deposits which accounts for the large increase in noncurrent assets.

Current liabilities

The largest component of current liabilities, besides a bank note payable, is the cost of electricity delivered to customers that is not yet due to paid by SDCP. Other components include trade accounts payable, security deposits due to energy suppliers, and various other accrued liabilities.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

Current liabilities (continued)

In 2019-20, the bank note payable was considered a noncurrent liability. In 2020-21, the bank note payable is considered a current liability as the maturity falls within twelve months of the year end. Increased borrowings as described in the Notes to the Financial Statements along with the presence of accrued cost of energy for the first time in 2020-21 accounts for the large increase in current liabilities.

Noncurrent liabilities

During 2019-20, SDCP borrowed \$990,000 from River City Bank and \$5,000,000 from private parties. The \$5,000,000 private debt was incurred to provide for the cash collateral requirement of the River City Bank revolving line of credit. During 2020-21 SDCP borrowed an additional \$21,850,000 from River City Bank. The River City Bank debt is considered a current liability in 2020-21.

Other noncurrent liabilities include \$518,000 for start-up related costs owed primarily to the City of San Diego.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

The following table is a summary of SDCP's results of operations and a discussion of significant changes for the year ended June 30 2021 and the period from inception to June 30, 2020:

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 14,809,010	\$ -
Operating expenses	27,551,819	1,006,369
Nonoperating expenses	<u>235,718</u>	<u>63,741</u>
Total expenses	<u>27,787,537</u>	<u>1,070,110</u>
Change in net position	<u>\$ (12,978,527)</u>	<u>\$ (1,070,110)</u>

Operating revenues

SDCP began selling electricity to retail customers in March 2021, which accounts for the change compared to 2019-20. As of June 30, 2021, SDCP had approximately 72,000 municipal and commercial customer accounts.

Operating expenses

Expenses incurred during 2019-20 were the result of the start-up and implementation of SDCP. No expenses during the period were related to energy purchases. The increase in operating expenses from 2019-20 to 2020-21 is largely the result of energy purchases needed to provide for municipal and commercial customer use. SDCP 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, contract services, and other general and administrative expenses increased in 2020-21 as the organization grew to operational strength.

Nonoperating expenses

Interest expense on borrowings during the year ended June 30 2021 and the period from inception to June 30, 2020 are included as nonoperating expenses. Interest expense increased as a result of increased borrowings.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

ECONOMIC OUTLOOK

SDCP began to provide electricity to its municipal customers in March 2021. Delivery of electricity to its commercial and industrial customers began in June 2021. Customer groups will continue to be added during multiple phases throughout fiscal year 2022, including a major enrollment of residential customers. In August 2021, the County of San Diego voted to join SDCP. Other cities in the region continue to consider joining SDCP. Prior to adding new cities, SDCP performs a thorough cost benefit analysis to determine whether the addition would be mutually beneficial.

In the normal course of business, SDCP enters into various agreements, including renewable energy agreements and other power purchase agreements to purchase power and electric capacity. SDCP enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products.

REQUEST FOR INFORMATION

This financial report is designed to provide SDCP's customers and creditors with an overview of the SDCP'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 92112.

Respectfully submitted,

Bill Carnahan, CEO

BASIC FINANCIAL STATEMENTS

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020**

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,720,566	\$ 338,982
Accounts receivable, net	1,116,121	-
Accrued revenue	12,220,309	-
Energy settlements receivable	4,043,272	-
Prepaid expenses	-	25,000
Deposits	1,650,000	-
Total current assets	20,750,268	363,982
Noncurrent assets		
Restricted cash	9,000,000	5,500,000
Deposits	2,250,000	100,000
Total noncurrent assets	11,250,000	5,600,000
Total assets	32,000,268	5,963,982
LIABILITIES		
Current liabilities		
Accrued cost of energy	16,144,721	-
Accounts payable	362,282	330,042
Other accrued liabilities	89,334	223,133
Due to other governments	11,281	-
Security deposits - energy suppliers	1,020,000	-
Interest payable	63,464	13,659
Bank note payable	22,840,082	-
Total current liabilities	40,531,164	566,834
Noncurrent liabilities		
Other noncurrent liabilities	517,741	477,176
Bank note payable	-	990,082
Loans payable	5,000,000	5,000,000
Total noncurrent liabilities	5,517,741	6,467,258
Total liabilities	46,048,905	7,034,092
NET POSITION		
Unrestricted (deficit)	(14,048,637)	(1,070,110)
Total net position	\$(14,048,637)	\$ (1,070,110)

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

	<u>2021</u>	<u>Inception to June 30, 2020</u>
OPERATING REVENUES		
Electricity sales, net	\$ 14,809,010	\$ -
OPERATING EXPENSES		
Cost of electricity	24,361,374	-
Contract services	2,069,504	529,193
Staff compensation	907,442	-
General and administration	213,499	477,176
Total operating expenses	<u>27,551,819</u>	<u>1,006,369</u>
Operating loss	<u>(12,742,809)</u>	<u>(1,006,369)</u>
NONOPERATING EXPENSES		
Interest and financing expense	<u>235,718</u>	<u>63,741</u>
CHANGE IN NET POSITION	(12,978,527)	(1,070,110)
Net position at beginning of period	<u>(1,070,110)</u>	-
Net position at end of period	<u><u>\$ (14,048,637)</u></u>	<u><u>\$ (1,070,110)</u></u>

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

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

	<u>2021</u>	<u>Inception to June 30, 2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,483,861	\$ -
Receipts of supplier collateral	1,581,000	-
Payments to suppliers for electricity	(12,259,925)	-
Payments for goods and services	(2,407,429)	(101,018)
Payments to employees for services	(819,010)	-
Payments for deposits and collateral	(4,361,000)	-
Net cash used by operating activities	<u>(16,782,503)</u>	<u>(101,018)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from loans	-	5,000,000
Proceeds from bank note	21,850,000	940,000
Interest and related expense payments	(185,913)	-
Net cash provided by non-capital financing activities	<u>21,664,087</u>	<u>5,940,000</u>
Net change in cash and cash equivalents	4,881,584	5,838,982
Cash and cash equivalents at beginning of year	5,838,982	-
Cash and cash equivalents at end of year	<u>\$ 10,720,566</u>	<u>\$ 5,838,982</u>
Reconciliation to the Statements of Net Position		
Cash and cash equivalents (unrestricted)	\$ 1,720,566	\$ 338,982
Restricted cash	9,000,000	5,500,000
Cash and cash equivalents	<u>\$ 10,720,566</u>	<u>\$ 5,838,982</u>

Noncash Non-Capital Financing Activities during the period ended June 30, 2020:

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

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020**

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

	<u>2021</u>	<u>Inception to June 30, 2020</u>
Operating loss	\$(12,742,809)	\$ (1,006,369)
Adjustments to reconcile operating loss to net cash used by operating activities		
Revenue adjusted for allowance for uncollectible accounts	149,586	-
(Increase) decrease in:		
Accounts receivable	(1,265,707)	-
Accrued revenue	(12,220,309)	-
Energy settlements and other receivables	(4,043,272)	-
Prepaid expenses	25,000	(25,000)
Deposits	(3,800,000)	(100,000)
Increase (decrease) in:		
Accrued cost of electricity	16,144,721	-
Accounts payable	32,240	330,042
Other accrued liabilities	(93,234)	700,309
Due to other governments	11,281	-
Security deposits - energy suppliers	1,020,000	-
Net cash used by operating activities	<u><u>\$ (16,782,503)</u></u>	<u><u>\$ (101,018)</u></u>

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO 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 the report date, parties to its Joint Powers Agreement consist of the following local governments:

County	Cities	
San Diego	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.

Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by San Diego Gas and Electric.

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
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the purpose of the Statements 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 Statements of Net Position, restricted cash balances are presented separately. Restricted cash reported on the Statements 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.

ENERGY SETTLEMENTS RECEIVABLE

SDCP receives generation scheduling and other services from a registered California Independent System Operator (CAISO) scheduling coordinator. Energy settlements due from the scheduling coordinator were \$4,043,272 and \$0 as of June 30, 2021 and 2020, respectively.

DEPOSITS

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

SECURITY DEPOSITS FROM ENERGY SUPPLIERS

Various energy contracts entered into by SDCP require the supplier to provide SDCP 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 time the deposits will be held.

OPERATING AND NONOPERATING REVENUE

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers.

Interest income, when earned, will be considered “nonoperating revenue.”

ELECTRICAL POWER PURCHASED

During the normal course of business, SDCP 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 SDCP’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.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED (continued)

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, SDCP acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). SDCP obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive. SDCP recognizes an expense on a monthly basis that corresponds to the volume sold to its customers for its various renewable and carbon free products. This expense recognition increases accrued cost of energy reported on the Statements of Net Position. Payments made to suppliers reduce accrued cost of electricity.

SDCP purchases capacity commitments from qualifying generators to comply with the California Public Utilities Commission's Resource Adequacy Program. The goals of the Resource Adequacy Program are to provide sufficient resources to the California Independent System Operator to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future.

STAFFING COSTS

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

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.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	<u>2021</u>	<u>2020</u>
Accounts receivable from customers	\$ 1,265,707	\$ -
Allowance for uncollectible accounts	(149,586)	-
Net accounts receivable	<u>\$ 1,116,121</u>	<u>\$ -</u>

The majority of account collections occur within the first few months following customer invoicing. SDCP estimates that a portion of the billed accounts will not be collected. SDCP continues collection efforts on accounts in excess of *de minimis* balances regardless of the age of the account. The allowance for uncollectible accounts at the end of a year includes amounts billed during the current and prior fiscal years.

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 2022 and will be fully available prior to the end of that year. At June 30, 2021 and 2020, SDCP borrowed a total of \$22,840,082 and \$990,082, respectively. As security, SDCP assigned a security interest in all accounts, revenues, 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, 2021, was computed at one-month LIBOR plus a rate of 2.00%, for a total rate of approximately 2.10% per annum. In the event of default, the note becomes immediately due and payable.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020

4. DEBT (continued)

LOAN 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, 2021. 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>
Year ended June 30, 2021				
Bank note payable	\$ 990,082	\$ 21,850,000	\$ -	\$ 22,840,082
Loans payable	5,000,000	-	-	5,000,000
Total	<u>\$ 5,990,082</u>	<u>\$ 21,850,000</u>	<u>\$ -</u>	<u>27,840,082</u>
Amounts due within one year				<u>22,840,082</u>
Amounts due after one year				<u>\$ 5,000,000</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Period ended June 30, 2020				
Bank note payable	\$ -	\$ 990,082	\$ -	\$ 990,082
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				<u>-</u>
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>
Years ended June 30,			
2022	\$ 22,840,082	\$ 544,672	\$ 23,384,754
2023	5,000,000	94,792	5,094,792
Total	<u>\$ 27,840,082</u>	<u>\$ 639,464</u>	<u>\$ 28,479,546</u>

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021 AND PERIOD FROM INCEPTION TO JUNE 30, 2020

5. 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:

	Beginning	Additions	Payments	Ending
Year ended June 30, 2021				
Start-up funds				
advanced from Cities	\$ 477,176	\$ 40,565	\$ -	\$ 517,741
Total	<u>\$ 477,176</u>	<u>\$ 40,565</u>	<u>\$ -</u>	<u>517,741</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 517,741</u>
	Beginning	Additions	Payments	Ending
Period ended June 30, 2020				
Start-up funds				
advanced from Cities	\$ -	\$ 477,176	\$ -	\$ 477,176
Total	<u>\$ -</u>	<u>\$ 477,176</u>	<u>\$ -</u>	<u>477,176</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 477,176</u>

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6. 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 year, SDCP purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with earthquakes, theft, general liability, errors and omissions, and property damage. There were no significant reductions in coverage compared to the prior year. From time to time, SDCP 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 SDCP's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on SDCP's financial position or results of operations.

SDCP 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, SDCP enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counter parties.

7. 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 represents the expected, undiscounted, contractual obligations outstanding as of June 30, 2021:

Years ending June 30,	
2022	\$ 259,700,000
2023	174,000,000
2024	102,200,000
2025	33,700,000
2026	14,600,000
Total	<u>\$ 584,200,000</u>

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8. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2021:

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*. The effects of applying these standards are currently unknown.