

SAN DIEGO COMMUNITY POWER
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 & 2021
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

Opinion

We have audited the financial statements of San Diego Community Power (SDCP), which comprise the statements of net position as of June 30, 2022 and 2021, the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SDCP as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SDCP's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SDCP's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Perenti & Brink LLP

Santa Rosa, California
November 1, 2022

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2022 AND 2021**

The Management's Discussion and Analysis provides an overview of San Diego Community Power's (SDCP) financial activities as of and for the years ended June 30, 2022 and 2021. 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 is responsible for the acquisition of electric power for its service area.

SDCP began providing electricity to municipal customers in March 2021, with commercial customers starting June 2021, and a major residential customer enrollment starting in May 2022.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2022 AND 2021**

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
YEARS ENDED JUNE 30, 2022 AND 2021**

FINANCIAL HIGHLIGHTS

The following is a summary of SDCP's assets, liabilities, and net position and a discussion of significant changes for the years ending June 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 165,105,688	\$ 20,750,268	\$ 363,982
Noncurrent assets	15,950,000	11,250,000	5,600,000
Total assets	<u>181,055,688</u>	<u>32,000,268</u>	<u>5,963,982</u>
Current liabilities	106,666,913	40,531,164	566,834
Noncurrent liabilities	31,857,823	5,517,741	6,467,258
Total liabilities	<u>138,524,736</u>	<u>46,048,905</u>	<u>7,034,092</u>
Net position			
Restricted	2,500,000	-	-
Unrestricted (deficit)	40,030,952	(14,048,637)	(1,070,110)
Total net position	<u>\$ 42,530,952</u>	<u>\$ (14,048,637)</u>	<u>\$ (1,070,110)</u>

Current assets

Current assets were approximately \$165,106,000 at the end of 2022 and were comprised of the following major categories: cash of \$57,077,000, accounts receivable from customers of \$50,387,000, and accrued revenue of \$46,940,000, each of which mark an increase from 2021. The increase in current assets was driven by large enrollments of commercial and residential customers throughout 2022. 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 is comprised of restricted cash and deposits in SDCP's name held by other parties, including \$10,000,000 of cash restricted as collateral on debt. As SDCP began securing electricity to sell to customers, various energy contracts required deposits which accounts for the increase in noncurrent assets.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2022 AND 2021**

Current liabilities

The largest component of current liabilities is the cost of electricity delivered to customers that is not yet due to paid by SDCP. Another significant component of current liabilities are security deposits held by SDCP from energy suppliers. Various contracts entered into by SDCP require the supplier to provide SDCP with a security deposit. These deposits will be returned by SDCP at the completion of the related contract or as other milestones are met.

Current liabilities increased year over year due to operating activities associated with a major enrollment of residential customers starting in May of 2022.

Noncurrent liabilities

As of June 30, 2021, the bank note payable was due within one year and was included in current liabilities. During 2022, the bank note was renegotiated, and the maturity date changed to 2024 and the note payable is now included in noncurrent liabilities. Additionally, SDCP increased its borrowings as described in the Note 4 to the financial statements.

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

Net Position

SDCP ended 2022 with a positive net position for the first time, driven by positive margins from a full year of delivering energy to customers. In 2022, \$2,500,000 of net position is considered restricted for collateral as part of a security agreement with various suppliers.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2022 AND 2021**

The following is a summary of SDCP's results of operations and a discussion of significant changes for the years ending June 30:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 386,237,698	\$ 14,809,010	\$ -
Interest income	14,603	-	-
Total income	<u>386,252,301</u>	<u>14,809,010</u>	<u>-</u>
Operating expenses	328,966,597	27,551,819	1,006,369
Nonoperating expenses	706,115	235,718	63,741
Total expenses	<u>329,672,712</u>	<u>27,787,537</u>	<u>1,070,110</u>
Change in net position	<u>\$ 56,579,589</u>	<u>\$ (12,978,527)</u>	<u>\$ (1,070,110)</u>

Operating revenues

SDCP's operating revenues are derived from the sale of electricity to commercial and residential customers throughout its territory. SDCP began selling electricity to a relatively small number of municipal and commercial accounts toward the end of 2021. In 2022, its commercial customer base came entirely online and residential customers began to phase in during late 2022. This expansion accounts for the large change in revenues compared to 2021.

Operating expenses

SDCP's largest expense was the purchase of electricity delivered to its customers. SDCP procures energy from a variety of sources and focuses on maintaining a balanced renewable power portfolio at competitive costs. Operating costs increased each year due to operating activities associated with enrollment of customer accounts.

Expenses for staff compensation, contract services, and other general and administrative expenses increased in 2022 as the organization grew to operational strength.

Nonoperating expenses

Interest expense on borrowings during the years are included as nonoperating expenses. Interest expense increased each year as a result of increased borrowings.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2022 AND 2021**

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 2023, including the enrollment of commercial and residential customers. In August 2021, the County of San Diego voted to join SDCP. In November 2021, the City of National City 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,

Karin Burns, CEO

BASIC FINANCIAL STATEMENTS

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021**

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 57,076,718	\$ 1,720,566
Accounts receivable, net	50,386,990	1,116,121
Accrued revenue	46,939,615	12,220,309
Prepaid expenses	4,461,308	-
Energy settlements receivable	-	4,043,272
Deposits	6,241,057	1,650,000
Total current assets	165,105,688	20,750,268
Noncurrent assets		
Restricted cash	12,500,000	9,000,000
Deposits	3,450,000	2,250,000
Total noncurrent assets	15,950,000	11,250,000
Total assets	181,055,688	32,000,268
LIABILITIES		
Current liabilities		
Accrued cost of energy	57,231,504	16,144,721
Accounts payable	624,955	362,282
Other accrued liabilities	740,006	89,334
State surcharges payable	332,586	11,281
Security deposits - energy suppliers	42,624,000	1,020,000
Interest payable	113,862	63,464
Bank note payable	-	22,840,082
Loans payable	5,000,000	-
Total current liabilities	106,666,913	40,531,164
Noncurrent liabilities		
Other noncurrent liabilities	517,741	517,741
Bank note payable	31,340,082	-
Loans payable	-	5,000,000
Total noncurrent liabilities	31,857,823	5,517,741
Total liabilities	138,524,736	46,048,905
NET POSITION		
Restricted for collateral	2,500,000	-
Unrestricted (deficit)	40,030,952	(14,048,637)
Total net position	\$ 42,530,952	\$(14,048,637)

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Electricity sales, net	\$ 383,800,198	\$ 14,809,010
Liquidated damages	2,437,500	-
Total operating revenues	<u>386,237,698</u>	<u>14,809,010</u>
OPERATING EXPENSES		
Cost of energy	319,686,027	24,361,374
Contract services	3,520,098	2,069,504
Staff compensation	3,662,441	907,442
General and administration	2,098,031	213,499
Total operating expenses	<u>328,966,597</u>	<u>27,551,819</u>
Operating income (loss)	<u>57,271,101</u>	<u>(12,742,809)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	14,603	-
Interest and financing expense	(706,115)	(235,718)
Nonoperating revenues (expenses)	<u>(691,512)</u>	<u>(235,718)</u>
CHANGE IN NET POSITION	56,579,589	(12,978,527)
Net position at beginning of year	(14,048,637)	(1,070,110)
Net position at end of year	<u>\$ 42,530,952</u>	<u>\$ (14,048,637)</u>

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$300,940,324	\$ 1,483,861
Receipts from liquidated damages	2,437,500	-
Receipts of supplier security deposits	42,204,000	1,581,000
Other operating receipts	6,801,249	-
Payments to suppliers for electricity	(284,842,750)	(12,259,925)
Payments for goods and services	(5,114,220)	(2,407,429)
Payments to employees for services	(3,407,133)	(819,010)
Payments for deposits and collateral	(7,212,708)	(4,361,000)
Payments for state surcharges	(808,996)	-
Net cash provided (used) by operating activities	<u>50,997,266</u>	<u>(16,782,503)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from bank note	8,500,000	21,850,000
Interest and related expense payments	(655,717)	(185,913)
Net cash provided by non-capital financing activities	<u>7,844,283</u>	<u>21,664,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>14,603</u>	<u>-</u>
Net change in cash and cash equivalents	58,856,152	4,881,584
Cash and cash equivalents at beginning of year	10,720,566	5,838,982
Cash and cash equivalents at end of year	<u>\$ 69,576,718</u>	<u>\$ 10,720,566</u>
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 57,076,718	\$ 1,720,566
Restricted cash	<u>12,500,000</u>	<u>9,000,000</u>
Cash and cash equivalents	<u>\$ 69,576,718</u>	<u>\$ 10,720,566</u>

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2022 AND 2021**

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

	<u>2022</u>	<u>2021</u>
Operating income (loss)	\$ 57,271,101	\$ (12,742,809)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Provision for uncollectible accounts	3,876,770	149,586
(Increase) decrease in:		
Accounts receivable	(53,147,639)	(1,265,707)
Accrued revenue	(34,719,306)	(12,220,309)
Energy settlements receivable	4,043,272	(4,043,272)
Prepaid expenses	(4,461,308)	25,000
Deposits	(5,791,057)	(3,800,000)
Increase (decrease) in:		
Accrued cost of electricity	41,086,784	16,144,721
Accounts payable	262,672	32,240
Other accrued liabilities	650,672	(93,234)
State surcharges payable	321,305	11,281
Supplier security deposits	41,604,000	1,020,000
Net cash provided (used) by operating activities	<u>\$ 50,997,266</u>	<u>\$ (16,782,503)</u>

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021**

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, 2022, parties to its Joint Powers Agreement consist of the following local governments:

County	Cities	
San Diego	Chula Vista	Imperial Beach
	Encinitas	National City
	La Mesa	San Diego

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.

SDCP began its energy delivery operations in March 2021. 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
YEARS ENDED JUNE 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the purpose of the Statements of Cash Flows, SDCP defines cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. 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.

PREPAID EXPENSES AND DEPOSITS

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

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 \$0 and \$4,043,272 as of June 30, 2022 and 2021, respectively. Energy settlements payable are included as a liability in “Accrued Cost of Energy.”

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, as well as liquidated damages resulting from counterparties who are unable to fulfill certain contractual obligations.

Investment income is considered “nonoperating revenue.”

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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

OPERATING AND NONOPERATING EXPENSES

Operating expenses include the costs of energy and services, administrative expenses, and depreciation of capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

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 Energy" in the Statements of Revenues, Expenses and Changes in Net Position.

To comply with the State of California's Renewable Portfolio Standards (RPS) and self-imposed benchmarks, 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 energy.

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.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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
YEARS ENDED JUNE 30, 2022 AND 2021**

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

	<u>2022</u>	<u>2021</u>
Accounts receivable from customers	\$ 54,413,346	\$ 1,265,707
Allowance for uncollectible accounts	(4,026,356)	(149,586)
Net accounts receivable	<u>\$ 50,386,990</u>	<u>\$ 1,116,121</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. In March 2022, the agreement was amended and the amount available to SDCP increased to \$50,000,000. At June 30, 2022 and 2021, SDCP borrowed a total of \$31,340,000 and \$22,840,000, 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 \$10,000,000 cash collateral to be held during the term of the agreement. The stated maturity date is April 1, 2024, with interest payable each month. The interest rate at June 30, 2022, was computed at the Three-Month CME Term SOFR plus 2.25% per annum, subject to a floor of 2.25% per annum. In the event of default, the note becomes immediately due and payable.

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, or its replacement rate, plus 2% per annum at June 30, 2021. Interest payments are due quarterly, commencing when SDCP begins selling electricity to customers. In August 2022, SDCP repaid both private loans in full.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

4. DEBT (continued)

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, 2022				
Bank note payable	\$ 22,840,082	\$ 8,500,000	\$ -	\$ 31,340,082
Loans payable	5,000,000	-	-	5,000,000
Total	<u>\$ 27,840,082</u>	<u>\$ 8,500,000</u>	<u>\$ -</u>	36,340,082
Amounts due within one year				5,000,000
Amounts due after one year				<u>\$ 31,340,082</u>
	<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>	27,840,082
Amounts due within one year				22,840,082
Amounts due after one year				<u>\$ 5,000,000</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,			
2023	\$ 5,000,000	\$ 1,527,687	\$ 6,527,687
2024	31,340,082	1,027,171	32,367,253
Total	<u>\$ 36,340,082</u>	<u>\$ 2,554,858</u>	<u>\$ 38,894,940</u>

**SAN DIEGO COMMUNITY POWER
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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:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2022				
Start-up funds				
advanced from Cities	\$ 517,741	\$ -	\$ -	\$ 517,741
Total	<u>\$ 517,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>517,741</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 517,741</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
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>

**SAN DIEGO COMMUNITY POWER
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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. SDCP has general liability coverage of \$10,000,000 with a deductible of \$100,000. 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 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, 2022:

Year ending June 30,	
2023	\$ 570,000,000
2024	470,000,000
2025	270,000,000
2026	130,000,000
2027	50,000,000
2028-2043	560,000,000
Total	<u><u>\$ 2,050,000,000</u></u>