

SAN DIEGO COMMUNITY POWER
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 & 2022
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, 2023 and 2022, 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, 2023 and 2022, 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.

Independent Auditor's Report (continued)

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.

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 & Brinku LLP

Santa Rosa, California
November 3, 2023

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

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, 2023 and 2022. 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 (Unincorporated County of San Diego and the cities of Chula Vista, Encinitas, Imperial Beach, La Mesa, National City, 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 with residential customers in Imperial Beach starting in February 2022, in La Mesa starting in March 2022, in Encinitas starting in April 2022, in San Diego and Chula Vista starting in May 2022, and in National City and the Unincorporated County of San Diego starting in April 2023.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

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 years shown.

 - The *Statements of Cash Flows* report the cash provided and used by operating activities, as well as other sources and uses, such as debt financing.

 - Notes to the Basic Financial Statements provide additional details and information related to the basic financial statements.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

FINANCIAL HIGHLIGHTS

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 300,522,958	\$165,105,688	\$ 20,750,268
Noncurrent assets	6,064,334	15,950,000	11,250,000
Total assets	<u>306,587,292</u>	<u>181,055,688</u>	<u>32,000,268</u>
Current liabilities	83,699,768	106,666,913	40,531,164
Noncurrent liabilities	36,875,193	31,857,823	5,517,741
Total liabilities	<u>120,574,961</u>	<u>138,524,736</u>	<u>46,048,905</u>
Net position			
Investment in capital assets	73,268	-	-
Restricted	2,147,000	2,500,000	-
Unrestricted (deficit)	183,792,063	40,030,952	(14,048,637)
Total net position	<u>\$ 186,012,331</u>	<u>\$ 42,530,952</u>	<u>\$ (14,048,637)</u>

Current assets

Current assets were approximately \$300,523,000 at the end of 2023 and were comprised of the following major categories: cash of \$65,684,000, accounts receivable from customers of \$110,514,000, accrued revenue of \$78,793,000, and prepaid expenses and deposits of \$45,299,000, each of which mark an increase from 2022. Much of the increase in current assets was driven by large enrollments of commercial and residential customers throughout 2022 that were in effect for the entirety of 2023, as well as the enrollment of National City and the unincorporated County of San Diego in April 2023. In addition to these enrollments, SDCP increased customer rates during 2023 which had the result of increasing the net position for the year. Accrued revenue differs from accounts receivable in that it represents electricity provided to SDCP customers that had not been invoiced as of the statement of net position date. Prepaid expenses and deposits saw large increases in 2023 as many of SDCP's energy suppliers required advance payments and collateral prior to delivery.

Noncurrent assets

Noncurrent assets are comprised of restricted cash and deposits in SDCP's name held by other parties, and capital and lease assets. Noncurrent assets decreased in 2023 as approximately \$10,000,000 of restricted cash related to a loan was released when the loan was paid off.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

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 until after year end. Another significant component of current liabilities is 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 are returned by SDCP at the completion of the related contract or as other milestones are met.

Accrued cost of electricity increased year-over-year due to operating activities associated with a major enrollment of residential customers starting in May 2022. Security deposit liabilities decreased from \$42,624,000 in 2022 to \$630,000 in 2023. This change was caused by return of collateral to various energy suppliers after either certain contract milestones were met, or the relevant market exposure declined.

During 2023, private debt of \$5,000,000 became due and was paid off by SDCP.

Noncurrent liabilities

During 2023, SDCP entered into a revolving credit agreement with a new bank. As part of this process, SDCP terminated and paid off the balance of its existing revolving letter of credit. The maturity date on the new agreement falls in 2028 and the entire note payable as of June 30, 2023, is included in noncurrent liabilities. Additionally, SDCP increased its borrowings as described in Note 4 to the financial statements.

Other noncurrent liabilities of \$518,000 for start-up related costs owed primarily to the City of San Diego were paid off in 2023.

Net position

SDCP ended 2023 with a net position of \$186,012,000, driven by positive margins from a full year of delivering energy to its expanded customer base.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 891,178,064	\$386,237,698	\$ 14,809,010
Investment income	433,366	14,603	-
Total income	<u>891,611,430</u>	<u>386,252,301</u>	<u>14,809,010</u>
Operating expenses	746,131,125	328,966,597	27,551,819
Nonoperating expenses	1,998,926	706,115	235,718
Total expenses	<u>748,130,051</u>	<u>329,672,712</u>	<u>27,787,537</u>
Change in net position	<u>\$ 143,481,379</u>	<u>\$ 56,579,589</u>	<u>\$ (12,978,527)</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 in 2022 compared to 2021. In April 2023, SDCP expanded into National City as well as the unincorporated County of San Diego. Providing service to these additional customers, as well as providing service for a full year to the customers enrolled during 2022, accounted for much of the increased revenues in 2023. In addition to customer base growth, SDCP increased its average rates, which had the effect of increasing revenues.

Operating expenses

SDCP's largest expense each year 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 expenses 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 2023 as the SDCP grew to operational capacity.

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 and changing interest rates.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2023 AND 2022**

ECONOMIC OUTLOOK

SDCP began providing electricity to its municipal customers in March 2021. SDCP has grown rapidly and is committed to providing its customers with cleaner energy at competitive rates. Delivery of electricity to its commercial and industrial customers began in June 2021 with plans to continue enrollment over four phases. During fiscal year 2023, the enrollment of all customers (municipal, commercial and industrial, and residential) from all seven member jurisdictions was substantially completed for the Unincorporated County of San Diego and the cities of Chula Vista, Encinitas, Imperial Beach, La Mesa, National City, and San Diego. Therefore, fiscal year 2024 will reflect a full fiscal cycle of revenue and expenses with substantially all customers from all member jurisdictions enrolled. 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.

SDCP has grown rapidly and is committed to providing its customers with cleaner energy at competitive rates. The agency has nearly completed full enrollment of its member jurisdictions having enrolled unincorporated County of San Diego and the cities of Chula Vista, Encinitas, Imperial Beach, La Mesa, National City, and San Diego. The agency is well-positioned to achieve its goals of increasing its renewable energy portfolio, helping to electrify the San Diego region, expanding its energy efficiency programs, reducing its carbon footprint, and creating jobs and economic benefits for the San Diego region.

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, 2023 AND 2022**

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	\$ 65,683,880	\$ 57,076,718
Accounts receivable, net of allowance	110,513,731	50,386,990
Accrued revenue	78,792,784	46,939,615
Prepaid expenses	30,527,498	4,461,308
Other receivables	233,715	-
Deposits	14,771,350	6,241,057
Total current assets	300,522,958	165,105,688
Noncurrent assets		
Lease asset, net of amortization	873,251	-
Capital assets, net of depreciation	159,083	-
Cash and cash equivalents - restricted	2,147,000	12,500,000
Deposits	2,885,000	3,450,000
Total noncurrent assets	6,064,334	15,950,000
Total assets	306,587,292	181,055,688
LIABILITIES		
Current liabilities		
Accrued cost of electricity	77,345,343	57,231,504
Accounts payable	510,812	624,955
Other accrued liabilities	3,794,647	740,006
State surcharges payable	500,589	332,586
Deposits - energy suppliers	630,000	42,624,000
Interest payable	552,054	113,862
Loans payable	-	5,000,000
Lease liability	366,323	-
Total current liabilities	83,699,768	106,666,913
Noncurrent liabilities		
Bank note payable	35,730,000	31,340,082
Due to cities	-	517,741
Deposits - energy suppliers	624,000	-
Lease liability	521,193	-
Total noncurrent liabilities	36,875,193	31,857,823
Total liabilities	120,574,961	138,524,736
NET POSITION		
Net investment in capital assets	73,268	-
Restricted for collateral	2,147,000	2,500,000
Unrestricted	183,792,063	40,030,952
Total net position	\$ 186,012,331	\$ 42,530,952

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electricity sales, net	\$ 891,178,064	\$ 383,800,198
Liquidated damages	-	2,437,500
Total operating revenues	<u>891,178,064</u>	<u>386,237,698</u>
OPERATING EXPENSES		
Cost of electricity	720,327,704	319,686,027
Contract services	15,957,376	3,520,098
Staff compensation	6,726,270	3,662,441
Other operating expenses	2,866,222	2,098,031
Depreciation and amortization	253,553	-
Total operating expenses	<u>746,131,125</u>	<u>328,966,597</u>
Operating income	<u>145,046,939</u>	<u>57,271,101</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	433,366	14,603
Interest and financing expense	(1,998,926)	(706,115)
Nonoperating revenues (expenses), net	<u>(1,565,560)</u>	<u>(691,512)</u>
CHANGE IN NET POSITION	143,481,379	56,579,589
Net position at beginning of year	42,530,952	(14,048,637)
Net position at end of year	<u>\$ 186,012,331</u>	<u>\$ 42,530,952</u>

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$801,265,394	\$300,940,324
Receipts from liquidated damages	-	2,437,500
Receipts from supplier security deposits	47,431,731	42,204,000
Other operating receipts	10,964,074	6,801,249
Payments to suppliers for electricity	(753,820,919)	(284,842,750)
Payments for goods and services	(16,547,960)	(5,114,220)
Payments for staff compensation and benefits	(6,302,492)	(3,407,133)
Payments for deposits and collateral	(80,254,418)	(7,212,708)
Payments of state surcharges	(1,899,237)	(808,996)
Net cash provided by operating activities	836,173	50,997,266
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from bank note	55,910,000	8,500,000
Principal payments - loans and advance from cities	(5,517,741)	-
Principal payments - bank note	(51,520,082)	-
Interest and related expense payments	(1,560,734)	(655,717)
Net cash provided (used) by non-capital financing activities	(2,688,557)	7,844,283
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of lease liability	(235,232)	-
Payments to acquire capital assets	(91,588)	-
Net cash used by capital and related financing activities	(326,820)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	433,366	14,603
Net change in cash and cash equivalents	(1,745,838)	58,856,152
Cash and cash equivalents at beginning of period	69,576,718	10,720,566
Cash and cash equivalents at end of period	\$ 67,830,880	\$ 69,576,718
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 65,683,880	\$ 57,076,718
Restricted cash	2,147,000	12,500,000
Cash and cash equivalents	\$ 67,830,880	\$ 69,576,718
SUPPLEMENTAL CASH FLOW INFORMATION:		
Capital acquisitions included in accounts payable	\$ 71,550	-

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

	2023	2022
Operating income	\$ 145,046,939	\$ 57,271,101
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	253,553	-
(Increase) decrease in:		
Accounts receivable, net	(60,126,741)	(49,270,869)
Accrued revenue	(31,853,169)	(34,719,306)
Prepaid expenses	(26,066,190)	(4,461,308)
Other receivables	(233,715)	4,043,272
Deposits	(7,965,293)	(5,791,057)
Increase (decrease) in:		
Accrued cost of electricity	20,113,838	41,086,784
Accounts payable	(185,693)	262,672
Other accrued liabilities	3,054,641	650,672
State surcharges payable	168,003	321,305
Supplier security deposits	(41,370,000)	41,604,000
Net cash provided by operating activities	\$ 836,173	\$ 50,997,266

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

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, 2023, parties to its Joint Powers Agreement consist of the following local governments:

County	Cities	
San Diego (Unincorporated)	Chula Vista	La Mesa
	Encinitas	National City
	Imperial Beach	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 – net 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, 2023 AND 2022**

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 will be outstanding. Also included are prepaid expenses and deposits for regulatory and other operating purposes.

CAPITAL ASSETS AND DEPRECIATION

SDCP's policy is to capitalize furniture and equipment valued over \$5,000 that is expected to be in service for over one year. Depreciation is computed according to the straight-line method over estimated useful lives of three years for electronic equipment, five years for furniture and seven years for leasehold improvements, unless limited by the length of the original lease term. SDCP does not own any electric generation assets.

LEASE ASSET AND LEASE LIABILITY

SDCP recognizes an asset and liability when it enters into certain leasing arrangements. The leased asset is amortized over the term of the lease. The lease liability is the present value of payments expected to be paid to the lessor during the lease term. SDCP's only leased asset and liability relate to its office premises.

DEPOSITS - 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.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

Net Investment in capital assets: This component of net position consists of capital and lease assets, net of accumulated depreciation and amortization, and reduced by outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net position consists of restraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted.”

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.”

REVENUE RECOGNITION

SDCP recognizes revenue on an 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 Electricity” in the Statements of Revenues, Expenses and Changes in Net Position.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

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.

RECLASSIFICATIONS

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements. These reclassifications did not result in any change in previously reported net position or change in net position.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. CASH AND CASH EQUIVALENTS

SDCP maintains its cash in accounts at River City Bank in Sacramento, CA and at JP Morgan Chase in New York, NY. SDCP's deposits are subject to California Government Code Section 16521 which requires that its banks collateralize public funds in excess of the Federal Deposit Insurance Corporation limit of \$250,000 by 110%.

On May 25, 2023, SDCP adopted its investment policy that prioritized safety of principle, liquidity, return on investments and standard of care. Additionally, the policy defined acceptable investment types, prohibited investment types, diversification and risk. SDCP additionally monitors its banking risk exposure on an ongoing basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	2023	2022
Accounts receivable from customers	\$ 132,721,648	\$ 54,413,346
Allowance for uncollectible accounts	(22,207,917)	(4,026,356)
Net accounts receivable	\$ 110,513,731	\$ 50,386,990

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. Although collection success generally decreases with the age of the receivable, SDCP continues to have success in collecting older accounts. The allowance for uncollectible accounts at the end of a year includes amounts billed during the current and prior fiscal years. The increase in the allowance from 2022 to 2023 is a result of the large growth in customers during the same period. Bad debt is reported as a reduction in electricity sales on the Statement of Revenues, Expenses, and Changes in Net Position.

4. CAPITAL ASSETS AND LEASE ASSET

Capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

	Furniture & Equipment	Accumulated Depreciation	Total
Balances at June 30, 2022	\$ -	\$ -	\$ -
Additions	163,138	(4,055)	159,083
Balances at June 30, 2023	\$ 163,138	\$ (4,055)	\$ 159,083

**SAN DIEGO COMMUNITY POWER
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4. CAPITAL ASSETS AND LEASE ASSET (continued)

Lease asset activity for the years ended June 30, 2023 and 2022 was as follows:

	<u>Lease Asset</u>	<u>Accumulated Amortization</u>	<u>Total</u>
Balances at June 30, 2022	\$ -	\$ -	\$ -
Additions	1,122,749	(249,498)	873,251
Balances at June 30, 2023	<u>\$ 1,122,749</u>	<u>\$ (249,498)</u>	<u>\$ 873,251</u>

5. 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 (RCB) 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, SDCP borrowed a total of \$31,340,000. During 2023, SDCP terminated this agreement and paid off its debt with RCB and entered into a new revolving credit agreement with JPMorgan (JPM) to borrow up to \$150,000,000. As security, SDCP assigned a security interest in all customer accounts receivable, revenues, debt service reserve accounts, and cash collateral accounts. Principal can be drawn as needed and interest is accrued on the outstanding balance. SDCP borrowed a total of \$35,730,000 from JPM during 2023. The stated maturity date is February 28, 2028, with interest payable each month. The interest rate at June 30, 2023, was computed at the One-Month CME Term SOFR plus 1.525-1.600% per annum depending on the utilized balance. In the event of default, the note becomes immediately due and payable. In addition to these borrowings, SDCP issued a Standby Letter of Credit secured by the line of credit agreement. At June 30, 2023, this Letter of Credit reduced the available portion of the line by approximately \$5,000,000, but is not considered debt to SDCP.

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 was due on May 21, 2023. The notes bear interest equal to the one-month LIBOR, or its replacement rate, plus 2% per annum. Interest payments were due quarterly, commencing when SDCP began selling electricity to customers. In August 2022, SDCP repaid both private loans in full.

SAN DIEGO COMMUNITY POWER
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5. 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, 2023				
Bank note payable - JPM	\$ -	\$ 35,730,000	\$ -	\$ 35,730,000
Bank note payable - RCB	31,340,082	20,180,000	(51,520,082)	-
Loans payable	5,000,000	-	(5,000,000)	-
Total	<u>\$ 36,340,082</u>	<u>\$ 55,910,000</u>	<u>\$ (56,520,082)</u>	<u>35,730,000</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 35,730,000</u>
Year ended June 30, 2022				
Bank note payable - RCB	\$ 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>	<u>36,340,082</u>
Amounts due within one year				5,000,000
Amounts due after one year				<u>\$ 31,340,082</u>

The following is a summary of SDCP's estimated future annual payment obligations, assuming the outstanding balance at June 30, 2023 continues for the remainder of the credit agreement. A rate of 6.59%, equal to the interest rate charge as of the year ended June 30, 2023, was used to calculate future interest. Also included in the calculation of future interest are charges associated with the unutilized portion of the loan. The rate used to calculate the unutilized portion was 0.62%, equal to the rate charged as of the year ended June 30, 2023. Future changes in market interest rates and outstanding principal balance will affect the actual future interest paid by SDCP.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2024	\$ -	\$ 3,063,181	\$ 3,063,181
2025	-	3,063,181	3,063,181
2026	-	3,063,181	3,063,181
2027	-	3,063,181	3,063,181
2028	35,730,000	2,042,121	37,772,121
Total	<u>\$ 35,730,000</u>	<u>\$ 14,294,845</u>	<u>\$ 50,024,845</u>

**SAN DIEGO COMMUNITY POWER
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6. DUE TO CITIES

Included in noncurrent liabilities as of June 30, 2022 are amounts advanced by the Cities of San Diego, La Mesa, and Encinitas (the Cities) to SDCP for start-up related costs. Interest does not accrue on the liabilities to the Cities. SDCP repaid this obligation during 2023.

The following is a schedule of changes in the balance due to cities during the period:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
Year ended June 30, 2023				
Start-up funds				
advanced from Cities	\$ 517,741	\$ -	\$ (517,741)	\$ -
Total	<u>\$ 517,741</u>	<u>\$ -</u>	<u>\$ (517,741)</u>	-
Amounts due within one year				-
Amounts due after one year				<u>\$ -</u>
	<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>	517,741
Amounts due within one year				-
Amounts due after one year				<u>\$ 517,741</u>

7. LEASE

A lease asset is reported in accordance with Governmental Accounting Standards Board No. 87 (GASB 87). According to GASB, the Statement aims to increase the usefulness of governments' financial statements by requiring reporting of certain lease assets and liabilities that previously were not recognized on the statement of net position. In November 2022, SDCP entered into a 24-month non-cancelable lease for its office premises. The rental agreement includes an option to renew the lease for an additional year. Rental payments under this lease were \$268,000 for the year ended June 30, 2023.

As of June 30, 2023, future minimum lease payments under this lease were projected as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2024	\$ 366,323	\$ 32,444	\$ 398,767
2025	383,152	15,615	398,767
2026	138,041	1,333	139,374
Total	<u>\$ 887,516</u>	<u>\$ 49,392</u>	<u>\$ 936,908</u>

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
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8. 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.

9. PURCHASE 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, 2023:

Year ending June 30,	
2024	\$ 628,800,000
2025	544,800,000
2026	330,600,000
2027	178,500,000
2028	124,400,000
2029-2047	1,052,500,000
Total	<u><u>\$ 2,859,600,000</u></u>

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2023:

GASB has approved GASB Statement No. 100, *Accounting Changes and Error Corrections – Amendment of GASB Statement No. 62*, and GASB Statement No. 101, *Compensated Absences*. When they become effective, application of these standards may restate portions of these financial statements.