

SAN DIEGO COMMUNITY POWER
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 & 2023
WITH REPORT OF
INDEPENDENT AUDITORS

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Independent Auditor's Report

To the Board of Directors
San Diego Community Power

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of San Diego Community Power (SDCP), which comprise the statements of net position as of June 30, 2024 and 2023, 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, 2024 and 2023, and the results of its operations and 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, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audits 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 audits.
- 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 audits 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 audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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.

Pisenti & Brinku LLP

Santa Rosa, California
November 5, 2024

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2024 AND 2023**

The purpose of management's discussion and analysis (MD&A) is to help stakeholders and other readers understand what the financial statements and notes in this report say about San Diego Community Power's (SDCP) financial health and why it has changed since last year. It contains information drawn from other parts of the report, accompanied by explanations informed by the finance staff's knowledge of SDCP's finances.

Overview of the Financial Statements

SDCP's financial report contains basic financial statements, which include:

- The *Statements of Net Position* include all of SDCP's assets, liabilities, and net position and provides information about the nature and amount of resources and obligations at a specific point in time.
- The *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 capital and non-capital and investing activities.
- The 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, 2024 AND 2023**

Financial Summary

SDCP'S NET POSITION

	2024	2023	2022
Current assets	\$ 533,740,155	\$ 300,522,958	\$ 165,105,688
Noncurrent assets:			
Capital assets, net	1,258,843	1,032,334	-
Other noncurrent assets	1,147,000	5,032,000	15,950,000
Total noncurrent assets	2,405,843	6,064,334	15,950,000
Total assets	536,145,998	306,587,292	181,055,688
Current liabilities	159,813,660	83,699,768	106,666,913
Noncurrent liabilities	949,956	36,875,193	31,857,823
Total liabilities	160,763,616	120,574,961	138,524,736
Net position			
Restricted for security collateral	1,647,000	2,147,000	2,500,000
Unrestricted	373,735,382	183,865,331	40,030,952
Total net position	\$ 375,382,382	\$ 186,012,331	\$ 42,530,952

The table shows that as of June 30, 2024, SDCP's total net position was approximately \$375,382,000, an increase of \$189,400,000 or 102% compared with June 30, 2023. Most of the increase in net position was concentrated in increases in cash and cash equivalents, as a result of SDCP's operating surplus discussed below.

SDCP's Changes in Net Position

	2024	2023	2022
Operating revenues	\$ 1,264,369,520	\$ 891,178,064	\$ 386,237,698
Nonoperating revenues - investments	9,384,873	433,366	14,603
Total income	1,273,754,393	891,611,430	386,252,301
Operating expenses	1,082,692,389	746,131,125	328,966,597
Nonoperating expenses	1,691,953	1,998,926	706,115
Total expenses	1,084,384,342	748,130,051	329,672,712
Change in net position	\$ 189,370,051	\$ 143,481,379	\$ 56,579,589

Increases in electricity sales accounted for most of the increase in total income. The cost of electricity, a component of operating expenses, increased by approximately 45% from fiscal year 2023 to fiscal year 2024.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2024 AND 2023**

Detailed Analysis

Current assets increased from \$300,500,000 at the end of fiscal year 2023 to \$533,700,000 at the end of fiscal year 2024. This increase was due to operating surpluses as well as the timing in paying operating expenses. Current assets at the end of fiscal year 2024 were primarily comprised of cash and cash equivalents of \$300,300,000, accounts receivable of \$103,500,000, and accrued revenue of \$76,900,000.

Capital assets are reported net of depreciation and amortization. See Note 4 to the basic financial statements for detail of changes for fiscal years 2024 and 2023. Capital assets held by SDCP include furniture, equipment, and intangible right-of-use lease assets.

Other noncurrent assets include certain restricted cash and cash equivalents of \$1,147,000 at the end of fiscal year 2024 and \$2,147,000 at the end of fiscal year 2023.

The largest component of current liabilities is the cost of electricity delivered to customers that is not yet paid by SDCP at the end of the fiscal year. Current liabilities for the cost of energy increased each year due to changes in payment terms of certain energy products, as well as the prices of those products.

Noncurrent liabilities consist of supplier security deposits, the long-term portion of lease payments for SDCP's office premises and long-term portion of the bank note payable. Most of the decrease in noncurrent liabilities is the result of retiring SDCP's bank note payable as described in the next section.

Operating revenues increased each year from fiscal years 2022 to 2024, primarily from increased load resulting from territory expansions and increases in electricity rates charged to customers. SDCP decreased the rates they charge to customers effective January 2024, but its sales volume was greater during the first half of the year before the change went into effect. The result was that overall revenues increased during fiscal year 2024. SDCP also receives revenues from sources other than retail customer sales. These sources include liquidated damage revenue resulting from supplier noncompliance with contract provisions and grant income used to assist with various customer programs. Revenue from liquidated damages increased from fiscal year 2023 to fiscal year 2024 primarily due to delays in the operations of certain energy supplier facilities and other contractual shortfalls.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2024 AND 2023**

Detailed Analysis (continued)

Investment income increased each year due to changes in market interest rates as well as increases in invested assets.

Operating expenses increased from fiscal year 2023 to fiscal year 2024, due to increased prices for certain products in the energy markets and expansion of its territory. 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 full year to the customers enrolled prior to fiscal year 2023, accounted for much of the increased revenue in fiscal year 2024. For all the years presented, the largest expense was the cost of electricity. SDCP procures energy from a variety of sources to minimize this risk and maintain a balanced renewable power portfolio.

Significant Capital Asset and Long-Term Financing Activity

SDCP does not own assets used for electric generation or distribution. Included in capital assets are office equipment, such as computers, furniture, and lease assets.

Assets that are leased by SDCP, such as office premises, are recorded in the Statement of Net Position with a related liability for future obligations.

During fiscal year 2024, SDCP repaid its bank note of \$35,730,000, reducing its outstanding financing debt to \$0.

Currently Known Facts, Decisions, or Conditions

SDCP is a community-owned organization that provides affordable clean energy and invests in the community to create an equitable and sustainable future for the San Diego region. The agency's vision is to be a global leader inspiring innovative solutions to climate change by powering our communities with 100% clean affordable energy while prioritizing equity, sustainability, and high-quality jobs.

In July 2024, SDCP introduced two new rate products to meet customer needs. Power100 Green+ and PowerBase, the two new products, are designed for companies that want to meet rigorous environmental standards or customers who want the lowest electricity rates possible, respectively.

SDCP also launched its Solar Battery Savings Program as a pilot with \$11,500,000 million in funding in the summer of 2024. Shortly thereafter, the California Public Utilities Commission approved SDCP and the County of San Diego's joint effort to establish a regional energy network, called "SDREN" that is poised to bring \$124,300,000 million in energy efficiency programs to the region through 2027.

**SAN DIEGO COMMUNITY POWER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2024 AND 2023**

Currently Known Facts, Decisions, or Conditions (continued)

The agency is continuing to evolve from a public agency startup to a San Diego institution. In the next year, program launches, and additional power purchase agreements will serve as foundational elements to provide our customers with the opportunity to take part in the clean energy transition while keeping rates competitive.

SDCP remains on track to meet its 100% renewable energy goal by 2035. With the ongoing expansion of local energy projects, continued focus on affordability and partnerships with regional stakeholders, SDCP is well-positioned to serve as a national leader in community choice energy and climate action.

Requests for Information

This financial report is designed to provide SDCP's board members, stakeholders, customers, and creditors with a general overview of 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 the finance department at P.O. Box 12716, San Diego, CA 92112-3716.

BASIC FINANCIAL STATEMENTS

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF NET POSITION
JUNE 30, 2024 AND 2023**

	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents - unrestricted	\$ 299,795,110	\$ 65,683,880
Cash and cash equivalents - restricted	500,000	-
Accounts receivable, net of allowance	103,512,165	110,513,731
Accrued revenue	76,863,423	78,792,784
Prepaid expenses	35,018,400	30,527,498
Other receivables	5,888,858	233,715
Deposits	12,162,199	14,771,350
Total current assets	533,740,155	300,522,958
Noncurrent assets		
Cash and cash equivalents - restricted	1,147,000	2,147,000
Capital assets, net of depreciation and amortization	1,258,843	1,032,334
Deposits	-	2,885,000
Total noncurrent assets	2,405,843	6,064,334
Total assets	536,145,998	306,587,292
LIABILITIES		
Current liabilities		
Accrued cost of electricity	148,116,316	77,345,343
Accounts payable	4,726,594	510,812
Other accrued liabilities	1,141,121	3,794,647
State surcharges payable	528,942	500,589
Deposits - energy suppliers	4,055,000	630,000
Interest and finance costs payable	281,283	552,054
Lease liabilities	964,404	366,323
Total current liabilities	159,813,660	83,699,768
Noncurrent liabilities		
Bank note payable	-	35,730,000
Deposits - energy suppliers	624,000	624,000
Lease liabilities	325,956	521,193
Total noncurrent liabilities	949,956	36,875,193
Total liabilities	160,763,616	120,574,961
NET POSITION		
Restricted for security collateral	1,647,000	2,147,000
Unrestricted	373,735,382	183,865,331
Total net position	\$ 375,382,382	\$ 186,012,331

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024	2023
OPERATING REVENUES		
Electricity sales, net	\$ 1,252,787,768	\$ 891,178,064
Grant revenue	983,500	-
Other income	10,598,252	-
Total operating revenues	1,264,369,520	891,178,064
OPERATING EXPENSES		
Cost of electricity	1,047,553,476	720,327,704
Contract services	19,750,534	15,957,376
Staff compensation	11,399,388	6,726,270
Other operating expenses	3,261,424	2,866,222
Depreciation and amortization	727,567	253,553
Total operating expenses	1,082,692,389	746,131,125
Operating income	181,677,131	145,046,939
NONOPERATING REVENUES (EXPENSES)		
Investment income	9,384,873	433,366
Interest and financing expense	(1,691,953)	(1,998,926)
Nonoperating revenues (expenses), net	7,692,920	(1,565,560)
CHANGE IN NET POSITION	189,370,051	143,481,379
Net position at beginning of year	186,012,331	42,530,952
Net position at end of year	\$ 375,382,382	\$ 186,012,331

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,264,068,317	\$ 801,265,394
Receipts of supplier security deposits	37,126,179	47,431,731
Other operating receipts	11,581,752	10,964,074
Payments to suppliers for electricity	(998,801,579)	(753,820,919)
Payments for goods and services	(22,030,135)	(16,547,960)
Payments for staff compensation and benefits	(11,066,586)	(6,302,492)
Payments for deposits and collateral	(15,783,943)	(80,254,418)
Payments of state surcharges	(2,321,269)	(1,899,237)
Net cash provided by operating activities	<u>262,772,736</u>	<u>836,173</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from bank notes	-	55,910,000
Principal payments - loans and advances from cities	-	(5,517,741)
Principal payments - bank note	(35,730,000)	(51,520,082)
Interest and related expense payments	(1,909,624)	(1,560,734)
Net cash used by non-capital financing activities	<u>(37,639,624)</u>	<u>(2,688,557)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of lease liabilities	(604,328)	(235,232)
Payments to acquire capital assets	(71,550)	(91,588)
Net cash used by capital and related financing activities	<u>(675,878)</u>	<u>(326,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>9,153,996</u>	<u>433,366</u>
Net change in cash and cash equivalents	233,611,230	(1,745,838)
Cash and cash equivalents at beginning of year	67,830,880	69,576,718
Cash and cash equivalents at end of year	<u>\$ 301,442,110</u>	<u>\$ 67,830,880</u>
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 299,795,110	\$ 65,683,880
Restricted cash - current	500,000	-
Restricted cash - noncurrent	1,147,000	2,147,000
Cash and cash equivalents	<u>\$ 301,442,110</u>	<u>\$ 67,830,880</u>

**SAN DIEGO COMMUNITY POWER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2024 AND 2023**

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

	<u>2024</u>	<u>2023</u>
Operating income	\$ 181,677,131	\$ 145,046,939
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	727,567	253,553
(Increase) decrease in:		
Accounts receivable, net	7,001,566	(60,126,741)
Accrued revenue	1,929,361	(31,853,169)
Prepaid expenses	(4,490,902)	(26,066,190)
Other receivables	(5,424,266)	(233,715)
Deposits	5,494,151	(7,965,293)
Increase (decrease) in:		
Accrued cost of electricity	70,770,973	20,113,838
Accounts payable	4,287,328	(185,693)
Other accrued liabilities	(2,653,526)	3,054,641
State surcharges payable	28,353	168,003
Deposits - energy suppliers	3,425,000	(41,370,000)
Net cash provided by operating activities	<u>\$ 262,772,736</u>	<u>\$ 836,173</u>

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023**

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, 2024, 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 related 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, 2024 AND 2023**

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. The Statements of Net Position presents restricted cash balances separately. Restricted cash reported on the Statements of Net Position includes collateral related to a bank line of credit, as well as a required minimum balance to be maintained in one of its bank accounts.

PREPAID EXPENSES

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid expenses.

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.

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, and five years for furniture. Leasehold improvements are depreciated over the lesser of seven years or the length of the original lease term. SDCP does not own any electric generation assets.

LEASE ASSETS AND LEASE LIABILITIES

SDCP recognizes an asset and liability when it enters into certain leasing arrangements. The leased assets are amortized over the term of the leases. The lease liabilities are the present value of payments expected to be paid to the lessors during the terms of the lease. SDCP's only leased assets and liabilities 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, 2024 AND 2023**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION

Net position is presented in the following components:

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 “restricted.”

OPERATING AND NONOPERATING REVENUE

Operating revenues include revenue derived from the provision of energy to retail and wholesale customers, program-related grants, and liquidated damages resulting from counterparties who are unable to fulfill certain contractual obligations.

Investment income is considered nonoperating revenue.

REVENUE RECOGNITION

SDCP recognizes revenue according to 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 electricity, 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 (CAISO) 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, 2024 AND 2023**

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 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 CAISO to ensure the safe and reliable operation of the electrical 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 or change in net position.

**SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023**

2. CASH AND CASH EQUIVALENTS

SDCP maintains its cash in accounts at River City Bank (RCB) 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%.

In June 2024, SDCP revised its investment policy that prioritizes safety of principal, 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:

	<u>2024</u>	<u>2023</u>
Accounts receivable from customers	\$ 141,912,165	\$ 132,721,648
Allowance for uncollectible accounts	<u>(38,400,000)</u>	<u>(22,207,917)</u>
Net accounts receivable	<u>\$ 103,512,165</u>	<u>\$ 110,513,731</u>

The majority of account collections occur within the first few months after a customer is invoiced. 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. Amounts estimated to be uncollectible are reported as a reduction in electricity sales on the Statement of Revenues, Expenses, and Changes in Net Position.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2024 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Capital assets being depreciated and amortized:			
Furniture and equipment	\$ 163,138	\$ -	\$ 163,138
Lease assets	1,122,749	954,076	2,076,825
Total capital assets being depreciated and amortized:	<u>1,285,887</u>	<u>954,076</u>	<u>2,239,963</u>
Less accumulated depreciation and amortization:			
Furniture and equipment	(4,055)	(35,299)	(39,354)
Lease assets	(249,498)	(692,268)	(941,766)
Total accumulated depreciation and amortization	<u>(253,553)</u>	<u>(727,567)</u>	<u>(981,120)</u>
Total capital assets, net of depreciation and amortization	<u>\$ 1,032,334</u>	<u>\$ 226,509</u>	<u>\$ 1,258,843</u>

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Capital assets being depreciated and amortized:			
Furniture and equipment	\$ -	\$ 163,138	\$ 163,138
Lease assets	-	1,122,749	1,122,749
Total capital assets being depreciated and amortized:	<u>-</u>	<u>1,285,887</u>	<u>1,285,887</u>
Less accumulated depreciation and amortization:			
Furniture and equipment	-	(4,055)	(4,055)
Lease assets	-	(249,498)	(249,498)
Total accumulated depreciation and amortization	<u>-</u>	<u>(253,553)</u>	<u>(253,553)</u>
Total capital assets, net of depreciation and amortization	<u>\$ -</u>	<u>\$ 1,032,334</u>	<u>\$ 1,032,334</u>

**SAN DIEGO COMMUNITY POWER
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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 was collected from customers. In March 2022, the agreement was amended and the amount available to SDCP increased to \$50,000,000. During 2023, SDCP terminated this agreement and retired its debt to RCB and entered into a new revolving credit agreement with JPMorgan (JPM) to borrow up to \$150,000,000. In October 2024, SDCP amended its credit agreement with JPM to increase the borrowing limit to \$250,000,000. 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 borrowings, SDCP issues Standby Letters of Credit secured by the line of credit agreement that reduces the available portion of the line but is not considered debt to SDCP. During 2024, the bank note balance was fully repaid.

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, 2024				
Bank note payable - JPM	\$ 35,730,000	\$ -	\$ (35,730,000)	\$ -
Amounts due within one year				-
Amounts due after one year				<u>\$ -</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>

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

Lease assets and lease liabilities are reported in accordance with Governmental Accounting Standards Board Statement No. 87 (GASB 87).

PROPERTY LEASES

In November 2022, SDCP entered into a 24-month non-cancelable lease for its office premises. This lease will not be renewed when it expires. In order to accommodate additional staff, SDCP entered into a separate 24-month non-cancelable lease in October 2023. This lease includes an option to renew the lease for an additional year.

Rental payments for SDCP’s office space were \$610,000 and \$268,000 for the fiscal years ended June 30, 2024 and 2023, respectively.

As of June 30, 2024, future minimum lease payments were projected as follows:

	Principal	Interest	Total
Year ended June 30,			
2025	\$ 964,404	\$ 51,044	\$ 1,015,448
2026	325,956	3,950	329,906
Total	\$ 1,290,360	\$ 54,994	\$ 1,345,354

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The San Diego Community Power Plan (Plan) is a defined contribution retirement plan established by SDCP to provide benefits at retirement to its employees. The Plan is administered by Empower Retirement. As of June 30, 2024, there were 56 plan members. SDCP is required to contribute 10% of annual covered payroll to the Plan and contributed \$864,000 and \$476,000 during the fiscal years ended June 30, 2024 and 2023, respectively. The Plan includes vesting provisions intended to encourage employee retention. Plan provisions and contribution requirements are established and may be amended by the Board of Directors.

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, cybersecurity, 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 a comprehensive risk management framework to identify and mitigate credit, liquidity, market, operational, regulatory, and other risks associated with participation in the California energy market. The framework employs credit risk strategies, including a preference for transacting with investment-grade counterparties, establishing credit limits, and securing collateral when necessary. To address market risks, SDCP utilizes hedging strategies, netting arrangements, and liquidity monitoring. Internal controls and compliance mechanisms are in place to manage operational and regulatory risks, ensuring adherence to legal and market regulations. Risk monitoring and oversight are continuously performed through frequent reporting, with key risks communicated promptly to stakeholders. This integrated approach enables SDCP to maintain a balanced risk profile while adapting to evolving market conditions.

SAN DIEGO COMMUNITY POWER
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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, 2024:

Year ending June 30,	
2025	\$ 802,300,000
2026	578,400,000
2027	486,800,000
2028	561,500,000
2029	554,600,000
2030-2047	<u>6,909,700,000</u>
Total	<u>\$ 9,893,300,000</u>

10. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2024:

GASB has approved GASB Statement No. 102, *Certain Risk Disclosures*, and GASB Statement No. 103, *Financial Reporting Model Improvements*.

Management is evaluating the effect of implementation of these statements.

**SAN DIEGO COMMUNITY POWER
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11. SUBSEQUENT EVENT

In October 2024, SDCP became a member of a joint powers agreement (JPA) through the California Community Choice Financing Authority (CCCFA). CCCFA was formed as a conduit issuer to assist its members by undertaking the financing or refinancing of energy prepayments that can be financed with tax advantaged bonds on behalf of one or more of the members by issuing or incurring bonds and entering into related contracts with its members. Any debt or liability incurred by CCCFA on behalf of a member to prepay for renewable energy is not a debt or liability of that member. Furthermore, the assets of CCCFA in the form of prepaid energy or reserves held by the respective bond trustees for any prepayment transaction undertaken on behalf of a member does not constitute an asset or reserve of that member. CCCFA has not yet issued any bonds whose proceeds related to financing energy purchases for SDCP. The financial statements of CCCFA are available online at <http://www.cccfa.org/key-documents.html>.