



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022 AND
PERIOD ENDED JUNE 30, 2021
WITH REPORT OF INDEPENDENT AUDITORS



**ORANGE COUNTY POWER AUTHORITY
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

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Independent Auditor's Report

To the Board of Directors
Orange County Power Authority
Irvine, California

Opinion

We have audited the financial statements of Orange County Power Authority (OCPA), 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 OCPA 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 OCPA 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 OCPA'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.

Independent Auditor's Report (continued)

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 OCPA'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 OCPA'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.



Santa Rosa, California
November 28, 2022

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

The Management's Discussion and Analysis provides an overview of Orange County Power Authority's (OCPA) financial activities as of and for the year ended June 30, 2022, and from inception (November 20, 2020) through June 30, 2021. The information presented here should be considered in conjunction with the audited financial statements.

BACKGROUND

The formation of OCPA 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.

OCPA is a Community Choice Aggregator established on November 20, 2020, pursuant to Public Utilities Code Section 366.2 and operating as a Joint Powers Authority (JPA) pursuant to Government Code section 6500 et seq. OCPA was established for the acquisition of electric power for its service area as well as to provide other benefits to the residential, commercial, industrial, agricultural customers in communities located within the Unincorporated County of Orange as well as the Cities of Buena Park, Fullerton, Huntington Beach, and Irvine.

OCPA is committed to reducing greenhouse gas (GHG) emissions through long-term contracts for existing and new utility scale renewable electricity generation while providing customer choice and cost savings. OCPA also aims to carry out innovative energy initiatives that reduce energy demand and increase energy efficiency, stimulating the local economy by creating jobs in renewable energy, as well as promoting long-term electric rate stability and energy reliability for residents and businesses.

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

In April 2022, OCPA began providing service to approximately 37,000 commercial, industrial, and agricultural customer accounts and in October 2022, OCPA started enrolling all residential customers accounts as part of its second enrollment phase. At the end of fiscal year ended June 30, 2023, OCPA will enroll approximately 259,000 customer accounts. In late 2023, OCPA expects to add approximately 50,000 customer accounts that reside and operate in the Unincorporated County of Orange that joined the agency in December 2021.

OCPA is governed by a Board consisting of six members and alternates representing the participating communities, including one elected official appointed by each member jurisdiction. The City of Irvine has a second representative until start-up funds are repaid to the City. OCPA has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

Financial Reporting

OCPA 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's discussion and analysis, which provides an overview of the financial operations.

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

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

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

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

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

FINANCIAL HIGHLIGHTS

The following is a summary of OCPA's assets, liabilities, and net position and a discussion of significant changes for the year ended June 30, 2022, and the period from inception to June 30, 2021:

	<u>2022</u>	<u>2021</u>
Current assets		
Cash	\$ 14,092,407	\$ 1,855,187
Investments	147,587	147,083
Accounts receivable & accrued revenue	23,511,471	-
Other current assets	7,901,392	4,815
Total current assets	<u>45,652,857</u>	<u>2,007,085</u>
Accrued cost of electricity	28,601,167	-
Other current liabilities	1,447,681	289,769
Noncurrent liabilities	<u>15,394,307</u>	<u>2,652,380</u>
Total liabilities	<u>45,443,155</u>	<u>2,942,149</u>
Net position		
Unrestricted (deficit)	<u>209,702</u>	<u>(935,064)</u>
Total net position	<u>\$ 209,702</u>	<u>\$ (935,064)</u>

Current Assets

OCPA began providing electricity to non-residential customers in April 2022, which accounts for the increase in current assets.

Current assets were \$45,653,000 at the end of June 30, 2022 and are mostly comprised of cash, accounts receivable, accrued revenue, and other current assets. Accrued revenue differs from accounts receivable in that it is the result of electricity used by OCPA customers before invoicing to those customers has occurred. The increase in other current assets from 2021 to 2022 is due to prepayments for electricity made to suppliers.

Current Liabilities

The most significant element of current liabilities are obligations to pay the cost of electricity delivered to customers that is not yet due to be paid by OCPA. Current liabilities increased year-over-year with the roll-out of providing electricity to customers.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

Noncurrent Liabilities

During 2021, OCPA borrowed \$2,652,380 from the City of Irvine which is classified as a noncurrent liability. These funds were intended to cover the actual formation costs of \$152,380 that was paid directly to various professional consultants by the City and the pre-launch costs of \$2,500,000 that OCPA incurred during its start-up phase. During 2022, OCPA borrowed an additional \$5,000,000 from the City to be used as collateral for its MUFUG Union Bank credit facility.

Also included in noncurrent liabilities is a note payable to MUFUG Union Bank. OCPA borrowed \$11,450,000 from MUFUG Union Bank and repaid \$3,800,000 during 2021-22.

Results of Operations

The following is a summary of OCPA's results of operations and a discussion of significant changes for the year ended June 30, 2022, and the period from inception to June 30, 2021:

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 37,789,664	\$ -
Nonoperating revenues	852	83
Total revenues	<u>37,790,516</u>	<u>83</u>
Operating expenses	36,446,326	918,400
Nonoperating expenses	199,424	16,747
Total expenses	<u>36,645,750</u>	<u>935,147</u>
Change in net position	<u>\$ 1,144,766</u>	<u>\$ (935,064)</u>

Operating Revenues

OCPA enrolled its first wave of commercial, industrial, agricultural, and municipal customer accounts in April 2022. Operating revenues are derived from the sale of electricity to nonresidential customers throughout its territory. OCPA reports its revenue net of an allowance for uncollectible accounts. OCPA began selling electricity to customers in April 2022 and had approximately 37,000 customers as of June 30, 2022. OCPA's gross profit margin for 2022 was approximately 14.8%, as operating revenues exceeded the cost of electricity by \$5,155,000.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

Operating Expenses

Expenses incurred during 2021 were the result of the start-up and implementation of OCPA. No expenses during 2021 were related to energy purchases. The increase in operating expenses from 2021 to 2022 is largely the result of energy acquired for customer use. OCPA procures energy from a variety of sources and focuses on purchasing at competitive costs and maintaining a balanced renewable power portfolio. Expenses for contract services, staff compensation, and other general and administrative expenses increased in 2022 as the organization grew to operational strength.

Nonoperating Expenses

Interest expense on borrowings during 2022 are included as nonoperating expenses. Interest expense increase in 2022 as a result of increased borrowings.

ECONOMIC OUTLOOK

OCPA has heralded in a new era of consumer choice and renewable energy in Orange County. OCPA is projected to procure over 91% of its energy from renewable energy sources, making it one of the greenest energy portfolios in California. Annual GHG reductions from OCPA will result in the equivalent of removing 200,000 cars from the road.

With our April 1st commercial launch, approximately 37,000 commercial, industrial, agricultural, and municipal customer accounts have chosen a more sustainable source of power that will help fight climate change and reduce carbon emissions.

Our power supply team has expertly managed the risk of power supply price volatility, fully hedging our 2022 needs with significant progress for future years, including into 2025.

OCPA remains committed to our mission of providing cleaner energy at competitive prices while promoting the economic vitality for our community.

REQUEST FOR INFORMATION

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

Please address any questions about this report or requests for additional financial information to P.O. Box 54283, Irvine, CA 92619.

Respectfully submitted,

Brian S. Probolsky, CEO

BASIC FINANCIAL STATEMENTS

ORANGE COUNTY POWER AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
Current assets		
Cash	\$ 8,092,407	\$ 1,855,187
Restricted cash	6,000,000	-
Investments	147,587	147,083
Accounts receivable, net of allowance	11,001,319	-
Accrued revenue	12,510,152	-
Other receivables	1,872,916	-
Prepaid expenses	5,803,900	-
Deposits	224,576	4,815
Total current assets	<u>45,652,857</u>	<u>2,007,085</u>
 LIABILITIES		
Current liabilities		
Accrued cost of energy	28,601,167	-
Accounts payable	583,751	175,369
Other accrued liabilities	237,519	114,400
User taxes and energy surcharges due to other governments	594,784	-
Accrued interest and financing costs	31,627	-
Total current liabilities	<u>30,048,848</u>	<u>289,769</u>
 Noncurrent liabilities		
Note payable	7,650,000	-
Loans payable	7,652,380	2,652,380
Accrued interest and financing costs	91,927	-
Total noncurrent liabilities	<u>15,394,307</u>	<u>2,652,380</u>
Total liabilities	<u>45,443,155</u>	<u>2,942,149</u>
 NET POSITION		
Unrestricted (deficit)	<u>209,702</u>	<u>(935,064)</u>
Total net position	<u>\$ 209,702</u>	<u>\$ (935,064)</u>

**ORANGE COUNTY POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

	2022	Inception to June 30, 2021
OPERATING REVENUES		
Electricity sales, net	\$ 37,789,664	\$ -
OPERATING EXPENSES		
Cost of energy	32,635,024	-
Contract services	2,572,456	589,947
Staff compensation	1,038,151	272,202
General and administration	200,695	56,251
Total operating expenses	36,446,326	918,400
Operating income (loss)	1,343,338	(918,400)
NONOPERATING REVENUES (EXPENSES)		
Investment income	852	83
Interest and financing expense	(199,424)	(16,747)
Nonoperating revenues (expenses), net	(198,572)	(16,664)
CHANGE IN NET POSITION	1,144,766	(935,064)
Net position at beginning of period	(935,064)	-
Net position at end of period	\$ 209,702	\$ (935,064)

ORANGE COUNTY POWER AUTHORITY
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

	<u>2022</u>	<u>Inception to June 30, 2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 14,872,977	\$ -
Receipts from market settlements	913,054	-
Other operating receipts	4,815	-
Payments to suppliers for electricity	(12,794,428)	-
Payments for goods and services	(2,347,288)	(294,595)
Payments to employees for services	(969,641)	(203,218)
Net cash used by operating activities	<u>(320,511)</u>	<u>(497,813)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from note payable	11,450,000	-
Proceeds from loan payable	5,000,000	2,500,000
Principal payments on note payable	(3,800,000)	-
Interest and related expense payments	(92,617)	-
Net cash provided by non-capital financing activities	<u>12,557,383</u>	<u>2,500,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	-	(147,000)
Interest income received	348	-
Net cash provided (used) by investing activities	<u>348</u>	<u>(147,000)</u>
Net change in cash	12,237,220	1,855,187
Cash at beginning of period	1,855,187	-
Cash at end of period	<u>\$ 14,092,407</u>	<u>\$ 1,855,187</u>
Reconciliation to the Statement of Net Position		
Cash (unrestricted)	\$ 8,092,407	\$ 1,855,187
Restricted cash	6,000,000	-
Cash	<u>\$ 14,092,407</u>	<u>\$ 1,855,187</u>

Noncash Non-Capital Financing Activities:

Expenses related to formation costs of \$152,380 were financed from loan proceeds during the period from inception to June 30, 2021.

**ORANGE COUNTY POWER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

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

	<u>2022</u>	<u>Inception to June 30, 2021</u>
Operating income (loss)	\$ 1,343,338	\$ (918,400)
Adjustments to reconcile operating income (loss) to net cash used by operating activities		
Expenses paid directly from loan proceeds	-	152,380
Revenue adjusted for allowance for uncollectible accounts	484,679	-
(Increase) decrease in:		
Accounts receivable	(11,485,998)	-
Other receivables	(1,872,916)	-
Accrued revenue	(12,510,152)	-
Prepaid expenses	(5,803,900)	-
Deposits	(219,761)	(4,815)
Increase (decrease) in:		
Accrued cost of electricity	28,601,167	-
Accounts payable	408,382	175,369
Other accrued liabilities	139,866	97,653
User taxes and energy surcharges due to other governments	594,784	-
Net cash used by operating activities	<u>\$ (320,511)</u>	<u>\$ (497,813)</u>

**ORANGE COUNTY POWER AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

1. REPORTING ENTITY

Orange County Power Authority (OCPA) is a California joint powers authority created on November 20, 2020, and its jurisdictions consist of the following local governments as of June 30, 2022:

County	Cities	
Orange (unincorporated)	Buena Park Fullerton	Huntington Beach Irvine

OCPA is separate from and derives no financial support from its members. OCPA is governed by a Board of Directors comprised of six regular members with six alternates representing the participating communities. OCPA’s Board members are elected officials of the member governments.

OCPA was formed to acquire retail electricity for the residents and businesses within its members’ jurisdiction, study, promote, conduct, operate, and manage energy and energy-related climate change programs, and to exercise all other powers necessary and incidental to accomplishing these objectives. A core function of OCPA 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.

OCPA began its energy delivery operations in April 2022. Electricity is acquired from commercial suppliers and delivered through existing physical infrastructure and equipment managed by Southern California Edison (SCE).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

OCPA’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.

OCPA’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, OCPA will use restricted resources first, then unrestricted resources as they are needed.

ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH

For purpose of the Statement of Cash Flows, OCPA defines cash to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. Restricted cash reported on the Statements of Net Position includes collateral for a note payable as well as a required minimum balance to be maintained in one of OCPA's bank accounts.

PREPAID EXPENSES AND DEPOSITS

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

OPERATING AND NONOPERATING REVENUE

Operating revenues include retail electricity sales to customers. The vast majority of operating revenue is derived from these sales. Investment income is considered nonoperating revenue.

NET POSITION

Net position is presented in the following components:

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

REVENUE RECOGNITION

OCPA 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 as of the end of the period. 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, data management expenses, SCE service fees, consultants and other professional fees, legal, staff compensation and benefits, general and administrative expenses. Expenses not meeting this definition are reported as nonoperating expenses.

ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ELECTRICAL POWER PURCHASED

During the normal course of business, OCPA 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 OCPA'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, OCPA acquires RPS eligible renewable energy evidenced by Renewable Energy Certificates (Certificates) recognized by the Western Renewable Energy Generation Information System (WREGIS). OCPA obtains Certificates with the intent to retire them and does not sell or build surpluses of Certificates with a profit motive.

OCPA 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

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

INCOME TAXES

OCPA 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.

ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

3. CASH

OCPA maintains its cash in interest and non-interest-bearing accounts at First Republic Bank and MUFG Union Bank. OCPA's deposits are subject to California Government Code Section 16521 which requires that banks collateralize the amount of public funds in excess of the Federal Deposit Insurance Corporation limit of \$250,000 by 110%. OCPA does not have an investment policy but will develop one that addresses a specific type of risk that would impose restrictions beyond this code. Accordingly, the amount of risk is not disclosed. OCPA monitors its risk exposure on an ongoing basis. As of June 30, 2022, all of OCPA's cash was held in depository accounts or certificates of deposit.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows as of June 30:

	2022	2021
Accounts receivable from customers	\$ 11,485,998	\$ -
Allowance for uncollectible accounts	(484,679)	-
Net accounts receivable	\$ 11,001,319	\$ -

The majority of account collections occur within the first few months following customer invoicing. OCPA estimates that a portion of the billed accounts will not be collected. OCPA continues collection efforts on delinquent 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, OCPA continues to have success in collecting older accounts. The allowance for uncollectible accounts at the end of a period includes amount billed during the current fiscal year.

5. DEBT

NOTE PAYABLE

On September 20, 2021, OCPA arranged to borrow up to \$35 million from MUFG Union Bank, N.A. (MUFG) to provide cash to pay for energy purchases and operating expenses which are due before sufficient cash is to be collected from customers. The MUFG credit facility is secured by a pledge of the net revenues of OCPA after payment of energy providers and other operating expenses and a cash collateral account in the amount of \$5 million, which was borrowed from the City of Irvine pursuant to a Capital Loan Agreement with OCPA.

Principal can be drawn as needed and interest will accrue on the outstanding balance. The maturity date for the revolving credit facility is September 18, 2026. Interest is due monthly based on a daily Secured Overnight Financing Rate (SOFR). The interest rate at June 30, 2022 was 2.38% per annum.

ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

5. DEBT (continued)

LOANS PAYABLE

PRE-LAUNCH

In January 2021, OCPA borrowed \$2,500,000 from the City of Irvine (the City), to be used for working capital costs associated with OCPA's launch. In September 2021, OCPA borrowed an additional \$5,000,000 from the City to be used as collateral for its Union Bank credit facility. The loan repayment due date is January 1, 2027. Interest is due on the loan in an amount based on the gross earnings for the respective quarter as reported in the City Treasurer's monthly investment report. The estimated interest rate as of June 30, 2022 was 1.5% per annum.

FORMATION COSTS

Also included as a loan payable are formation-related costs of \$152,380 paid directly by the City to various professional consultants. OCPA will reimburse the City no later than January 1, 2027. Interest does not accrue on the formation costs advanced by the City.

Note and loan principal activity and balances were as follows:

	Beginning	Additions	Payments	Ending
Year ended June 30, 2022				
Note payable	\$ -	\$ 11,450,000	\$ (3,800,000)	\$ 7,650,000
Loan payable-pre-launch costs	2,500,000	5,000,000	-	7,500,000
Loan payable-formation costs	152,380	-	-	152,380
Total	<u>\$ 2,652,380</u>	<u>\$ 16,450,000</u>	<u>\$ (3,800,000)</u>	<u>15,302,380</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 15,302,380</u>

	Beginning	Additions	Payments	Ending
Period ended June 30, 2021				
Loan payable-pre-launch costs	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000
Loan payable-formation costs	-	152,380	-	152,380
Total	<u>\$ -</u>	<u>\$ 2,652,380</u>	<u>\$ -</u>	<u>2,652,380</u>
Amounts due within one year				-
Amounts due after one year				<u>\$ 2,652,380</u>

ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021

6. DEFINED CONTRIBUTION RETIREMENT PLAN

OCPA provides retirement benefits to eligible employees through a 401(a) Retirement Plan (Plan). The Plan is a defined contribution (IRC 401(a)) retirement plan established to provide benefits at retirement to employees of certain qualified employers admitted by the Plan. The Plan is administered by Lincoln Financial. As of June 30, 2022, there were six plan participants. OCPA is required to contribute 10% of annual covered payroll as a match to required employee contributions. OCPA contributed approximately \$31,000 and \$0 during the years ended June 30, 2022 and 2021, respectively. OCPA has elected out of the Social Security system for employees eligible for the Plan. Plan provisions and contribution requirements are established and may be amended by the Board of Directors. OCPA also provides a 457(b) Retirement Plan where employees may elect to participate and make tax deferred contributions. OCPA's employer contribution to the 457(b) plan will match the employee's voluntary contribution, up to a maximum of 4% of salary.

7. RISK MANAGEMENT

OCPA 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, OCPA purchased insurance policies from investment-grade commercial carriers to mitigate risks that include those associated with cyber and private liability, earthquakes, theft, general liability, errors and omissions, and property damage. OCPA has general liability coverage of \$2,000,000 with a deductible of \$250.

OCPA maintains energy 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, OCPA enters into netting arrangements whenever possible and where appropriate obtains collateral and other performance assurances from counterparties.

**ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022 AND PERIOD FROM INCEPTION TO JUNE 30, 2021**

8. PURCHASE COMMITMENTS

POWER AND ELECTRIC CAPACITY

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

OCPA enters into power purchase agreements in order to comply with state law and voluntary targets for renewable and greenhouse gas (GHG) free products and to ensure stable and competitive electric rates for its customers.

The following table details the expected, undiscounted, contractual obligations outstanding as of June 30, 2022:

Year ending June 30,	
2023	\$247,900,000
2024	203,200,000
2025	119,200,000
2026	54,100,000
2027	33,000,000
2028-2030	<u>24,100,000</u>
	<u><u>\$681,500,000</u></u>

9. FUTURE GASB PRONOUNCEMENTS

The requirements of the following GASB Statements are effective for years ending after June 30, 2022:

GASB has approved GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, GASB Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, GASB Statement No. 99, *Omnibus 2022*, GASB Statement No. 100, *Accounting Changes and Error Corrections – An 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.