



ORANGE COUNTY POWER AUTHORITY

FINANCIAL STATEMENTS

FISCAL PERIOD ENDED JUNE 30, 2021

WITH REPORT OF

INDEPENDENT AUDITORS

**ORANGE COUNTY POWER AUTHORITY
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Orange County Power Authority (OCPA), which comprise the statement of net position as of June 30, 2021, the related statements of revenues, expenses and changes in net position, and cash flows for the period from November 20, 2020 (inception date) to June 30, 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County Power Authority as of June 30, 2021 and the results of the financial position and cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

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

Resenti & Brinku LLP

Santa Rosa, California
December 21, 2021

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

The Management's Discussion and Analysis provides an overview of Orange County Power Authority's (OCPA) financial activities from inception to 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 Cities of Buena Park, Fullerton, Huntington Beach, and Irvine.

When fully operational in fiscal year 2022-23, OCPA will serve approximately 289,000 accounts. 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 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.

OCPA is governed by a Board consisting of five members and alternates representing the participating communities. OCPA's Board is comprised of elected officials appointed by each member jurisdiction with the exception of the City of Irvine, who appointed two directors until start-up funds are repaid. OCPA has the rights and powers to set rates for the services it furnishes, incur indebtedness, and issue bonds.

OCPA will begin providing electricity to all non-residential customers in April 2022 and residential customers in October 2022.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) 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 amount 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 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
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

FINANCIAL HIGHLIGHTS

The following table is a summary of OCPA's assets, liabilities, and net position as of June 30, 2021:

Current assets	<u>\$ 2,007,085</u>
Current liabilities	289,769
Noncurrent liabilities	<u>2,652,380</u>
Total liabilities	<u>2,942,149</u>
Net position	
Unrestricted (deficit)	<u>(935,064)</u>
Total net position	<u><u>\$ (935,064)</u></u>

Current Assets

Current assets are mostly comprised of cash and investments.

Current Liabilities

Current liabilities consist of trade accounts payable and accrued expenses for services and general and administrative costs, accrued payroll, and accrued interest expense.

Noncurrent Liabilities

During 2020-21, OCPA borrowed \$2,500,000 from the City of Irvine which is classified as a noncurrent liability. These funds are intended to cover costs OCPA incurs during its start-up phase.

Also included in noncurrent liabilities is \$152,380 for start-up related costs owed to the City of Irvine.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

Results of Operations

The following table is a summary of OCPA’s results of operations from inception (November 20, 2020) through June 30, 2021:

Interest income	<u>\$ 83</u>
Operating expenses	918,400
Nonoperating expenses	<u>16,747</u>
Total expenses	<u>935,147</u>
Change in net position	<u>\$ (935,064)</u>

Operating Expenses

Expenses for contract services, staff compensation, and other general and administrative expenses are included in operating expenses.

Nonoperating Expenses

Interest expense on borrowings during 2020-21 are included as nonoperating expenses.

ECONOMIC OUTLOOK

OCPA will launch its service offering to all non-residential accounts within the Cities of Buena Park, Fullerton, Huntington Beach, and Irvine in April 2022 and to all residential accounts in October 2022. This approach provides OCPA with the ability to initiate its program with sufficient economic scale before building to full program integration for an expected customer base of approximately 289,000 accounts, net of customer opt-outs.

This will result in a large increase in expenses, as OCPA will begin to procure the electric resources needed to sell to its customers. While this will mark the first period of revenue recognition, OCPA plans to utilize its revolving line of credit to provide for working capital needs until sufficient customer receipts are collected.

On November 16, 2021, the Orange County Board of Supervisors voted to join OCPA. This will add approximately 130,000 accounts to the OCPA service area. OCPA will file an amended implementation plan by December 31, 2021, with the California Public Utilities Commission (Commission) for expansion into unincorporated Orange County with the expected start of service in January 2023.

**ORANGE COUNTY POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

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
STATEMENT OF NET POSITION
AS OF JUNE 30, 2021**

ASSETS

Current assets	
Cash	\$ 1,855,187
Investments	147,083
Deposits	4,815
Total current assets	<u>2,007,085</u>

LIABILITIES

Current liabilities	
Accounts payable	175,369
Other accrued liabilities	114,400
Total current liabilities	<u>289,769</u>
Noncurrent liabilities	
Loans payable	2,652,380
Total liabilities	<u>2,942,149</u>

NET POSITION

Unrestricted (deficit)	(935,064)
Total net position	<u>\$ (935,064)</u>

**ORANGE COUNTY POWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INCEPTION (NOVEMBER 20, 2020) THROUGH JUNE 30, 2021**

OPERATING REVENUES		\$	-
 OPERATING EXPENSES			
Contract services			589,947
Staff compensation			272,202
General and administration			56,251
Total operating expenses			<u>918,400</u>
Operating loss			<u>(918,400)</u>
 NONOPERATING REVENUES (EXPENSES)			
Investment income			83
Interest and financing expense			<u>(16,747)</u>
Nonoperating revenues (expenses), net			<u>(16,664)</u>
 CHANGE IN NET POSITION			 (935,064)
Net position at beginning of period			<u>-</u>
Net position at end of period		\$	<u><u>(935,064)</u></u>

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

ORANGE COUNTY POWER AUTHORITY
STATEMENT OF CASH FLOWS
INCEPTION (NOVEMBER 20, 2020) THROUGH JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for goods and services	\$ (294,595)
Payments to employees for services	(203,218)
Net cash used by operating activities	<u>(497,813)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from loans	2,500,000
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of certificate of deposit	<u>(147,000)</u>
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Net change in cash	1,855,187
Cash at beginning of period	-
Cash at end of period	<u>\$ 1,855,187</u>

Noncash Non-capital Financing Activities:

Expenses related to formation costs of \$152,380 were financed from loan proceeds.

**ORANGE COUNTY POWER AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
INCEPTION (NOVEMBER 20, 2020) THROUGH JUNE 30, 2021**

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

Operating loss	\$	(918,400)
Adjustments to reconcile operating loss to net cash used by operating activities		
Expenses paid directly from loan proceeds		152,380
(Increase) decrease in:		
Deposits		(4,815)
Increase (decrease) in:		
Accounts payable		175,369
Other accrued liabilities		97,653
Net cash used by operating activities	<u>\$</u>	<u>(497,813)</u>

**ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2021:

<u>Cities</u>	
Buena Park	Huntington Beach
Fullerton	Irvine

OCPA is separate from and derives no financial support from its members. OCPA is governed by a Board of Directors comprised of 5 regular members with 5 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 will begin 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).

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
INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH

For purpose of the Statement of Cash Flows, OCPA has defined cash to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. At June 30, 2021, all cash was held in a demand deposit account.

OPERATING AND NONOPERATING EXPENSES

Operating expenses include consulting, staff compensation, and administrative expenses. Expenses not meeting this definition are reported as nonoperating expenses.

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.

2. CASH

OCPA maintains its cash in accounts at First Republic Bank in San Francisco, California. OCPA's deposits with First Republic Bank 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.

**ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

3. LOANS PAYABLE

PRE-LAUNCH COSTS

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. 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, 2021 is 1.5% per annum.

FORMATION COSTS

Also included as a loan payable are formation related costs advanced by the City. OCPA will reimburse the City no later than January 1, 2027. Interest does not accrue on the formation costs advanced by the City.

The following is a schedule of changes in loans payable during the period:

	<u>Beginning</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending</u>
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
INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021

4. 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 period ended June 30, 2021, 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 \$500.

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.

5. 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, 2021:

Year ending June 30,	
2022	\$ 6,600,000
2023	14,200,000
Total	<u>\$ 20,800,000</u>

**ORANGE COUNTY POWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
INCEPTION (NOVEMBER 20, 2020) TO JUNE 30, 2021**

6. FUTURE GASB PRONOUNCEMENTS

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

GASB has approved GASB Statement No. 87, *Leases*, GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB 96, *Subscription-Based Information Technology Arrangements*; and GASB No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. When they become effective, the application of these standards may restate portions of these financial statements.

7. SUBSEQUENT EVENTS

CREDIT FACILITY

In September 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. In November 2021, OCPA borrowed \$1 million. The maturity date for the revolving credit facility is November 18, 2026. Interest is due monthly based on a daily Secured Overnight Financing Rate (SOFR).