Northern California Gas Authority No. 1

Financial Statements

As of and for the years ended December 31, 2020 and 2019

including

Independent

Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
Northern California Gas Authority No. 1

We have audited the accompanying financial statements of Northern California Gas Authority No. 1, a component unit of Sacramento Municipal Utility District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Northern California Gas Authority No. 1's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 over financial reporting relevant to Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1 as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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.

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
For the Years Ended December 31, 2020 and 2019

Using this Financial Report

This annual financial report for Northern California Gas Authority No. 1 (Agency) consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The basic Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission.

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2020 and 2019. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position report all of the Agency's revenues and expenses during the periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for debt service.

The Notes to Financial Statements provide additional detailed information to support the financial statements.

Nature of Operations

The Agency is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) in 2007. SFA is a JPA formed by SMUD and the Modesto Irrigation District (collectively, Members). The Agency was formed for the purpose of prepaying for a fixed quantity supply of natural gas to be delivered over a twenty-year period by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Gas Supply) between the Agency and MSCG. The Agency then sells the natural gas to SMUD. The Agency issued bonds in May 2007 and commenced gas sales in June 2007.

SMUD purchases all of the natural gas delivered to the Agency pursuant to the Gas Supply Contract between SMUD and the Agency. The Agency has no employees and SMUD contributes to the Agency the actual costs of providing general and administrative services.

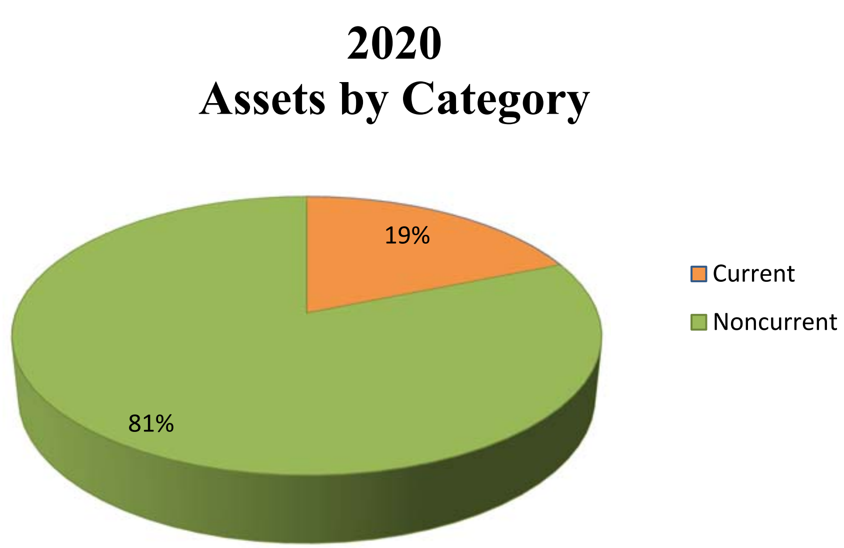
The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Assets							
Current assets	$ 37,271	$ 33,422	$ 50,818	$ 3,849	11.5%	$ (17,396)	-34.2%
Noncurrent assets	160,648	180,564	198,303	(19,916)	-11.0%	(17,739)	-8.9%
Total assets	$ 197,919	$ 213,986	$ 249,121	$ (16,067)	-7.5%	$ (35,135)	-14.1%
Liabilities							
Long-term debt - net	$ 163,485	$ 181,935	$ 198,610	$ (18,450)	-10.1%	$ (16,675)	-8.4%
Current liabilities	24,288	21,937	39,433	2,351	10.7%	(17,496)	-44.4%
Total liabilities	187,773	203,872	238,043	(16,099)	-7.9%	(34,171)	-14.4%
Net position							
Restricted	8,974	8,053	16,842	921	11.4%	(8,789)	-52.2%
Unrestricted	1,172	2,061	(5,764)	(889)	-43.1%	7,825	135.8%
Total net position	10,146	10,114	11,078	32	0.3%	(964)	-8.7%
Total liabilities and net position	$ 197,919	$ 213,986	$ 249,121	$ (16,067)	-7.5%	$ (35,135)	-14.1%

The following chart shows the breakdown of the Agency's assets by category:



2020 Compared to 2019

ASSETS

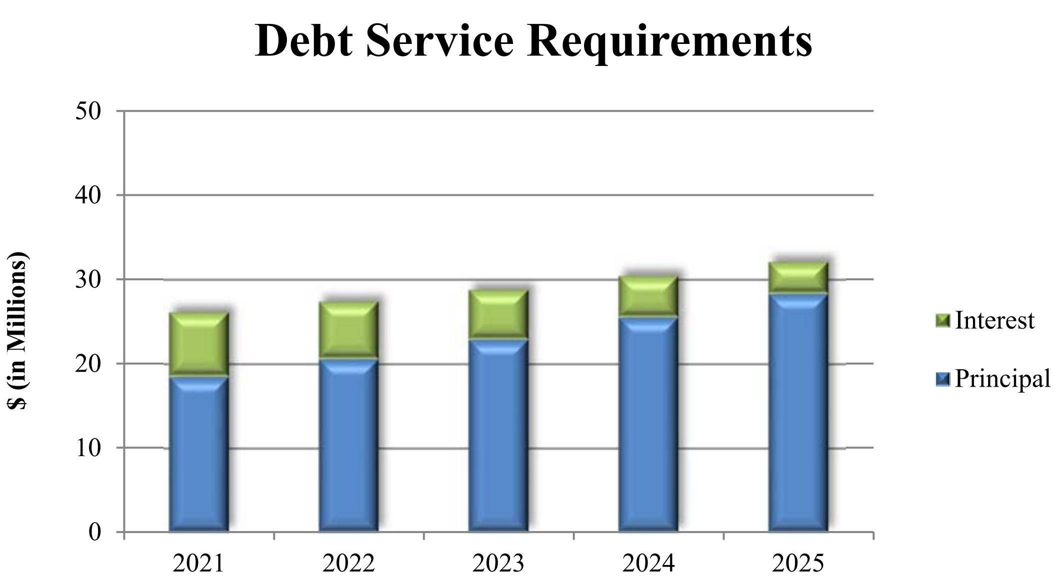
- Current Assets increased due to higher restricted cash and cash equivalents and prepaid gas supply for the current year as a result of a higher gas volume for the entire year.

- The Agency's main asset is its Prepaid Gas Supply, of which, the noncurrent portion was $160.0 million at December 31, 2020. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2020. The Prepaid gas supply (current and noncurrent portion) was about 81 percent of the Agency's assets at December 31, 2020.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $16.7 million of scheduled principal payments for 2020. At December 31, 2020, the Agency had bonds outstanding of $181.9 million with maturities through 2027. At December 31, 2020, the 2007 Agency Bonds are rated "A+" by Standard & Poor's. The Agency's bonds are tied to MSCG's credit rating.

  The following chart summarizes the debt service requirements of the Agency for the next five years:



- Current Liabilities increased due to higher accounts payable, current portion of long term debt and collateral for credit support as a result of higher gas volume, offset by lower accrued interest payable.

- Restricted Net Position increased due to higher debt service fund requirements and collateral for credit support due to higher gas volume.

2019 Compared to 2018

ASSETS

- Current Assets decreased due to lower Restricted cash for lower debt service, Accrued interest and other as a result of lower gas volume, and current portion of the Prepaid Gas Supply.
- The Agency's main asset is its Prepaid Gas Supply, of which, the noncurrent portion was $179.8 million at December 31, 2019. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2019.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $34.6 million of the scheduled principal payments for 2019. At December 31, 2019, the Agency had bonds outstanding of $198.6 million with maturities through 2027.
- Current Liabilities decreased primarily due to lower current portion of the long-term debt, partially offset by higher credit support obligation to a collateral deposit from MSCG.

RESULTS OF OPERATIONS

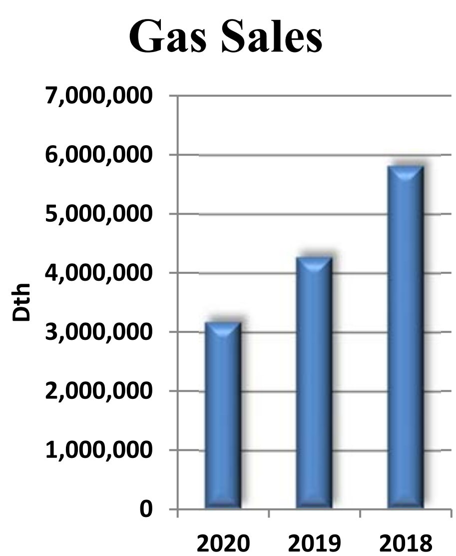
Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Operating revenues	$ 25,935	$ 33,472	$ 43,760	$ (7,537)	-22.5%	$ (10,288)	-23.5%
Operating expenses	(17,810)	(25,133)	(34,761)	7,323	29.1%	9,628	27.7%
Operating income	8,125	8,339	8,999	(214)	-2.6%	(660)	-7.3%
Interest and other income	533	850	876	(317)	-37.3%	(26)	-3.0%
Interest on debt	(8,205)	(9,280)	(10,645)	1,075	11.6%	1,365	12.8%
Change in net position before distributions and contributions	453	(91)	(770)	544	597.8%	679	88.2%
Distributions to Member	(507)	(953)	(881)	446	46.8%	(72)	-8.2%
Member contributions	86	80	69	6	7.5%	11	15.9%
Change in net position	32	(964)	(1,582)	996	103.3%	618	39.1%
Net position - beginning of year	10,114	11,078	12,660	(964)	-8.7%	(1,582)	-12.5%
Net position - end of year	$ 10,146	$ 10,114	$ 11,078	$ 32	0.3%	$ (964)	-8.7%

2020 Compared to 2019

The following chart shows gas sales in 2020, 2019 and 2018:



- Operating Revenue decreased due to lower Gas swap settlement as a result of lower gas volume.

- Operating Expense decreased due to lower amortization of the Prepaid Gas Supply.

- Interest expense decreased primarily due to lower bonds outstanding.

- Distributions to SMUD are based on interest earnings on the Debt Service fund not otherwise needed for another purpose, as specified in the indenture of trust. In 2020, the Agency distributed $0.5 million to SMUD.

2019 Compared to 2018

- Operating Revenue decreased due to lower Gas swap settlement and Gas sales to Member as a result of lower gas volume.

- Operating Expense decreased due to lower amortization of the Prepaid Gas Supply.

- Interest expense decreased primarily due to lower bonds outstanding.

- The Agency distributed $0.9 million to SMUD in 2019.

Requests for Information

For more information about the Northern California Gas Authority No. 1, visit our website at www.smud.org or contact us at customerservices@smud.org.

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF NET POSITION

	December 31, 2020		December 31, 2019	
ASSETS				
RESTRICTED ASSETS				
Debt service fund	$	10,932,270	$	10,189,434
Other restricted funds		3,880,177		3,125,785
Less current portion		(14,812,447)		(13,315,219)
Total restricted assets		-0-		-0-
CURRENT ASSETS				
Restricted cash and cash equivalents		14,812,447		13,315,219
Receivables:				
Gas sales to Member		409,439		374,608
Accrued interest and other		2,133,357		1,993,049
Prepaid gas supply		19,795,206		17,618,858
Other prepayments		15,630		15,630
Regulatory costs to be recovered within one year		104,796		104,796
Total current assets		37,270,875		33,422,160
NONCURRENT ASSETS				
Prepaid gas supply		159,985,872		179,781,077
Regulatory costs for future recovery		576,381		681,179
Prepaid bond insurance costs		85,966		101,598
Total noncurrent assets		160,648,219		180,563,854
TOTAL ASSETS	$	197,919,094	$	213,986,014
LIABILITIES AND NET POSITION				
LONG-TERM DEBT - net	$	163,485,000	$	181,935,000
CURRENT LIABILITIES				
Accounts payable		1,559,367		1,072,714
Credit support for collateral obligation		3,880,167		3,124,864
Long-term debt due within one year		18,450,000		16,675,000
Accrued interest		398,254		1,064,330
Total current liabilities		24,287,788		21,936,908
TOTAL LIABILITIES		187,772,788		203,871,908
NET POSITION				
Restricted		8,974,659		8,053,311
Unrestricted		1,171,647		2,060,795
TOTAL NET POSITION		10,146,306		10,114,106
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)				
TOTAL LIABILITIES AND NET POSITION	$	197,919,094	$	213,986,014

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2020	Years Ended December 31, 2019
OPERATING REVENUES		
Gas sales to Member	$ 3,067,797	$ 2,227,519
Gas swap settlement, net	22,867,356	31,244,270
Total operating revenues	25,935,153	33,471,789
OPERATING EXPENSES		
Prepaid gas amortization	17,618,857	24,948,582
Administrative and general	86,234	80,112
Regulatory amounts collected in rates	104,796	104,796
Total operating expenses	17,809,887	25,133,490
OPERATING INCOME	8,125,266	8,338,299
NON-OPERATING REVENUES (EXPENSES)		
Interest income	532,363	850,433
Interest on debt	(8,204,959)	(9,279,888)
Total non-operating revenues (expenses)	(7,672,596)	(8,429,455)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS	452,670	(91,156)
Distributions to Member	(506,704)	(952,825)
Member contributions	86,234	80,112
CHANGE IN NET POSITION	32,200	(963,869)
NET POSITION - BEGINNING OF YEAR	10,114,106	11,077,975
NET POSITION - END OF YEAR	$ 10,146,306	$ 10,114,106

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF CASH FLOWS

	December 31, 2020		December 31, 2019	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from gas sales to Member	$	3,032,966	$	2,352,083
Receipts from others		22,808,833		32,849,373
Receipts/payments for credit support collateral		755,303		746,733
Net cash provided by operating activities		26,597,102		35,948,189
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayment of bonds		(16,675,000)		(34,560,000)
Interest payments on long-term debt		(8,368,748)		(9,622,300)
Distributions to Member		(506,704)		(952,825)
Net cash used in noncapital financing activities		(25,550,452)		(45,135,125)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		450,578		786,680
Net cash provided by investing activities		450,578		786,680
Net (decrease) increase in cash and cash equivalents		1,497,228		(8,400,256)
Cash and cash equivalents - beginning of the year		13,315,219		21,715,475
Cash and cash equivalents - end of the year	$	14,812,447	$	13,315,219
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	$	8,125,266	$	8,338,299
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization of prepaid gas supply		17,618,857		24,948,582
Regulatory amortization		104,796		104,796
Receipts (payments) for credit support collateral		755,303		746,733
Changes in operating assets and liabilities:				
Receivables		(93,354)		1,729,667
Payables and accruals		86,234		80,112
Net cash provided by operating activities	$	26,597,102	$	35,948,189
SUPPLEMENTAL DISCLOSURE OF NONCASH RELATED FINANCING ACTIVITIES				
Amortization of debt related premiums	$	(15,632)	$	(15,630)
Contributions from Member		86,234		80,112

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2020 and 2019

NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Gas Authority No. 1 (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code (collectively, Members). SFA is a JPA formed by SMUD and the Modesto Irrigation District. The purpose of the Agency is to prepay for a supply of a fixed quantity of natural gas to be delivered over a twenty-year period (Gas Project) by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Agreement) between the Agency and MSCG. The Prepaid Agreement terminates on May 31, 2027. MSCG is obligated to make payments to the Agency for any shortfall of gas not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

The Agency has entered into a Gas Supply Contract (GSC) with SMUD that provides for the sale of all of the natural gas delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of gas delivered under the GSC and to pay damages for gas that SMUD fails to take pursuant to the terms of the GSC. SMUD has no obligation to pay for gas that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Gas Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the GSC, the Agency has agreed to terminate the GSC and may enter into a replacement GSC with one or more municipal utilities on substantially the same terms as the GSC.

The Agency has no employees. The Gas Project is operated by SMUD's staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed $0.1 million both in 2020 and 2019 for administrative and general services provided to the Agency by SMUD.

The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect, or while any bonds or notes of the Agency are outstanding. Gas Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are dependent upon the continued delivery of natural gas to the Gas Project under the Prepaid Agreement. Various termination events are specified in the Prepaid Agreement. Upon the occurrence of any such event, the Prepaid Agreement may be terminated by the Agency or MSCG. If the Prepaid Agreement is terminated, MSCG will be required to pay a scheduled termination payment to the Agency. Any termination of the Prepaid Agreement will result in the extraordinary mandatory redemption of the Agency's long-term debt. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Gas Project agreement.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is also included in the financial statements of SMUD as a component unit of SMUD's financial reporting entity because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Natural gas sale revenues and purchase costs that are directly related to delivery of natural gas are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Restricted Assets. The Agency's restricted assets are comprised of U.S. government securities and commercial paper which use is limited for specific purposes pursuant to the Indenture of Trust (Indenture) requirements. The Indenture specifies the flow of cash into the various Agency funds and dictates when they may become unrestricted.

Credit and Market Risk. The Agency entered into a synthetic guaranteed investment contract (see Note 3) in 2007 and is exposed to credit risk related to nonperformance by its investment provider. This contract requires the investment provider to post collateral if their credit ratings fall below agreed upon levels. The amount is recorded as current restricted asset with an associated current liability on the Statements of Net Position.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less and all investments in money market funds.

Receivable from Member. The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of natural gas from the Gas Project.

Prepaid Gas Supply. The Agency has prepaid for delivery of a natural gas supply with the proceeds from revenue bonds. The Agency provides for amortization on the historical cost of the Prepaid Gas Supply on a net present value (NPV) basis in which the change in the NPV of the Prepaid Agreement for the remaining term of its contract life from the beginning of the period to the end of the period is the amortization charged for the period. When the Agency amortizes its Prepaid Gas Supply, the amortization is recorded against the current portion of Prepaid Gas Supply.

Regulatory Deferrals. As a regulated entity, the Agency's financial statements are prepared in accordance with GASB Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants Pronouncements,"*** which require that the effects of the rate making process be recorded in the financial statements. The Agency records regulatory assets and credits to reflect rate-making actions of the Commission. The account includes the unamortized debt issuance costs of previously issued bonds of the Agency. The regulatory asset is amortized using the straight line method over the remaining life of the associated bonds and recorded in Regulatory Amounts Collected in Rates in the Statements of Revenues, Expenses and Changes in Net Position.

Prepaid Bond Insurance Costs. The Agency recorded a prepaid asset for the prepaid bond insurance portion of unamortized debt issuance costs of previously issued bonds of the Agency. The prepaid bond insurance costs will be amortized using the straight line method over the remaining life of the associated bonds and recorded in Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position.

Derivative Instruments. The Agency enters into forward contracts (interest rate swap and natural gas commodity price swap agreements) to manage its exposure to interest rate risk and market volatility of natural gas commodity prices. The Agency does not enter into these agreements for trading purposes. Due to the termination provisions of these agreements, they have no fair value, and therefore, there is no mark-to-market and the Agency does not record these derivative instruments on its Statement of Net Position. The Agency is exposed to the risk of early termination of the Prepaid Agreement if the counterparties default or if the swap agreements are terminated. Net swap payments received or paid for the gas swap are reported as a component of Operating Revenues in the Statement of Revenues, Expenses and Changes in Net Position.

Gas Swap Agreement. The Agency uses forward contracts to hedge the impact of market volatility on gas commodity prices for its GSC.

Interest Rate Swap Agreements. The Agency enters into interest rate swap agreements to modify the effective interest rates on outstanding debt. Interest expense is reported net of the swap payments received or paid as a component of Interest on Debt in the Statement of Revenues, Expenses and Changes in Net Position.

Net Position. The Agency classifies its Net Position into two components as follows:

- Restricted - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital), grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets.
- Unrestricted - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

Gas Sales to Member. Gas sales to Member are recorded as revenues when the natural gas is delivered.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses and amortization on Prepaid Gas Supply assets and Regulatory Costs for Future Recovery and are recorded when incurred.

Distributions to Member. Amounts paid to SMUD from surplus funds are recorded as Distributions to Member.

Member Contributions. Amounts contributed by SMUD for the actual costs of providing administrative and general services are recorded as Member Contributions.

Subsequent Events. Subsequent events for the Agency have been evaluated through February 19, 2021, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, adopted. In January 2020, GASB issued SGAS No. 92, ***"Omnibus 2020"*** (GASB No. 92). This statement addresses a variety of topics and includes specific provisions to clarify issues related to leases, intra-entity transfers, pension and postemployment benefits, asset retirement obligations, risk pools, fair value measurements, and derivative instruments. This statement is effective for the Agency in 2020 or 2022 depending on the topic. The Agency has assessed the provisions of this statement and no topics in this statement apply to the Agency.

In May 2020, GASB issued SGAS No. 95, ***"Postponement of the Effective Dates of Certain Authoritative Guidance"*** (GASB No. 95). The primary objective of this statement is to provide temporary relief to governments and other stakeholders as a result of the COVID-19 pandemic. GASB No. 95 postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This statement is effective for the Agency in 2020. The Agency will postpone the implementation of GASB No. 87, *Leases*; and GASB No. 93, *Replacement of Interbank Offered Rates*.

Recent Accounting Pronouncements, not yet adopted. In June 2017, GASB issued SGAS No. 87, ***"Leases"*** (GASB No. 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the Agency in 2022. The Agency is currently assessing the financial statement impact of adopting this statement.

In March 2020, GASB issued SGAS No. 93, ***"Replacement of Interbank Offered Rates"*** (GASB No. 93). The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. This statement provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment. By removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, GASB No. 93 identifies the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates to replace LIBOR. This statement is effective for the Agency in 2022. The Agency is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

In May 2020, GASB issued SGAS No. 96, ***"Subscription-Based Information Technology Arrangements"*** (GASB No. 96). This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The statement (1) defines a SBITA as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB No. 87, *Leases*, as amended. This statement is effective for the Agency in 2023. The Agency is currently assessing the financial statement impact of adopting this statement.

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investments are governed by the California State and Municipal Codes and its Indenture, which allow Agency investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; Local Agency Investment Fund; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated, at a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

Custodial Credit Risk. This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2020 and 2019, the Agency had money market funds of $6.0 million and $5.4 million which were uninsured, respectively. At December 31, 2020 and 2019, $2.1 million and $2.3 million of the money market funds were held in trust for the benefit of the Agency respectively, and $3.9 million and $3.1 million represent amounts held by the Agency as a collateral deposit by an investment provider, respectively.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. To limit the Agency's credit risk for commercial paper purchased under the Debt Service Fund Agreement, the aggregate maturity amount invested in any combination of one issuer, affiliate of issuer, or backed by any one credit support, cannot exceed $30.0 million. The Agency has concentrations of risk greater than five percent invested in Chesham Finance of 100 percent at December 31, 2020 and 2019.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. At December 31, 2020 and 2019, all of the Agency's investments had maturities of one year or less.

Debt Service Fund Agreement. The Agency has entered into a synthetic guaranteed investment contract, in the form of a forward supply agreement, in which it has agreed to purchase securities with the debt service deposit amounts for a guaranteed fixed rate of return of 5.148 percent. The agreement terminates on June 30, 2027.

The following schedules present credit risk by type of security held at December 31, 2020 and 2019. The credit ratings listed are from Standard & Poor's (S&P).

The Agency's cash and cash equivalents consist of the following:

	Credit Rating	December 31, 2020	December 31, 2019
Cash and Cash Equivalents:			
Money market funds	AAAm	$ 5,958,103	$ 5,374,882
Commercial paper - Chesham Finance	A-1	8,854,344	7,940,337
Total cash and cash equivalents		$ 14,812,447	$ 13,315,219

The Agency's cash and cash equivalents are classified in the Statements of Net Position as follows:

	December 31,	
	2020	2019
Cash and Cash Equivalents:		
Debt service fund	$ 10,932,270	$ 10,189,434
Other restricted funds:		
Collateral for credit support	3,880,167	3,124,864
Revenue fund	10	921
Total other restricted funds	3,880,177	3,125,785
Total cash and cash equivalents	$ 14,812,447	$ 13,315,219

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31,	
	2020	2019
Prepaid gas supply	$ 178,596,039	$ 196,065,052
Prepaid gas supply revenue	1,185,039	1,334,883
Total prepaid gas supply	179,781,078	197,399,935
Less: amounts due within one year	(19,795,206)	(17,618,858)
Total prepaid gas supply - noncurrent portion	$ 159,985,872	$ 179,781,077

The following summarizes prepaid gas supply activity for the year ended December 31, 2020:

	January 1, 2020	Terminations	Amortization	December 31, 2020
Prepaid gas supply	$ 196,065,052	$ -0-	$ (17,469,013)	$ 178,596,039
Prepaid gas supply revenue	1,334,883	-0-	(149,844)	1,185,039
Total prepaid gas supply	$ 197,399,935	$ -0-	$ (17,618,857)	$ 179,781,078

The following summarizes prepaid gas supply activity for the year ended December 31, 2019:

	January 1, 2019	Terminations	Amortization	December 31, 2019
Prepaid gas supply	$ 220,796,428	$ -0-	$ (24,731,376)	$ 196,065,052
Prepaid gas supply revenue	1,552,089	-0-	(217,206)	1,334,883
Total prepaid gas supply	$ 222,348,517	$ -0-	$ (24,948,582)	$ 197,399,935

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per million British Thermal Units (mmbtu) as specified in, and over the remaining term of, the Prepaid Agreement. The prepaid gas supply revenue is the discounted NPV of $0.07 per mmbtu over the remaining term of the Prepaid Agreement.

NOTE 5. LONG-TERM DEBT

The Agency issued $668.5 million of 2007 Series B Gas project revenue bonds in May 2007 (Bonds) with variable interest rates, maturing July 2027.

The Agency's long-term debt is presented below:

	December 31, 2020	December 31, 2019
2007 Series B Gas project revenue bonds, variable rates, 2020-2027	$ 181,935,000	$ 198,610,000
Less: amounts due within one year	(18,450,000)	(16,675,000)
Total long-term debt - net	$ 163,485,000	$ 181,935,000

The following summarizes long-term debt activity for the year ended December 31, 2020:

	January 1, 2020	Additions	Payments/ Amortizations	December 31, 2020
2007 Gas project revenue bonds	$ 198,610,000	$ -0-	$ (16,675,000)	$ 181,935,000
Total long-term debt	$ 198,610,000	$ -0-	$ (16,675,000)	$ 181,935,000

The following summarizes long-term debt activity for the year ended December 31, 2019:

	January 1, 2019	Additions	Payments/ Amortizations	December 31, 2019
2007 Gas project revenue bonds	$ 233,170,000	$ -0-	$ (34,560,000)	$ 198,610,000
Total long-term debt	$ 233,170,000	$ -0-	$ (34,560,000)	$ 198,610,000

The annual debt service requirements to maturity for the Bonds are as follows at December 31, 2020:

Year	Principal	Interest	Total
2021	$ 18,450,000	$ 7,631,960	$ 26,081,960
2022	20,550,000	6,815,276	27,365,276
2023	22,865,000	5,905,895	28,770,895
2024	25,530,000	4,893,110	30,243,110
2025	28,295,000	3,764,547	32,059,547
2026-2027 (combined)	66,245,000	3,637,257	69,882,257
Total	$ 181,935,000	$ 32,648,045	$ 214,583,045

Interest includes interest requirements for fixed rate debt at their stated rates and variable rate debt covered by interest rate swaps at their fixed swap rate.

The Agency had pledged future net revenues to repay $181.9 million and $198.6 million at December 31, 2020 and 2019, respectively, for Bonds issued in May 2007. Proceeds from the Bonds were used to purchase the Gas Project from MSCG at a price of $754.1 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2027, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the GSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100 percent of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds was $214.5 million and $239.6 million at December 31, 2020 and 2019, respectively. Debt service payments on the Bonds are made quarterly on January 1, April 1, July 1 and October 1.

Principal and interest paid was $25.0 million and $44.2 million for 2020 and 2019, respectively. Total net revenues were $26.5 million and $34.3 million for 2020 and 2019, respectively.

The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon the continued successful operation of the Gas Project. If the Prepaid Agreement were to terminate, a termination payment would be received into the trust estate from MSCG. The amount of the termination payment, together with the amounts required to be on deposit in certain funds and accounts held by the trustee, has been calculated to provide a sum sufficient to pay the redemption price of the Bonds upon early termination of the Prepaid Agreement. The amount of termination payment declines over time as MSCG performs its gas delivery obligations under the Prepaid Agreement. Agency Members are not obligated to pay debt service costs if the Gas Project is unable to operate pursuant to the Prepaid Agreement or if revenues generated by the Gas Project are insufficient to meet debt service obligations.

Terms of Debt Indenture. The debt indenture contains a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

Interest Rate Swap Agreements - 2007 Series B Bonds. The following summarizes the Agency's swap agreement at December 31, 2020:

The following summarizes the Agency's swap agreement at December 31, 2020:

Notional Amount	Agency Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating (S&P)
$ 181,935,000	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A+

The following summarizes the Agency's swap agreement at December 31, 2019:

Notional Amount	Agency Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating (S&P)
$ 198,610,000	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A+

At December 31, 2020 and 2019, the Agency had a variable-to-fixed interest rate swap agreement with a counterparty. The Agency pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month London Interbank Offered Rates (LIBOR) (0.23 percent and 1.9 percent at December 31, 2020 and 2019, respectively) plus an interest rate spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2020 and 2019 was $181.9 million and $198.6 million, respectively, and was equivalent to the outstanding principal balance on the Agency's Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the Bonds. Early termination of the swap would occur upon termination of the Prepaid Agreement for any reason. Upon early termination, the swap would have no value to either party.

Variable Rate 2007 Series B Bonds. The Agency's variable rate Bonds bear interest at a quarterly rate of 0.9 percent at December 31, 2020.

NOTE 6. COMMITMENTS

Natural Gas Commodity Price Swap Agreement. The Agency has entered into a floating-to-fixed natural gas commodity price swap agreement (Gas Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's natural gas sales to SMUD under the GSC. The Agency pays an index-based natural gas price over the twenty-year period and receives a fixed natural gas price as specified in the Gas Swap Agreement, for notional quantities of natural gas at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Gas Swap Agreement terminates on May 31, 2027. The total notional amount of the Gas Swap Agreement remaining at December 31, 2020 was 20.3 million mmbtu. Presently, the Gas Swap Agreement is 8,675 mmbtu per calendar day, and this amount will change on June 1 of each remaining year of the Gas Swap Agreement and will range from 8,675 to 8,673 mmbtu per calendar day. Early termination of the Gas Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Gas Swap Agreement would have no value to either party.

NOTE 7. CONTINGENCIES

General Contingencies. The Agency's ability to make principal and interest payments on its Bonds is contingent upon the continued delivery of natural gas to the Gas Project under the Prepaid Agreement. The Members are not obligated to make principal and interest debt service payments in the event the Gas Project does not operate and there are insufficient funds to pay the bondholders. The Agency expects that the natural gas will continue to be delivered as planned.

In the normal operation of business, the Agency is party to various claims, legal actions and complaints. Management and the Agency's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the Agency.