Northern California Gas Authority No. 1

Financial Statements
and Independent Auditors' Report
December 31, 2021 and 2020

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
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Independent Auditors' Report

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

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northern California Gas Authority No. 1 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 Northern California Gas Authority No. 1's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1'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 required supplementary information, as listed in the table of contents 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.

Baker Tilly US, LLP

Madison, Wisconsin
March 1, 2022

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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, 2021 and 2020. 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. 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.

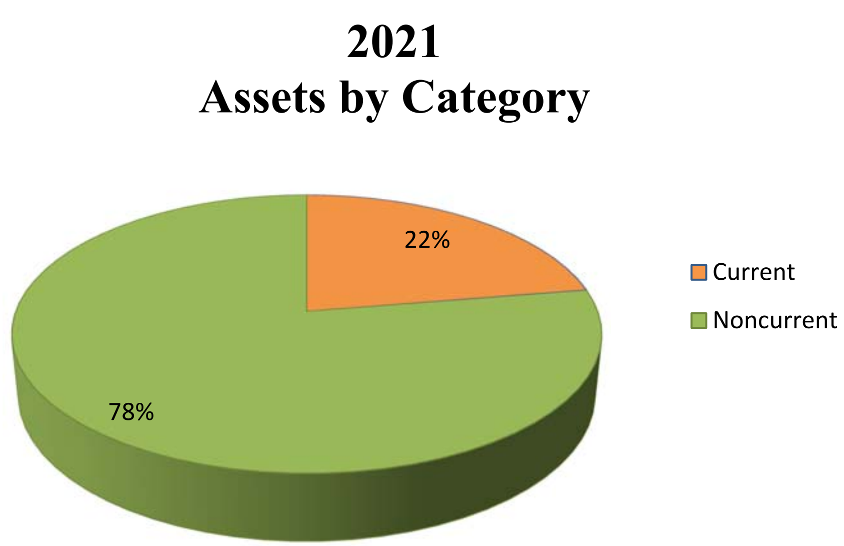
The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Assets							
Current assets	$ 39,938	$ 37,271	$ 33,422	$ 2,667	7.2%	$ 3,849	11.5%
Noncurrent assets	138,186	160,648	180,564	(22,462)	-14.0%	(19,916)	-11.0%
Total assets	$ 178,124	$ 197,919	$ 213,986	$ (19,795)	-10.0%	$ (16,067)	-7.5%
Liabilities							
Long-term debt - net	$ 142,935	$ 163,485	$ 181,935	$ (20,550)	-12.6%	$ (18,450)	-10.1%
Current liabilities	25,351	24,288	21,937	1,063	4.4%	2,351	10.7%
Total liabilities	168,286	187,773	203,872	(19,487)	-10.4%	(16,099)	-7.9%
Net position							
Restricted	10,022	8,974	8,053	1,048	11.7%	921	11.4%
Unrestricted	(184)	1,172	2,061	(1,356)	-115.7%	(889)	-43.1%
Total net position	9,838	10,146	10,114	(308)	-3.0%	32	0.3%
Total liabilities and net position	$ 178,124	$ 197,919	$ 213,986	$ (19,795)	-10.0%	$ (16,067)	-7.5%

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



2021 compared to 2020

ASSETS

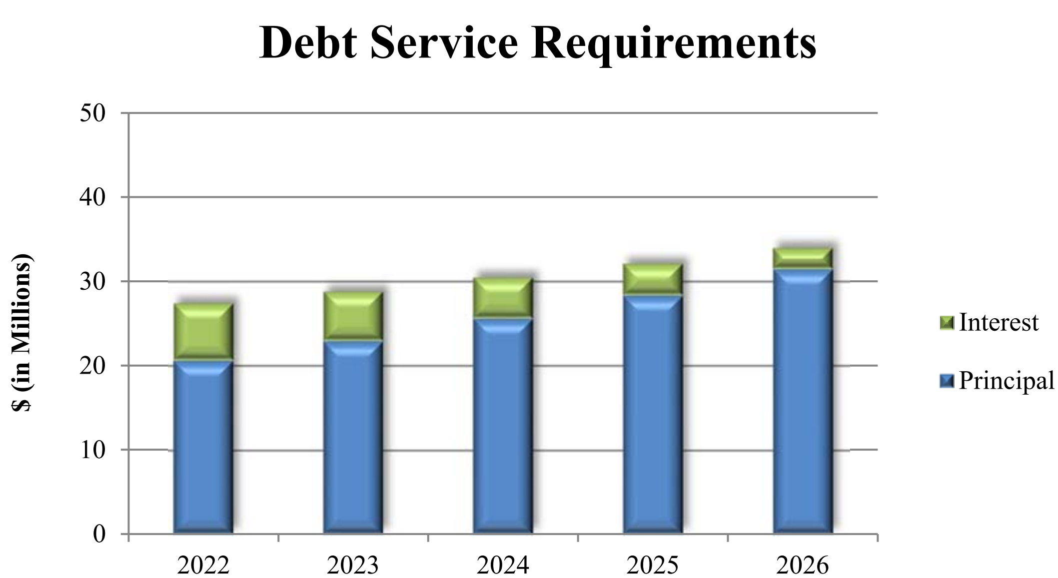
- Current Assets increased due to higher prepaid gas supply, partially offset by lower accrued interest and other receivables.

- The Agency's main asset is its prepaid gas supply, of which, the noncurrent portion was $137.6 million at December 31, 2021. Noncurrent Assets decreased due to the amortization of the prepaid gas supply for gas delivered in 2021. The prepaid gas supply (current and noncurrent portion) was 90 percent of the Agency's assets at December 31, 2021.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $18.5 million of scheduled principal payments for 2021. The Agency currently has bonds outstanding of $163.5 million with maturities through 2027. The Agency's 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 current portion of long term debt, offset by lower collateral for credit support and gas swap interest.

- Restricted Net Position increased primarily due to higher debt service fund requirements.

2020 compared to 2019

ASSETS

- Current Assets increased due to higher restricted cash and cash equivalents and prepaid gas supply.

- 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.

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.

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

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

RESULTS OF OPERATIONS

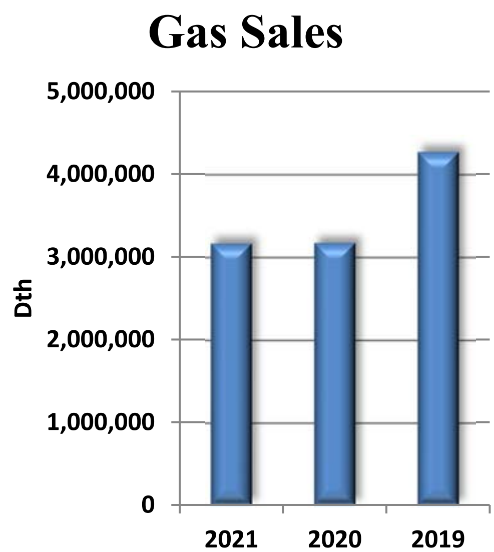
Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	December 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Operating revenues	$ 27,092	$ 25,935	$ 33,472	$ 1,157	4.5%	$ (7,537)	-22.5%
Operating expenses	(19,980)	(17,810)	(25,133)	(2,170)	-12.2%	7,323	29.1%
Operating income	7,112	8,125	8,339	(1,013)	-12.5%	(214)	-2.6%
Interest and other income	492	533	850	(41)	-7.7%	(317)	-37.3%
Interest on debt	(7,449)	(8,205)	(9,280)	756	9.2%	1,075	11.6%
Change in net position before distributions and contributions	155	453	(91)	(298)	-65.8%	544	597.8%
Distributions to Member	(543)	(507)	(953)	(36)	-7.1%	446	46.8%
Member contributions	80	86	80	(6)	-7.0%	6	7.5%
Change in net position	(308)	32	(964)	(340)	-1062.5%	996	103.3%
Net position - beginning of year	10,146	10,114	11,078	32	0.3%	(964)	-8.7%
Net position - end of year	$ 9,838	$ 10,146	$ 10,114	$ (308)	-3.0%	$ 32	0.3%

2021 compared to 2020

The following chart shows gas sales in 2021, 2020 and 2019:



- Operating Revenues increased due to higher gas sales to Member as a result of higher gas price index, offset by lower gas swap settlement due to lower net swap price.

- Operating Expenses increased due to higher amortization of the prepaid gas supply.

- Interest on Debt 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. Distribution to SMUD was $0.5 million in 2021.

2020 compared to 2019

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

- Operating Expenses decreased due to lower amortization of the prepaid gas supply.

- Interest on Debt decreased primarily due to lower bonds outstanding.

- Distribution to SMUD was $0.5 million in 2020.

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, 2021	December 31, 2020
ASSETS		
RESTRICTED ASSETS		
Debt service fund	$ 11,781,159	$ 10,932,270
Other restricted funds	3,042,126	3,880,177
Less current portion	(14,823,285)	(14,812,447)
Total restricted assets	-0-	-0-
CURRENT ASSETS		
Restricted cash and cash equivalents	14,823,285	14,812,447
Receivables:		
Gas sales to Member	864,694	409,439
Accrued interest and other	1,787,771	2,133,357
Prepaid gas supply	22,342,124	19,795,206
Other prepayments	15,630	15,630
Regulatory costs to be recovered within one year	104,796	104,796
Total current assets	39,938,300	37,270,875
NONCURRENT ASSETS		
Prepaid gas supply	137,643,748	159,985,872
Regulatory costs for future recovery	471,585	576,381
Prepaid bond insurance costs	70,336	85,966
Total noncurrent assets	138,185,669	160,648,219
TOTAL ASSETS	$ 178,123,969	$ 197,919,094
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 142,935,000	$ 163,485,000
CURRENT LIABILITIES		
Credit support for collateral obligation	3,042,109	3,880,167
Long-term debt due within one year	20,550,000	18,450,000
Accrued interest and other	1,759,099	1,957,621
Total current liabilities	25,351,208	24,287,788
TOTAL LIABILITIES	168,286,208	187,772,788
NET POSITION		
Restricted	10,022,077	8,974,659
Unrestricted	(184,316)	1,171,647
TOTAL NET POSITION	9,837,761	10,146,306
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
TOTAL LIABILITIES AND NET POSITION	$ 178,123,969	$ 197,919,094

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, 2021	Years Ended December 31, 2020
OPERATING REVENUES		
Gas sales to Member	$ 6,765,421	$ 3,067,797
Gas swap settlement, net	20,326,665	22,867,356
Total operating revenues	27,092,086	25,935,153
OPERATING EXPENSES		
Prepaid gas amortization	19,795,206	17,618,857
Administrative and general	80,116	86,234
Regulatory amounts collected in rates	104,796	104,796
Total operating expenses	19,980,118	17,809,887
OPERATING INCOME	7,111,968	8,125,266
NON-OPERATING REVENUES (EXPENSES)		
Interest income	492,279	532,363
Interest on debt	(7,449,069)	(8,204,959)
Total non-operating revenues (expenses)	(6,956,790)	(7,672,596)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS	155,178	452,670
Distributions to Member	(543,839)	(506,704)
Member contributions	80,116	86,234
CHANGE IN NET POSITION	(308,545)	32,200
NET POSITION - BEGINNING OF YEAR	10,146,306	10,114,106
NET POSITION - END OF YEAR	$ 9,837,761	$ 10,146,306

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF CASH FLOWS

	December 31, 2021	December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	$ 6,310,166	$ 3,032,966
Receipts from others	20,672,725	22,808,833
Receipts/payments for credit support collateral	(838,058)	755,303
Net cash provided by operating activities	26,144,833	26,597,102
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of bonds	(18,450,000)	(16,675,000)
Interest payments on long-term debt	(7,631,961)	(8,368,748)
Distributions to Member	(543,839)	(506,704)
Net cash used in noncapital financing activities	(26,625,800)	(25,550,452)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	491,805	450,578
Net cash provided by investing activities	491,805	450,578
Net increase in cash and cash equivalents	10,838	1,497,228
Cash and cash equivalents - beginning of the year	14,812,447	13,315,219
Cash and cash equivalents - end of the year	$ 14,823,285	$ 14,812,447
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 7,111,968	$ 8,125,266
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	19,795,206	17,618,857
Regulatory amortization	104,796	104,796
Receipts (payments) for credit support collateral	(838,058)	755,303
Changes in operating assets and liabilities:		
Receivables	(109,195)	(93,354)
Payables and accruals	80,116	86,234
Net cash provided by operating activities	$ 26,144,833	$ 26,597,102
SUPPLEMENTAL DISCLOSURE OF NONCASH RELATED FINANCING ACTIVITIES		
Amortization of debt related premiums	$ (15,630)	$ (15,632)
Contributions from Member	80,116	86,234

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

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 2021 and 2020.

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 included in the financial statements of SMUD as a component unit 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, gas swap payments 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 March 1, 2022, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, adopted. 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 was effective for the Agency in 2020. The Agency has postponed 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 March 2020, GASB issued SGAS No. 94, ***"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"*** (GASB No. 94). The primary objective of this Statement is to provide guidance for accounting and financial reporting related to public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the Agency in 2023. The Agency is currently assessing the financial 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.

In June 2020, GASB issued SGAS No. 97, ***"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans"*** (GASB No. 97). The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. 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.

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, 2021 and 2020, the Agency had money market funds of $4.9 million and $6.0 million which were uninsured, respectively. At December 31, 2021 and 2020, $1.9 million and $2.1 million of the money market funds were held in trust for the benefit of the Agency respectively, and $3.0 million and $3.9 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 Ebury of 100 percent at December 31, 2021 and in Chesham of 100 percent at December 31, 2020.

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, 2021 and 2020, 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, 2021 and 2020. 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, 2021	December 31, 2020
Cash and Cash Equivalents:			
Money market funds	AAAm	$ 4,930,653	$ 5,958,103
Commercial paper	A-1	9,892,632	8,854,344
Total cash and cash equivalents		$ 14,823,285	$ 14,812,447

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

	December 31, 2021	December 31, 2020
Cash and Cash Equivalents:		
Debt service fund	$ 11,781,159	$ 10,932,270
Other restricted funds:		
Collateral for credit support	3,042,109	3,880,167
Revenue fund	17	10
Total other restricted funds	3,042,126	3,880,177
Total cash and cash equivalents	$ 14,823,285	$ 14,812,447

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31, 2021	December 31, 2020
Prepaid gas supply	$ 158,958,581	$ 178,596,039
Prepaid gas supply revenue	1,027,291	1,185,039
Total prepaid gas supply	159,985,872	179,781,078
Less: amounts due within one year	(22,342,124)	(19,795,206)
Total prepaid gas supply - noncurrent portion	$ 137,643,748	$ 159,985,872

The following summarizes prepaid gas supply activity for the year ended December 31, 2021:

	January 1, 2021	Terminations	Amortization	December 31, 2021
Prepaid gas supply	$ 178,596,039	$ -0-	$ (19,637,458)	$ 158,958,581
Prepaid gas supply revenue	1,185,039	-0-	(157,748)	1,027,291
Total prepaid gas supply	$ 179,781,078	$ -0-	$ (19,795,206)	$ 159,985,872

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 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 (Bonds) in May 2007 with variable interest rates, maturing July 2027.

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

	December 31,	
	2021	2020
2007 Series B Gas project revenue bonds, variable rates, 2022-2027	$ 163,485,000	$ 181,935,000
Less: amounts due within one year	(20,550,000)	(18,450,000)
Total long-term debt - net	$ 142,935,000	$ 163,485,000

The following summarizes long-term debt activity for the year ended December 31, 2021:

	January 1, 2021	Additions	Payments/ Amortizations	December 31, 2021
2007 Gas project revenue bonds	$ 181,935,000	$ -0-	$ (18,450,000)	$ 163,485,000
Total long-term debt	$ 181,935,000	$ -0-	$ (18,450,000)	$ 163,485,000

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 annual debt service requirements to maturity for the Bonds are as follows at December 31, 2021:

Year	Principal	Interest	Total
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	30,423,110
2025	28,295,000	3,764,547	32,059,547
2026	31,420,000	2,513,106	33,933,106
2027	34,825,000	1,124,151	35,949,151
Total	$ 163,485,000	$ 25,016,085	$ 188,501,085

Interest in the preceding table 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 $163.5 million and $181.9 million at December 31, 2021 and 2020, 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 $188.5 million and $214.6 million at December 31, 2021 and 2020, 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 $26.1 million and $25.0 million for 2021 and 2020, respectively. Total net revenues were $27.6 million and $26.5 million for 2021 and 2020, 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, 2021:

Notional Amount	Agency Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating (S&P)
$ 163,485,000	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A+

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 Agency has 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) (0.13 percent and 0.23 percent at December 31, 2021 and 2020, respectively) plus an interest rate spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2021 and 2020 was $163.5 million and $181.9 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 1.6 percent at December 31, 2021.

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, 2021 was 17.1 million mmbtu. Presently, the Gas Swap Agreement is 8,676 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 8,676 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.