SACRAMENTO POWER AUTHORITY
TABLE OF CONTENTS

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sacramento Power Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Power Authority which comprise the Statements of Net Position as of December 31, 2015 and 2014, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Sacramento Power Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Power Authority'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.

To the Board of Directors of
Sacramento Power Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Power Authority at December 31, 2015 and 2014, and the changes in its financial position and its cash flows 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Virchow Krause, LLP

Madison, Wisconsin
February 19, 2016

SACRAMENTO POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Using this Financial Report

This annual financial report for Sacramento Power Authority (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 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, 2015 and 2014. 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 and capital additions.

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

Nature of Operations

The Agency is a joint powers authority formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) in 1993. SFA is a joint powers agency formed between SMUD and the Modesto Irrigation District. The Agency was formed for the purpose of owning and operating the Campbell Soup Project (Project) and related facilities for electric power generation. The Project, which began commercial operation in 1997, is comprised of a 160 megawatt (MW) natural gas-fired combined cycle cogeneration plant. Campbell Soup closed its Sacramento plant in May 2013 and the Agency's Steam Sales Agreement with Campbell Soup ended in October 2013. In 2007, SMUD sold the McClellan Gas Turbine Power Plant (McClellan) to the Agency, including the generating equipment and related assets. McClellan is a 72 MW natural gas-fired simple cycle combustion turbine and has been operating since 1986.

SMUD purchases all of the electricity produced by the Project and McClellan pursuant to the Purchase Power Agreements (PPA) between SMUD and the Agency. The Agency has no staff and is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

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 consolidated financial statements of SMUD.

Financial & Operational Highlights

In January and July 2015, the Agency redeemed $29.9 million and the remaining $33.8 million of 2005 Bonds, respectively (see note 5). The redemptions were funded by $29.9 million and $28.2 million equity contributions received from SMUD in January and July 2015, respectively.

In the spring of 2015, the Agency's plant was shut down for a cold iron outage for preventive maintenance. During the pre-shutdown infrared inspection, a hot spot under the insulation blankets covering the gas turbine exhaust was identified. After shut down, a circumferential cracking in the exhaust duct area was discovered. An outside contractor was hired to repair the damage. All other work was completed without incident.

During the fall cold iron maintenance outage, a Heat Recovery Steam Generator stack damper system was installed. The cost of this capital upgrade was $0.8 million.

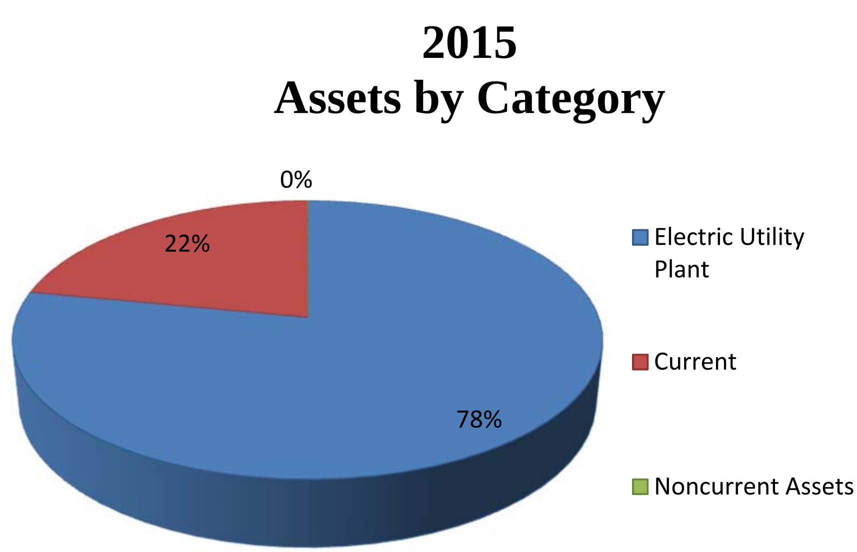
In 2015, the Agency completed the year with an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 92.89 percent, an IEEE Reliability rating of 99.84 percent and a unit capacity factor of 71.1 percent.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Assets							
Electric utility plant - net	$ 71,838	$ 77,544	$ 83,832	$ (5,706)	-7.4%	$ (6,288)	-7.5%
Restricted assets	-0-	11,810	14,652	(11,810)	-100.0%	(2,842)	-19.4%
Current assets	20,190	54,081	25,370	(33,891)	-62.7%	28,711	113.2%
Noncurrent assets	3	797	920	(794)	-99.6%	(123)	-13.4%
Total assets	92,031	144,232	124,774	(52,201)	-36.2%	19,458	15.6%
Deferred outflows of resources	-0-	1,597	1,988	(1,597)	-100.0%	(391)	-19.7%
Total assets and deferred outflows of resources	$ 92,031	$ 145,829	$ 126,762	$ (53,798)	-36.9%	$ 19,067	15.0%
Liabilities							
Long-term debt - net	$ -0-	$ 35,151	$ 72,955	$ (35,151)	-100.0%	$ (37,804)	-51.8%
Current liabilities	8,831	48,987	20,318	(40,156)	-82.0%	28,669	141.1%
Total liabilities	8,831	84,138	93,273	(75,307)	-89.5%	(9,135)	-9.8%
Net position							
Net investment in capital assets	71,838	12,231	11,371	59,607	487.3%	860	7.6%
Restricted	-0-	39,806	12,564	(39,806)	-100.0%	27,242	216.8%
Unrestricted	11,362	9,654	9,554	1,708	17.7%	100	1.0%
Total net position	83,200	61,691	33,489	21,509	34.9%	28,202	84.2%
Total liabilities and net position	$ 92,031	$ 145,829	$ 126,762	$ (53,798)	-36.9%	$ 19,067	15.0%

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



2015 Compared to 2014

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project and McClellan, which comprises $71.8 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2015. The Electric Utility Plant – net decreased primarily due to $6.6 million depreciation expense for the year. Electric Utility Plant assets make up about 78 percent of the Agency's assets.

- Restricted Assets decreased due the release of the Agency's various restricted funds as a result of the redemption of the Agency's bonds and a new PPA with SMUD.

- Current Assets decreased primarily due to a receipt of an equity contribution from SMUD of $29.9 million for the partial redemption of the Agency bonds recorded as a receivable in 2014, a decrease in cash of $2.6 million, a lower Receivable from SMUD due to lower billing to SMUD for the fuel portion of the PPA billings in November and December 2015 of $1.8 million..

- Deferred outflows of resources decreased due to the write off of the unamortized loss on the redeemed 2005 Bonds.

LIABILITIES & NET POSITION

- Long-Term Debt – net decreased due to the redemption of the Agency bonds in July 2015.

- Current Liabilities decreased primarily due to the payment of the current portion of the Agency bonds and accrued interest of $39.3 million and a lower payable to SMUD due to the lower fuel billings from SMUD for November and December 2015.

2014 Compared to 2013

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project and McClellan, which comprises $77.5 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2014. The Electric Utility Plant – net decreased primarily due to $6.6 million in depreciation expense for the year.

- Restricted Assets decreased primarily due to lower overhaul fund and operating funds due to higher costs related to the Steam Turbine overhaul.

- Current Assets increased primarily due to a receivable for an equity contribution from SMUD of $29.9 million for the partial redemption of the Agency bonds. This increase is partially offset by a lower Receivable from SMUD due to lower billing to SMUD for the fuel portion of the PPA billings in November and December 2014.

LIABILITIES & NET POSITION

- Long-Term Debt – net decreased primarily due to $7.2 million of the scheduled principal payments for 2014 and a reclassification to Long-term debt due within one year of $29.9 million due to a partial redemption of the Agency bonds. At December 31, 2014, the Agency had bonds outstanding of $71.3 million with maturities through 2019.

- Current Liabilities increased primarily due the notification to bondholders of a $29.9 million partial redemption of the Agency bonds maturing July 2020 through 2022. This increase was partially offset by a lower payable to SMUD due to the lower fuel billing from SMUD for November and December 2014.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

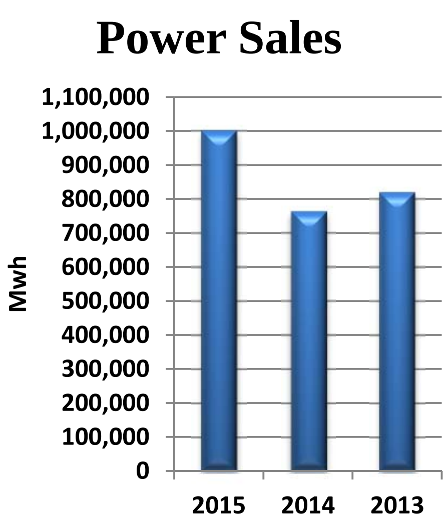
	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Operating revenues	$ 55,209	$ 54,645	$ 65,310	$ 564	1.0%	$ (10,665)	-16.3%
Operating expenses	(54,610)	(52,649)	(58,168)	(1,961)	-3.7%	5,519	9.5%
Operating income	599	1,996	7,142	(1,397)	-70.0%	(5,146)	-72.1%
Interest income	24	45	26	(21)	-46.7%	19	73.1%
Interest on debt	(1,314)	(3,744)	(4,024)	2,430	64.9%	280	7.0%
Change in net position before distributions and contributions	(691)	(1,703)	3,144	1,012	59.4%	(4,847)	-154.2%
Distributions to Member	(6,000)	-0-	(2,000)	(6,000)	-100.0%	2,000	100.0%
Member contributions	28,200	29,905	-0-	(1,705)	-5.7%	29,905	100.0%
Change in net position	21,509	28,202	1,144	(6,693)	-23.7%	27,058	2365.2%
Net position - beginning of year	61,691	33,489	32,345	28,202	84.2%	1,144	3.5%
Net position - end of year	$ 83,200	$ 61,691	$ 33,489	$ 21,509	34.9%	$ 28,202	84.2%

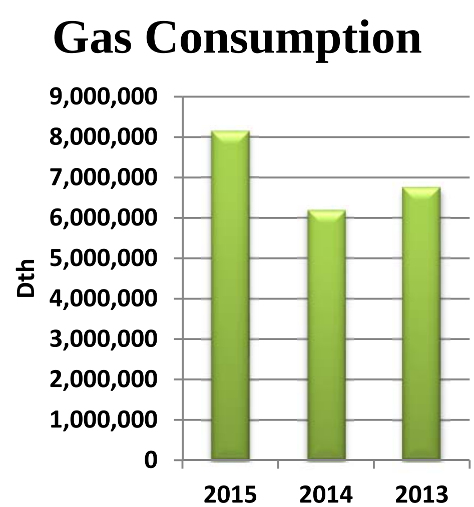
2015 Compared to 2014

OPERATING REVENUES

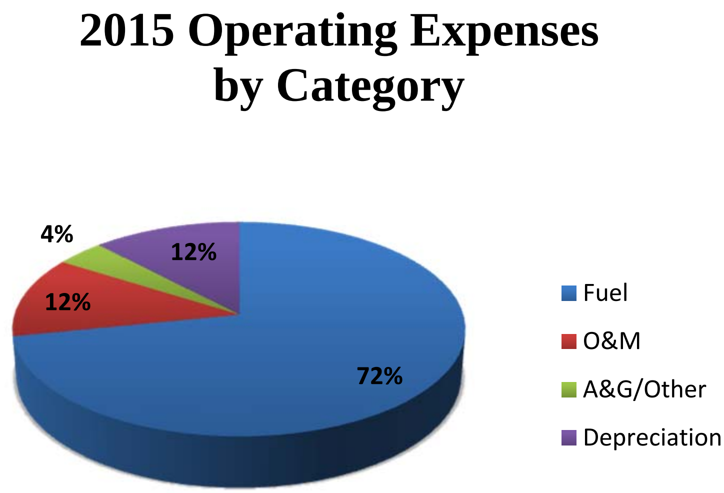
Operating Revenues increased primarily due to higher Power Sales to Member. The Agency's power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency's actual cost of operations including debt service. This formula changed when the PPA was revised in July 2015. In 2015, power sales was higher due to higher fuel volume, partially offset by lower prices of natural gas and lower debt service costs.

The following charts show power sales and gas consumption in 2015, 2014, and 2013:





OPERATING EXPENSES



The following table summarizes Operating Expenses 2015, 2014 and 2013 (dollars in thousands).

	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Operating Expenses							
Fuel	$ 39,211	$ 32,995	$ 44,177	$ 6,216	18.8%	$ (11,182)	-25.3%
Operations and Maintenance	6,665	11,680	6,103	(5,015)	-42.9%	5,577	91.4%
Administrative & general and Other	2,149	1,411	1,339	738	52.3%	72	5.4%
Depreciation	6,585	6,563	6,549	22	0.3%	14	0.2%
Total operating expenses	$ 54,610	$ 52,649	$ 58,168	$ 1,961	3.7%	$ (5,519)	-9.5%

- Fuel expense increased due to higher fuel consumption of $10.4 million, partially offset by lower fuel cost of $4.2 million.
- Operations and Maintenance expense decreased primarily due to lower overhaul expense for steam turbine repairs in 2015 as compared to 2014.

INTEREST ON DEBT

Interest on debt decreased due to the redemption of the Agency Bonds in July 2015.

DISTRIBUTIONS TO MEMBER

Distributions to SMUD are optional and based on excess funds collected through the billing formula for debt service and operating costs as compared to projected cash requirements. The Agency distributed $6.0 million to SMUD in 2015.

MEMBER CONTRIBUTIONS

SMUD contributed $28.2 million equity to the Agency to be used for the redemption of the Agency bonds.

2014 Compared to 2013

RESULTS OF OPERATIONS

- Operating Revenues decreased primarily due to lower Power Sales to Member in 2014, lower prices of natural gas and lower fuel volume. Steam sales decreased due to the closure of the Campbell Soup Plant in May 2013.
- Fuel expense decreased due to lower fuel cost of $7.1 million and lower fuel consumption of $4.1 million.
- Operations and Maintenance expense increased primarily due to the steam turbine overhaul and the additional repairs for the steam admission tubes.

MEMBER CONTRIBUTIONS

The SMUD board authorized a $29.9 million equity contribution to the Agency to be used for the partial redemption of the Agency bonds.

SACRAMENTO POWER AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 195,884,777	$ 195,142,216
Less accumulated depreciation	(124,204,217)	(117,619,610)
Plant in service - net	71,680,560	77,522,606
Construction work in progress	157,441	21,069
Total electric utility plant - net	71,838,001	77,543,675
RESTRICTED ASSETS		
Revenue bond reserve and debt service funds	-0-	11,306,193
Other restricted funds	-0-	6,098,685
Less current portion	-0-	(5,594,545)
Total restricted assets	-0-	11,810,333
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	4,156,674	1,162,356
Restricted cash and cash equivalents	-0-	5,594,545
Receivables:		
Power sales to Member	9,559,281	11,334,876
Contribution from Member	-0-	29,905,000
Accrued interest and other	1,006	17,656
Materials and supplies	6,327,188	5,792,162
Prepayments	146,248	224,611
Regulatory costs to be recovered within one year	-0-	49,954
Total current assets	20,190,397	54,081,160
NONCURRENT ASSETS		
Regulatory costs for future recovery	-0-	324,700
Prepayments and other	2,988	472,666
Total noncurrent assets	2,988	797,366
TOTAL ASSETS	92,031,386	144,232,534
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	-0-	1,596,829
Total deferred outflows of resources	-0-	1,596,829
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 92,031,386	$ 145,829,363

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

SACRAMENTO POWER AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ -0-	$ 35,150,728
CURRENT LIABILITIES		
Accounts payable	1,521,577	714,963
Payable due to Member	7,309,348	9,010,473
Long-term debt due within one year	-0-	37,470,000
Accrued interest	-0-	1,791,796
Total current liabilities	8,830,925	48,987,232
TOTAL LIABILITIES	8,830,925	84,137,960
NET POSITION		
Net investment in capital assets	71,838,001	12,231,424
Restricted	-0-	39,806,434
Unrestricted	11,362,460	9,653,545
TOTAL NET POSITION	83,200,461	61,691,403
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
TOTAL LIABILITIES AND NET POSITION	$ 92,031,386	$ 145,829,363

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

SACRAMENTO POWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2015	Years Ended December 31, 2014
OPERATING REVENUES		
Power sales to Member	$ 55,209,203	$ 54,645,184
Total operating revenues	55,209,203	54,645,184
OPERATING EXPENSES		
Fuel	39,210,847	32,994,940
Operations	6,355,856	6,017,810
Maintenance	309,208	5,661,684
Administrative and general	1,774,816	1,361,304
Depreciation	6,584,607	6,563,023
Regulatory amounts collected in rates	374,654	49,954
Total operating expenses	54,609,988	52,648,715
OPERATING INCOME	599,215	1,996,469
NON-OPERATING REVENUES (EXPENSES)		
Interest and other income	23,668	44,575
Interest on debt	(1,313,825)	(3,744,114)
Total non-operating expenses	(1,290,157)	(3,699,539)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS	(690,942)	(1,703,070)
Distributions to Member	(6,000,000)	-0-
Member contributions	28,200,000	29,905,000
CHANGE IN NET POSITION	21,509,058	28,201,930
NET POSITION - BEGINNING OF YEAR	61,691,403	33,489,473
NET POSITION - END OF YEAR	$ 83,200,461	$ 61,691,403

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

SACRAMENTO POWER AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 56,984,798	$ 56,583,324
Payments to Member	(42,207,155)	(36,460,313)
Payments to Vendors	(6,324,270)	(11,542,445)
Net cash provided by operating activities	8,453,373	8,580,566
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distributions to Member	(6,000,000)	-0-
Contributions from Member	58,105,000	-0-
Net cash provided by noncapital financing activities	52,105,000	-0-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt	(71,280,000)	(7,200,000)
Construction expenditures	(879,731)	(478,734)
Proceeds from sale of assets	11,000	-0-
Interest payments on long-term debt	(2,849,520)	(3,790,614)
Net cash used in capital and related financing activities	(74,998,251)	(11,469,348)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	6,533,328	2,000,605
Purchases of securities	-0-	(997,900)
Interest received	47,715	95,419
Net cash provided by investing activities	6,581,043	1,098,124
Net decrease in cash and cash equivalents	(7,858,835)	(1,790,658)
Cash and cash equivalents - beginning of the year	12,015,509	13,806,167
Cash and cash equivalents - end of the year	$ 4,156,674	$ 12,015,509
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 4,156,674	$ 1,162,356
Restricted cash and cash equivalents	-0-	5,594,545
Revenue bond reserve and debt service funds (a component of the total of $11,306,193 at December 31, 2014)	-0-	158,683
Other restricted funds (a component of the total of $6,098,685 at December 31, 2014)	-0-	5,099,925
Cash and cash equivalents - end of the year	$ 4,156,674	$ 12,015,509

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

SACRAMENTO POWER AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	Years Ended December 31, 2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 599,215	$ 1,996,469
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,584,607	6,563,023
Regulatory amortization	374,654	49,954
Amortization of prepaid bond insurance	541,530	72,204
Changes in operating assets and liabilities:		
Receivables	1,775,595	1,938,140
Other assets	(528,515)	(745,677)
Payables and accruals	(893,713)	(1,293,547)
Net cash provided by operating activities	$ 8,453,373	$ 8,580,566
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND CAPITAL ACTIVITIES		
Unrealized holding losses	$ -0-	$ (236)
Amortization of debt related costs	(256,101)	(57,011)

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

SACRAMENTO POWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Power Authority (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 comprised of SMUD and the Modesto Irrigation District. The purpose of the Agency is to own and operate the Campbell Soup Project (Project) and the McClellan Gas Turbine Power Plant (McClellan) for electric power generation.

The Project, which began commercial operations in 1997, is a 160 megawatt (MW) natural gas-fired combined-cycle cogeneration facility consisting of a combustion turbine generator and a steam turbine generator. The Project is situated on approximately 6 acres of land which is owned by SMUD and leased to the Agency.

In May 2007, SMUD sold McClellan to the Agency, including the generating equipment and related assets. The McClellan gas turbine is a 72 MW simple cycle combustion turbine and has been operating since 1986. McClellan is located on the United States Air Force property at the former McClellan Air Force Base in Sacramento. The land is leased by SMUD and subleased to the Agency.

The Agency has no employees. Under the terms of the Operations and Maintenance Agreement, the Project and McClellan are operated by Ethos Energy Power Plant Services, LLC (Ethos), formerly known as Wood Group Power Operations, Inc.

In July 2015, the outstanding SPA Cogeneration project revenue bonds (Bonds) were redeemed and the Agency entered into a new Power Purchase Agreement (PPA) with SMUD. Pursuant to the new PPA, SMUD purchases, on a “take-or-pay” basis, all capacity, energy and environmental attributes of the Project and McClellan. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, including transportation, and other costs paid by SMUD on the Agency’s behalf. The Agency was charged $40.3 million in 2015 and $35.5 million in 2014 for general and administrative services, water, fuel costs, and other costs paid by SMUD on the Agency’s behalf.

SMUD is entitled to all rights and property in the Project and McClellan in the event of termination of the JPA agreement. SFA has no obligation to make contributions or advances to the Agency. 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. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Project and McClellan agreements.

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 consolidated 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. Electric revenues and costs that are directly related to generation of electricity and steam 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 and revenues and expenses. Actual results could differ from those estimates.

Plant in Service. Overhaul parts are depreciated over their estimated useful lives, ranging from 5 to 15 years. The remaining balance of the Electric Utility Plant is depreciated over the estimated useful life of 30 years. The costs of replacement units are capitalized. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than three thousand dollars and an estimated useful life in excess of two years.

Restricted Assets. In 2014, the Agency's restricted assets were comprised of cash and U.S. government securities, 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 become unrestricted. In 2015, the Agency did not have any restricted assets due to the redemption of the Bonds.

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 the Local Agency Investment Fund (LAIF), and money market funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Agency's deposits with LAIF comprise cash representing demand deposits up to a $50.0 million maximum and cash equivalents representing amounts which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost, which approximates fair value, and the LAIF is reported at the value of its pool shares.

Investments. All of the Agency's investments are reported at fair value. Realized and unrealized gains and losses are included in Interest and Other Income in the Statements of Revenues, Expenses and Changes in Net Position.

Receivable from Member. The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of power generated by the Project.

Materials and Supplies. Materials and supplies are stated at average cost, which approximates the first-in, first-out method.

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 FASB and AICPA Pronouncements"***, which require that the effects of the rate making process be recorded in the financial statements. Accordingly, certain expenses and credits normally reflected in the Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, SMUD through the PPA agreement. 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 Administrative and General in the Statements of Revenues, Expenses and Changes in Net Position. In July 2015, the Agency redeemed all outstanding bonds and the related prepaid bond insurance costs were written off.

Gains and Losses on Bond Refundings. Gains and losses resulting from bond refundings are included in Deferred Outflows and Inflows of Resources, in the Statements of Net Position and amortized as a part of Interest on Debt, over the shorter of the life of the refunded debt or the new debt using the effective interest method, in the Statements of Revenues, Expenses and Net Position.

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

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included.
- 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, above), grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of “Net investment in capital assets” or “Restricted.”

Power Sales to Member. Power sales to Member are recorded as revenues when the electricity is delivered.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets 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 are recorded as Member Contributions. In July 2015, SMUD contributed $28.2 million equity to the Agency to be used for the redemption of the remaining Bonds maturing July 2015 through January 2020. In December 2014, the SMUD board authorized a $29.9 million equity contribution to the Agency to be used for the partial redemption of the Bonds maturing July 2020 through 2022. At December 31, 2014, the Agency recorded a Receivable: Contribution from Member on the Statements of Net Position and a Member Contribution on the Statements of Revenues, Expenses and Changes in Net Position.

Subsequent Events. Subsequent events for the Agency have been evaluated through February 19, 2016, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements. In February 2015, GASB issued Statement of Governmental Accounting Standards (SGAS) No. 72, ***“Fair Value Measurement and Application”*** (GASB No. 72). GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. This statement requires investments to be measured at fair value, which is described as an exit price. This statement requires valuation techniques that are appropriate in the circumstances and for which sufficient data are available to be used to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. This statement establishes a hierarchy of inputs to the valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management assumptions. A fair value takes into account the highest and best use for a nonfinancial asset. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB No. 72 is effective for the Agency in 2016. The Agency is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2015, GASB issued SGAS No. 76, ***"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*** (GASB No. 76). GASB No. 76 established the hierarchy of GAAP for state and local governments. This statement supersedes SGAS No. 55, ***"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"***. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Category A is comprised of GASB statements. Category B includes GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB. GASB No. 76 is effective for the Agency in 2016. The Agency is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

NOTE 3. ELECTRIC UTILITY PLANT

The Agency had the following electric utility plant activity during 2015:

	Balance December 31, 2014	Additions	Adjustments Transfers/ Disposals	Balance December 31, 2015
Nondepreciable utility plant:				
Construction work in progress	$ 21,069	$ 878,933	$ (742,561)	$ 157,441
Total nondepreciable utility plant	21,069	878,933	(742,561)	157,441
Depreciable utility plant:				
Generation	195,142,216	742,561	-0-	195,884,777
Less: accumulated depreciation	(117,619,610)	(6,584,607)	-0-	(124,204,217)
Total utility plant - net	$ 77,543,675	$ (4,963,113)	$ (742,561)	$ 71,838,001

The Agency had the following electric utility plant activity during 2014:

	Balance December 31, 2013	Additions	Adjustments Transfers/ Disposals	Balance December 31, 2014
Nondepreciable utility plant:				
Construction work in progress	$ 269,586	$ 275,116	$ (523,633)	$ 21,069
Total nondepreciable utility plant	269,586	275,116	(523,633)	21,069
Depreciable utility plant:				
Generation	194,618,583	523,633	-0-	195,142,216
Less: accumulated depreciation	(111,056,587)	(6,563,023)	-0-	(117,619,610)
Total utility plant - net	$ 83,831,582	$ (5,764,274)	$ (523,633)	$ 77,543,675

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investments are governed by the California Government and Public Utilities 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 rated in the top two rating agency categories; bankers' acceptances; certificates of deposit; repurchase and reverse repurchase agreements; LAIF; money market funds; certain investment agreements, and other short term investments rated at least P-1 or A-1 by Moody's and Standard & Poor's, respectively. The California Government Code 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" or equivalent for short-term 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 collateral securities that are in the possession of another party. The Agency does not have a deposit policy for custodial credit risk.

At December 31, 2015, $2.8 million of the Agency's cash balances were uninsured. All of the Agency's cash balances were insured at December 31, 2014. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 117 percent and 132 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest) at December 31, 2015 and 2014, respectively. At December 31, 2015, the Agency had no money market mutual funds. At December 31, 2014, the Agency had money market funds of $10.5 million, which were uninsured. The Agency's money market mutual funds are held in trust for the benefit of the Agency.

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. The following are the concentrations of risk greater than five percent in either year:

	December 31,	
Investment Type:	2015	2014
Federal Home Loan Banks	0%	83%

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from the 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. The Agency has no investments at December 31, 2015. Of the Agency's total portfolio at December 31, 2014, the Federal Home Loan Banks investments of $5.6 million had a maturity of less than one year and the Federal Home Loan Banks investments of $1.0 million had a maturity between one to five years.

The following schedules present credit risk by type of security held at December 31, 2015 and 2014. The credit ratings listed are from Standard and Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit Rating	December 31, 2015	December 31, 2014
Cash and cash equivalents:			
Deposits	N/A	$ 3,073,104	$ 146,566
LAIF	Not Rated	1,083,570	1,376,868
Money Market Mutual Funds	AAAm	-0-	10,492,075
Total cash and cash equivalents		4,156,674	12,015,509
Investments:			
Federal Home Loan Banks	AA+	-0-	6,551,725
Total investments		-0-	6,551,725
Total cash, cash equivalents, and investments		$ 4,156,674	$ 18,567,234

A summary of the Agency's cash, cash equivalents, and investments is presented below:

	December 31, 2015	December 31, 2014
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve and debt service funds:		
Revenue bond reserve fund	$ -0-	$ 5,711,648
Debt service fund	-0-	5,594,545
Total revenue bond reserve and debt service funds	-0-	11,306,193
Other restricted funds:		
Overhaul fund	-0-	779,247
Operating funds	-0-	1,799,371
Maintenance Reserve funds	-0-	379,748
Distribution funds	-0-	1,920,222
Other funds	-0-	1,220,097
Total other restricted funds:	-0-	6,098,685
Unrestricted funds	4,156,674	1,162,356
Total cash, cash equivalents, and investments	$ 4,156,674	$ 18,567,234

NOTE 5. LONG-TERM DEBT

The Agency issued $123.0 million of 2005 Cogeneration project revenue bonds (Bonds) in April 2005 with initial interest rates ranging from 3.0 percent to 5.5 percent and maturities through July 2022.

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

	December 31, 2015	December 31, 2014
Cogeneration project revenue bonds	$ -0-	$ 71,280,000
Unamortized premium / (discounts) - net	-0-	1,340,728
Total long-term debt	-0-	72,620,728
Less: amounts due within one year	-0-	(37,470,000)
Total long-term debt - net	$ -0-	$ 35,150,728

The following summarizes activity in long-term debt for the year ended December 31, 2015:

	December 31, 2014	Redemption, Payments or Amortizations	December 31, 2015
2005 Cogeneration project revenue refunding bonds	$ 71,280,000	$ (71,280,000)	$ -0-
Unamortized premium/ (discounts) - net	1,340,728	(1,340,728)	-0-
Total long-term debt	$ 72,620,728	$ (72,620,728)	$ -0-

The following summarizes activity in long-term debt for the year ended December 31, 2014:

	December 31, 2013	Redemption, Payments or Amortizations	December 31, 2014
2005 Cogeneration project revenue refunding bonds	$ 78,480,000	$ (7,200,000)	$ 71,280,000
Unamortized premium/ (discounts) - net	1,675,182	(334,454)	1,340,728
Total long-term debt	$ 80,155,182	$ (7,534,454)	$ 72,620,728

2015 Bond Redemptions. In January and July 2015, the Agency redeemed $29.9 million and the remaining $33.8 million of 2005 Bonds maturing July 2016 through July 2022, along with the accrued interest, respectively. The redemptions resulted in a current accounting loss of $0.2 million, which is included in Interest on Debt in the Statements of Revenues, Expenses, and Changes in Net Position.

Proceeds from the Bonds were used to refund previously issued bonds that provided financing for the Project. Prior to the redemptions, the Bonds, payable through 2022, were secured solely by a pledge of and lien on the trust estate under the Indenture which includes all revenues, income, rents and receipts derived by the Agency. The Agency had pledged future net revenues to repay $71.3 million at December 31, 2014 for Bonds issued in April 2005. Annual principal and interest payments on the Bonds required approximately 20.1 percent of the Agency's net revenue for 2014. The total principal and interest remaining to be paid on the Bonds was $77.6 million at December 31, 2014. Debt service payments were made semi-annually on January 1 and July 1. Principal and interest paid were $11.0 million for 2014 and total net revenues were $54.7 million.

Prior to the redemption of the Bonds, the ability of the Agency to pay related principal and interest payments associated with the Bonds was contingent upon the continued successful operation of the Project. Agency Members were not obligated to pay debt service costs if the Project was unable to operate pursuant to performance guarantees or if revenues generated by the Project were insufficient to meet debt service obligations.

NOTE 6. INSURANCE PROGRAMS

The Agency purchases commercial, property and casualty insurance coverage at levels consistent with coverage on similar facilities. The policies' deductible dollar amounts vary depending on the type of coverage. The Agency has additional insurance coverage in excess of the requirements of the Indenture. Excess liability coverage for most claims against the Agency is $140.0 million. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims, $0.5 million for property claims, and up to $25.0 million for earthquakes. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7. COMMITMENTS

Natural Gas Interconnection and Supply Agreements. Pursuant to the Natural Gas Interconnection and Supply Agreements, SMUD supplies all of the natural gas requirements of the Project, McClellan and the Campbell Soup boiler plant (Boiler). The Agency pays for the actual supply, storage and transportation costs for the fuel supplied to the Project, McClellan and the Boiler as specified in these agreements through December 2027.

Operations and Maintenance Agreement. Ethos serves as the Operator of the Project and is responsible for providing, on a turnkey basis, the primary operation, repair, overhaul and maintenance services for the Project, the Boilers and related equipment of the Project through December 2016. A new Operations and Maintenance Agreement between the Agency and Ethos was signed in November 2015 and will take effect in January 2016. At December 31, 2015, the Agency's annual minimum obligation under this agreement was approximately $2.8 million.

Ground Lease Agreement. The Agency leases land from SMUD under the ground lease agreement expiring December 2030. The minimum lease payment increases or decreases by the Producer Price Index annually. At December 31, 2015, the Agency's annual minimum lease payment was approximately $0.1 million.

NOTE 8. CONTINGENCIES

General Contingencies. 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.