Sacramento Municipal Utility District Financing Authority

Financial Statements
and Independent Auditors' Report
December 31, 2023 and 2022

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
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Independent Auditors' Report

To the Board of Directors of
Sacramento Municipal Utility District Financing Authority

Opinion

We have audited the accompanying financial statements of the Sacramento Municipal Utility District Financing Authority (Agency), a component unit of the Sacramento Municipal District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2023 and 2022, 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 the Agency 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 the Agency'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 the Agency'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 the Agency'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
February 23, 2024

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Using this Financial Report

This annual financial report for Sacramento Municipal Utility District Financing 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 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, 2023 and 2022. 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 Modesto Irrigation District. The Agency owns and operates the Cosumnes Power Plant Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in 2006, is comprised of a 602 megawatt (MW) natural gas-fired combined cycle generation plant.

The Agency entered into Assignment and Assumption Agreements which transferred the assets and obligations, including ownership of the Carson Power Plant (Carson), Procter and Gamble Power Plant (Procter and Gamble), Campbell Power Plant (Campbell) and McClellan Power Plant (McClellan), (assigned Power Plants), to the Agency as of November 1, 2021.

Carson which began commercial operations in 1995, is comprised of a 68 MW natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. Procter and Gamble which began commercial operations in 1997, is comprised of a 145 MW natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. Campbell which began commercial operations in 1997, is a 183 MW natural gas-fired combined-cycle cogeneration plant consisting of a combustion turbine generator (CTG) and a steam turbine generator (STG). McClellan is a 72 MW simple cycle combustion turbine and has been operating since 1986.

SMUD purchases all of the electricity produced by the Project and the assigned Power Plants pursuant to the Power Purchase Agreements (PPA) between SMUD and the Agency and the assigned Power Plants. The Agency has no employees and is obligated to reimburse SMUD for the actual costs of providing general and administrative services, water, 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 financial statements of SMUD.

Financial & Operational Highlights

In 2023, the Agency's plant operator, Ethos Energy Power Plant Services, LLC (Ethos), continued to perform quarterly offline gas turbine water washes and inspections as part of standard maintenance protocols at the Project and at the assigned Power Plants. These outages and inspections have been an integral part of the Project's and the assigned Power Plants' successful performances which include ratings from the Institute of Electrical and Electronics Engineers (IEEE) for availability and reliability.

The Project obtained an IEEE Availability rating of 78.50 percent. The STG returned to full service post testing on March 5, 2023 from the outage which started in June 2022 due to a fault in the stator ground. The Project obtained an IEEE Reliability rating of 99.80 percent and an overall capacity factor of 66.70 percent. The plant completed CTG #2 major overhaul as well as replacing combustion hardware on CTG #3.

Carson obtained an IEEE Availability rating of 82.40 percent, an IEEE Reliability rating of 92.79 percent, and a successful call-up ratio for the simple cycle unit of 100 percent. The low availability rating was due to a failure in the steam turbine.

Procter and Gamble obtained an IEEE Availability rating of 93.21 percent, an IEEE Reliability rating of 99.85 percent, and a successful call-up ratio for the simple cycle unit of 100 percent. The plant completed Chiller 1B replacement, a major overhaul on CTG (185-117), and a human-machine interface upgrade on the distributed control system CTG controls.

Campbell obtained an IEEE Availability rating of 99.70 percent, an IEEE Reliability rating of 99.90 percent, and a unit capacity factor of 43.25 percent. The plant completed a major overhaul of the Siemens V84.2 CTG.

McClellan obtained an IEEE Availability rating of 97.30 percent, an IEEE Reliability rating of 99.70 percent, and an overall capacity factor of 0.22 percent.

FINANCIAL POSITION

The following table summarizes the financial position as of December 31 (in thousands).

CONDENSED STATEMENT OF NET POSITION

	2023	2022	2021 *
Assets			
Electric utility plant - net	$ 291,172	$ 309,606	$ 309,574
Current assets	131,260	109,011	133,673
Noncurrent assets	588	682	789
Total assets	423,020	419,299	444,036
Deferred outflows of resources	2,698	3,258	3,268
Total assets and deferred outflows of resources	$ 425,718	$ 422,557	$ 447,304
Liabilities			
Long-term debt - net	$ 80,582	$ 95,553	$ 99,421
Current liabilities	64,060	44,332	49,507
Noncurrent liabilities	15,337	15,215	14,760
Total liabilities	159,979	155,100	163,688
Net position			
Net investment in capital assets	192,926	207,660	194,185
Restricted	8,017	2,264	5,725
Unrestricted	64,796	57,533	83,706
Total net position	265,739	267,457	283,616
Total liabilities and net position	$ 425,718	$ 422,557	$ 447,304

* Includes the assets and obligations of CVFA, SCA and SPA as a result of the transfer of operations on November 1, 2021 and restated in 2022 due to the implementation of GASB 87, Leases.

TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES

Total assets in 2023 increased $3.7 million or 0.9% over 2022, primarily due to the following:

- A decrease of $18.4 million in total electric utility plant - net primarily due to depreciation expense for the year, offset by additions to construction work in progress.
- An increase of $5.7 million in restricted cash primarily due to a higher reserve for long-term debt due within one year.
- An increase of $15.4 million in power sales to Member receivable primarily due to the fuel portion of the PPA billings in December.
- A decrease of $1.2 million in materials and supplies primarily due to the issuance of inventory used for the CTG #2 major overhaul at the Project and the CTG major overhaul at Campbell.
- An increase of $2.4 million in prepayments primarily due to advance payments for the refurbishment of the spare rotor at the Project.

Total assets in 2022 decreased $24.7 million or 5.6% over 2021, primarily due to the following:

- A decrease of $24.9 million in unrestricted cash and cash equivalents primarily due to a $35.0 million distribution to Member.
- A decrease of $3.7 million in restricted cash primarily due to a lower reserve for long-term debt due within one year.
- An increase of $3.8 million in power sales to Member receivable primarily due to the fuel portion of the PPA billings in December.
- A decrease of $2.0 million in materials and supplies primarily due to the issuance of inventory used for the CTG #3 major overhaul.
- An increase of $2.2 million in prepayments primarily due to advance payments for the CTG #2 major overhaul at the Project and the CTG overhaul at Campbell scheduled to be performed in 2023.

TOTAL LIABILITIES & NET POSITION

Total liabilities in 2023 increased $4.9 million or 3.1% over 2022, primarily due to the following:

- A decrease of $3.7 million in long-term debt due to a $1.8 million principal payment and $1.9 million amortization of bond premium.
- A decrease of $12.7 million in accounts payable primarily due to an $8.4 million decrease in capital expenses for the repair of the fault in the stator ground to the STG at the Project and a $2.2 million decrease in operator reimbursable expenses due to Ethos at December 31, 2023.
- An increase of $21.2 million in payable due to Member primarily due to the fuel portion of the PPA billings in December.

Net position in 2023 decreased $1.7 million or 0.6% over 2022, primarily due to a $25.0 million distribution to Member, offset by $15.7 million other non-operating revenues resulting primarily from the receipt of an insurance claim for the repair of the fault in the stator ground to the STG at the Project.

Total liabilities in 2022 decreased $8.6 million or 5.2% over 2021, primarily due to the following:

- A decrease of $13.5 million in long-term debt primarily due to a $9.6 million reduction to portion of long-term debt due within one year.
- An increase of $10.9 million in accounts payable primarily due to an $8.8 million increase in capital expenses and a $2.0 million increase in reimbursable expenses due to Ethos at December 31, 2022.
- A decrease of $6.2 million in payable due to Member primarily due to the fuel portion of the PPA billings in December.

Net position in 2022 decreased $16.2 million or 5.7% over 2021, primarily due to a $35.0 million distribution to Member, offset by a $13.5 million increase to net investment in capital assets portion of net assets resulting from a reduction in long-term debt.

RESULTS OF OPERATIONS

The following table summarizes the operating results for the years ended December 31 (in thousands).

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2023	2022	2021 *
Operating revenues	$ 258,162	$ 115,823	$ 143,050
Operating expenses	(248,786)	(94,436)	(137,234)
Operating income	9,376	21,387	5,816
Non-operating revenues (expenses)	13,906	(2,546)	(3,413)
Change in net position before distributions and special item	23,282	18,841	2,403
Distributions to Member	(25,000)	(35,000)	-0-
Special item	-0-	-0-	161,298
Change in net position	(1,718)	(16,159)	163,701
Net position - beginning of year	267,457	283,616	119,915
Net position - end of year	$ 265,739	$ 267,457	$ 283,616

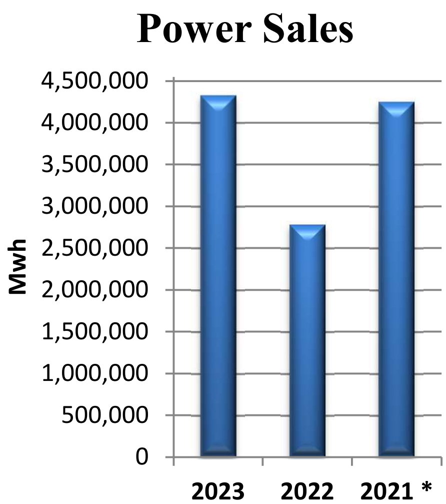
* Includes the assets and obligations of CVFA, SCA and SPA as a result of the transfer of operations on November 1, 2021 and restated in 2022 due to the implementation of GASB 87, Leases.

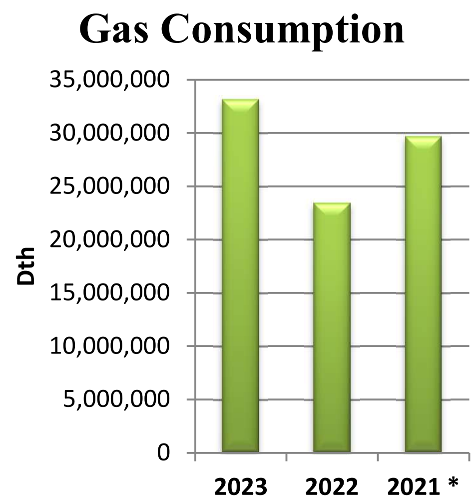
OPERATING REVENUES

Total operating revenues were $258.2 million for 2023, an increase of $142.3 million or 122.9% over 2022. The power megawatt hour (MWh) sales increased 55.6 percent and gas dekatherm (Dth) consumption increased 41.6 percent compared to 2022. 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 and capital costs. In 2023, more revenue was needed due to higher fuel usage and lower gas sales by Member as a result of higher fuel, operator reimbursable costs, and other operator costs, offset by lower capital and overhaul costs.

Total operating revenues were $115.8 million for 2022, a decrease of $27.2 million or 19.0% over 2021. The power MWh sales decreased 34.6 percent and gas Dth consumption decreased 21.1 percent compared to 2021. In 2022, less revenue was needed due to lower fuel usage and higher gas sales by Member as a result of the Project's STG unplanned outage, offset by higher operator reimbursable costs, capital expenses, overhaul costs and other operator costs.

The following charts show power sales and gas consumption in 2023, 2022, and 2021.





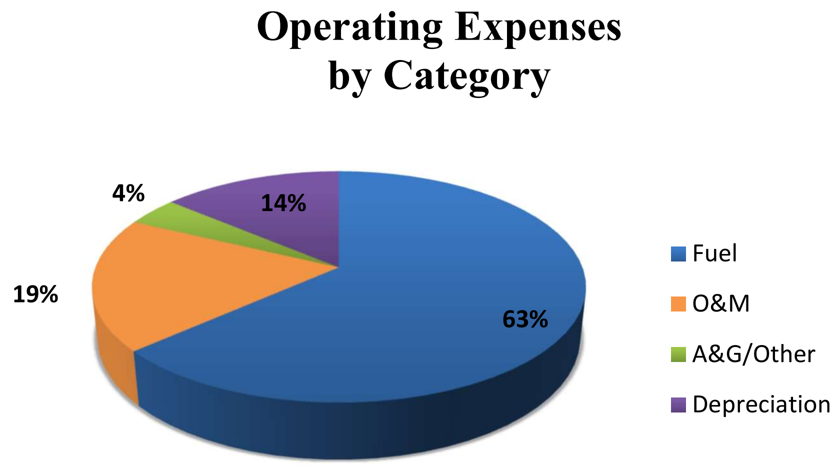
* Includes Power Sales and Gas Consumption of CVFA, SCA and SPA for November and December as a result of the transfer of operations on November 1.

OPERATING EXPENSES

Total operating expenses were $248.8 million for 2023, an increase of $154.4 million or 163.5% over 2022, primarily due to the following:

- An increase of $155.7 million in fuel expense primarily due to the Project returning to full service in March which was offline for the greater portion of 2022 due to a fault in the stator ground to the STG.
- An increase of $2.1 million in operations expense primarily due to the increase in operator reimbursable expenses.
- A decrease of $6.5 million in maintenance expense primarily due to the major overhaul of the STG and CTG #3 at the Project in 2022.
- An increase of $2.9 million in administrative and general expense primarily due to the increase in insurance premiums for the Project and assigned Power Plants.

The following chart illustrates 2023 operating expenses by expense classification and percentage of the total.



Total operating expenses were $94.4 million for 2022, a decrease of $42.8 million or 31.2% over 2021, primarily due to the following:

- A decrease of $96.5 million in fuel expense primarily due to the fault in the stator ground to the STG at the Project resulting in the STG being offline for most of year.
- An increase of $19.3 million in operations expense, $13.4 million in maintenance expense, $3.6 million in administrative and general expense, and $17.3 million in depreciation and amortization expenses primarily due to the Agency operating the assigned Power Plants for 12 months in 2022 compared to 2 months in 2021. The increase in maintenance expense is due to the major overhaul of the STG and CTG #3 at the Project.

Requests for Information

For more information about the Sacramento Municipal Utility District Financing Authority, visit our website at www.smud.org or contact us at customerservices@smud.org.

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2023	December 31, 2022
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 978,600,114	$ 963,380,481
Less accumulated depreciation and amortization	(690,364,863)	(678,033,514)
Plant in service - net	288,235,251	285,346,967
Construction work in progress	2,936,617	24,258,810
Total electric utility plant - net	291,171,868	309,605,777
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	36,457,507	36,453,677
Restricted cash and cash equivalents	10,213,875	4,507,714
Receivables:		
Power sales to Member	57,764,085	42,391,487
Steam sales	1,320,083	1,334,540
Accrued interest and other	276,785	214,490
Materials and supplies	16,240,230	17,483,658
Prepayments	8,883,288	6,520,884
Regulatory costs recovered within one year	104,416	104,416
Total current assets	131,260,269	109,010,866
NONCURRENT ASSETS		
Regulatory costs for future recovery	574,286	678,702
Other	13,360	3,693
Total noncurrent assets	587,646	682,395
TOTAL ASSETS	423,019,783	419,299,038
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	910,672	1,191,631
Deferred asset retirement obligation outflow	1,787,421	2,066,481
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,698,093	3,258,112
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 425,717,876	$ 422,557,150

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2023	December 31, 2022
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 80,582,096	$ 95,553,307
CURRENT LIABILITIES		
Accounts payable	7,514,564	20,255,970
Lease liability due within one year	288,525	280,026
Payable due to Member	40,873,581	19,632,858
Long-term debt due within one year	13,115,000	1,845,000
Accrued interest on debt	2,197,250	2,243,375
Accrued interest on leases	70,929	74,259
Total current liabilities	64,059,849	44,331,488
NONCURRENT LIABILITIES		
Accrued decommissioning	10,166,132	9,756,365
Lease liability	5,170,367	5,458,892
Total noncurrent liabilities	15,336,499	15,215,257
TOTAL LIABILITIES	159,978,444	155,100,052
NET POSITION		
Net investment in capital assets	192,926,552	207,660,183
Restricted	8,016,625	2,264,339
Unrestricted	64,796,255	57,532,576
TOTAL NET POSITION	265,739,432	267,457,098
COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)		
TOTAL LIABILITIES AND NET POSITION	$ 425,717,876	$ 422,557,150

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2023	2022
OPERATING REVENUES		
Power sales to Member	$ 246,078,181	$ 105,955,881
Gas sales to Member	1,038,579	343,221
Steam sales	10,828,252	8,665,424
Other	216,809	858,893
Total operating revenues	258,161,821	115,823,419
OPERATING EXPENSES		
Fuel	157,856,738	2,142,506
Operations	37,279,479	35,225,130
Maintenance	9,110,546	15,606,915
Administrative and general	9,964,699	7,031,906
Depreciation and amortization	34,470,329	34,324,718
Regulatory amounts collected in rates	104,416	104,416
Total operating expenses	248,786,207	94,435,591
OPERATING INCOME	9,375,614	21,387,828
NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,190,491	579,311
Interest on debt	(2,865,372)	(3,051,736)
Lease interest	(76,734)	(74,259)
Other income	15,658,335	-0-
Total non-operating revenues (expenses)	13,906,720	(2,546,684)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	23,282,334	18,841,144
Distributions to Member	(25,000,000)	(35,000,000)
CHANGE IN NET POSITION	(1,717,666)	(16,158,856)
NET POSITION - BEGINNING OF YEAR	267,457,098	283,615,954
NET POSITION - END OF YEAR	$ 265,739,432	$ 267,457,098

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 231,744,162	$ 102,504,931
Receipts from steam sales	10,842,709	8,881,705
Other receipts	13,909,894	858,893
Payments to Member	(135,000,092)	(18,822,279)
Payments to vendors	(60,995,729)	(45,060,738)
Net cash provided by operating activities	60,500,944	48,362,512
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distribution to Member	(25,000,000)	(35,000,000)
Net cash used in noncapital financing activities	(25,000,000)	(35,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction expenditures	(24,227,310)	(25,556,844)
Repayment of long-term debt	(1,845,000)	(11,450,000)
Interest payments on long-term debt	(4,486,750)	(5,059,250)
Lease payments	(360,089)	(349,268)
Net cash used in capital and related financing activities	(30,919,149)	(42,415,362)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,128,196	384,435
Net cash provided by investing activities	1,128,196	384,435
Net increase (decrease) in cash and cash equivalents	5,709,991	(28,668,415)
Cash and cash equivalents - beginning of the year	40,961,391	69,629,806
Cash and cash equivalents - end of the year	$ 46,671,382	$ 40,961,391
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 36,457,507	$ 36,453,677
Restricted cash and cash equivalents	10,213,875	4,507,714
Cash and cash equivalents - end of the year	$ 46,671,382	$ 40,961,391

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	Years Ended December 31, 2022
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 9,375,614	$ 21,387,828
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	34,470,329	34,324,718
Other revenues	13,693,085	-0-
Regulatory amortization	104,416	104,416
Asset retirement obligation amortization	688,827	443,626
Changes in operating assets and liabilities:		
Receivables	(15,358,141)	(3,577,890)
Other assets	(1,128,643)	(231,051)
Payables and accruals	18,655,457	(4,089,135)
Net cash provided by operating activities	$ 60,500,944	$ 48,362,512
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Net amortization of debt related (expenses) and premiums	$ 1,575,252	$ 1,721,264
Construction expenditures included in accounts payable	1,516,271	9,707,161
Write-off Clean Air Act Section 185 fees accrual	1,965,250	-0-

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

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Municipal Utility District Financing Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Modesto Irrigation District (MID) pursuant to the California Government Code. The purpose of the Agency is to own and operate the Cosumnes Power Plant Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in February 2006, is comprised of a 602 megawatt (MW) natural gas-fired combined cycle generation plant. The Project is situated on approximately 38 acres of land adjacent to SMUD's decommissioned nuclear power plant. The land is owned by SMUD and leased to the Agency.

The Agency entered into Assignment and Assumption Agreements which transferred the assets and obligations, including ownership of the Carson Power Plant (Carson), Procter and Gamble Power Plant (Procter and Gamble), Campbell Power Plant (Campbell) and McClellan Power Plant (McClellan), (assigned Power Plants), to the Agency as of November 1, 2021.

Carson, previously owned and operated by the Central Valley Financing Authority, a JPA formed by SMUD and the Sacramento Regional County Sanitation District (SRCSD), began commercial operations in 1995 and is comprised of a 68 MW natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. Carson is situated on approximately ten acres of land adjacent to the SRCSD sewage treatment plant. The land is owned by SRCSD and leased to the Agency.

Procter and Gamble, previously owned and operated by the Sacramento Cogeneration Authority (SCA), a JPA formed by SMUD and the Agency, began commercial operations in 1997 and is comprised of a 145 MW natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. Procter and Gamble is situated on approximately eight acres of land owned by the Agency, which is adjacent to the Procter & Gamble Manufacturing Company (P&G) plant in Sacramento.

Campbell, previously owned and operated by Sacramento Power Authority (SPA), a JPA formed by SMUD and the Agency, began commercial operations in 1997 and is a 183 MW natural gas-fired combined-cycle cogeneration plant consisting of a combustion turbine generator and a steam turbine generator. Campbell is situated on approximately six acres of land which is owned by SMUD and leased to the Agency.

McClellan, previously owned and operated by SPA, 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. The Project and the assigned Power Plants are operated by Ethos Energy Power Plant Services, LLC (Ethos) under the terms of the Operations and Maintenance Agreements.

Pursuant to the Power Purchase Agreements (PPA) with SMUD and the Agency, SMUD purchases, on a "take-or-pay" basis, all capacity, energy, and environmental attributes of the Project and assigned Power Plants. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, water, and other costs paid by SMUD on the Agency's behalf. The Agency paid SMUD $154.1 million in 2023 and $11.8 million in 2022.

Carson provides steam to SRCSD's adjacent sewage treatment plant pursuant to the Long-Term Commodity Agreement. Carson also provides steam and electricity for the refrigeration process of the Glacier Ice facility pursuant to the Thermal Energy Sales Agreement. The primary fuel for Carson is a mixture of natural gas and digester gas from SRCSD's sewage treatment plant. Presently, digester gas represents six percent of the fuel used by Carson and the remaining amount is sold to SMUD.

The Agency sells steam to P&G pursuant to a Steam Sales Agreement, which was assigned to SCA from SMUD.

SMUD is entitled to all rights and property of the Project and the assigned Power Plants in the event of termination of the JPA agreement. Neither MID nor SRCSD has any 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, or while any bonds or notes of the Agency are outstanding. Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are not dependent upon the continued successful operation of the Project. SMUD is required to make payments in an amount sufficient to pay principal and interest and all other payments required to be made under the Indenture of Trust (Indenture), dated June 1, 2015. Neither MID nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Project 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 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. 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, deferred outflows of resources, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Plant in Service. The Agency generally computes depreciation on Electric Utility Plant on a straight-line basis using five years for software and the remaining life of the JPA for all other capital assets. The costs of replacement units are capitalized. Major overhaul parts are depreciated over their estimated useful lives, ranging from 4 to 24 years. 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 five thousand dollars and an estimated useful life in excess of two years.

Leases. The Agency implemented Statement of Governmental Accounting Standards (SGAS) No. 87, ***"Leases"*** (GASB No. 87) in 2022. Leases are contracts that convey control of the right to use another entity's nonfinancial asset as specified for a period of time in an exchange or exchange-like transaction without the transfer of ownership of the asset. The lease term is the period of time where there is a noncancellable right to use the underlying asset. The Agency only has lessee contracts.

For lessee contracts, lease assets and liabilities are reported at present value using the Agency's incremental borrowing rate in the Statements of Net Position. The lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. The amortization of the discount for lessee contracts is recorded as Accrued interest on leases in the Statements of Net Position with the offset to Lease interest expense in the Statements of Revenues, Expenses and Changes in Net Position.

Restricted Assets. The Agency's restricted assets are comprised of cash, which is limited for specific purposes pursuant to the Indenture requirements. The Indenture specifies the flow of cash into the various Agency funds and dictates when they may become unrestricted.

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.

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 and assigned Power Plants.

Steam Sales Receivable. The Agency records a steam sales receivable for amounts due from P&G for the sale and delivery of steam.

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

Prepayments. The Agency's prepayments consist of advance payments for inventory, property insurance, leases, and permits. The Agency pays for property insurance, leases, and permits annually in advance. These prepayments are recognized as expenses in the month the actual costs are incurred.

Other Noncurrent Assets. Other Noncurrent Assets is comprised of emission reduction credits.

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 requires 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. 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.

Deferred Outflow of Resources. A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Gains and Losses on Bond. Gains and losses resulting from bond refundings are included in Deferred outflows and Deferred inflows of resources 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 Changes in Net Position.

Payable to Member. The Agency records as a Payable to Member the amounts due to SMUD for general and administrative services, water, fuel costs, and other costs paid by SMUD on the Agency's behalf.

Asset Retirement Obligation (ARO). Under SGAS No. 83, ***"Certain Asset Retirement Obligations,"*** the Agency has a legal obligation to decommission the Carson facility. The Agency records the ARO as Accrued decommissioning and a corresponding Deferred asset retirement obligation outflows in the Statements of Net Position. The Deferred asset retirement obligation outflows is amortized over the remaining useful life of the Carson facility and included as Operating Expenses in the Statements of Revenues, Expenses and Changes in Net Position (see Note 6).

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 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 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, deferred outflows of resources and liabilities that do not meet the definition of "Net investment in capital assets" or "Restricted."

Operating Revenues. Power sales to Member are recorded as revenues when the electricity is delivered. Gas sales to Member, Steam sales, and rent income on subleased property are recorded when earned.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets and are recorded when incurred.

Other Revenues. Other revenues consist of proceeds from the insurance claim related to the fault in the stator ground to the steam turbine generator at the Project.

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

Subsequent Events. Subsequent events for the Agency have been evaluated through February 23, 2024, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, adopted. 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 has reviewed its agreements and has determined it has not entered into any agreements which meet the definition of a PPP or APA.

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 has determined that it has not entered into any SBITAs.

In April 2022, GASB issued SGAS No. 99, ***"Omnibus 2022"*** (GASB No. 99). This statement addresses a variety of topics and is effective for the Agency in 2022, 2023, or 2024 depending on the requirement. The Agency chose to adopt provisions related to leases and the implementation of GASB No. 87 that were effective in 2023 early. The Agency incorporated clarifications related to leases contained in GASB No. 99 during its implementation of GASB No. 87. The Agency is currently assessing the financial impact of adopting the remaining topic in this statement that is effective in 2024.

Recent Accounting Pronouncements, not yet adopted. In June 2022, GASB issued SGAS No. 100, "***Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62***" (GASB No. 100), to enhance accounting and financial reporting requirements for accounting changes and error corrections. The statement defines accounting changes and sets forth requirements for reporting changes and error corrections in the financial statements. In addition, the statement contains requirements for disclosure in notes to financial statements of information about accounting changes and error corrections. Furthermore, for periods that are earlier than those included in the financial statements, information presented in required supplementary information and supplementary information should be restated for error corrections, but not for changes in accounting principles. This statement is effective for the Agency in 2024. The Agency is currently assessing the financial statement impact of adopting this statement.

In December 2023, GASB issued SGAS No. 102 ***"Certain Risk Disclosures"*** (GASB No. 102), to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. A *concentration* is defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This statement requires a government to assess whether a concentration or constraint could cause a substantial impact if the event occurred or has begun to occur prior to the issuance of financial statements. If a government determines that the criteria for disclosure have been met, it should disclose information in notes to financial statements in sufficient detail to enable financial statements users to understand the nature of the circumstances and the government's vulnerability to the risk of a substantial impact. This statement is effective for the Agency in 2025. The Agency is currently assessing the financial statement impact of adopting this statement.

NOTE 3. ELECTRIC UTILITY PLANT AND RELATED OPERATING AGREEMENTS

The Agency had the following electric utility plant activity during 2023:

	Balance January 1, 2023	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2023
Nondepreciable electric utility plant:				
Construction work in progress	$ 24,258,810	$ 16,036,420	$ (37,358,613)	$ 2,936,617
Land	772,000	-0-	-0-	772,000
Total nondepreciable electric utility plant	25,030,810	16,036,420	(37,358,613)	3,708,617
Depreciable electric utility plant:				
Generation	956,267,131	37,358,613	(22,138,980)	971,486,764
Lease assets - Land	6,341,350	-0-	-0-	6,341,350
Less: accumulated depreciation and amortization	(678,033,514)	(34,470,329)	22,138,980	(690,364,863)
Total electric utility plant - net	$ 309,605,777	$ 18,924,704	$ (37,358,613)	$ 291,171,868

The Agency had the following electric utility plant activity during 2022:

	Balance January 1, 2022	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2022
Nondepreciable electric utility plant:				
Construction work in progress	$ 1,818,920	$ 34,356,587	$ (11,916,697)	$ 24,258,810
Land	772,000	-0-	-0-	772,000
Total nondepreciable electric utility plant	2,590,920	34,356,587	(11,916,697)	25,030,810
Depreciable electric utility plant:				
Generation	946,199,480	11,916,697	(1,849,046)	956,267,131
Lease assets - Land	6,341,350	-0-	-0-	6,341,350
Less: accumulated depreciation and amortization	(645,557,842)	(34,324,718)	1,849,046	(678,033,514)
Total electric utility plant - net	$ 309,573,908	$ 11,948,566	$ (11,916,697)	$ 309,605,777

The Agency leases land from SMUD and SRCSD for the Project and assigned Power Plants. Lease terms range from 30 to 35 years including options to extend the lease term after completion of the initial contracted term. The likelihood that the renewal options will be exercised has been evaluated and it has been determined that the lease agreements will be renewed with reasonable certainty. The agreements allow for periodic increases to the lease payments. The interest rates range between 2.0 percent to 2.1 percent based on the AAA Muni Curve with the number of years to maturity that corresponds to the lease term, plus an additional credit spread to account for a different credit rating and other factors. As of December 31, 2023, and December 31, 2022, assets recorded under leases were $6.3 million and accumulated amortization associated with the leases was $1.1 million and $0.7 million, respectively. The Agency recognized amortization expense of $0.4 million for both 2023 and 2022, which are included in Depreciation and amortization on the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2023 and 2022, lease obligations included in current liabilities were $0.03 million and lease obligations included in noncurrent liabilities were $5.2 million and $5.5 million, respectively. There were no payments recorded in the current period that were not included in the measurement of the lease liability and there were no lease impairments as of December 31, 2023 and 2022.

The following table summarizes the lease principal and interest payments as of December 31, 2023:

Year	Principal	Interest	Total
2024	$ 288,525	$ 67,774	$ 356,299
2025	297,290	64,226	361,516
2026	306,331	60,558	366,889
2027	315,657	56,767	372,424
2028	325,275	52,849	378,124
2029-2033 (combined)	1,533,728	204,189	1,737,917
2034-2038 (combined)	1,646,233	99,269	1,745,502
2039-2043 (combined)	745,854	6,025	751,879
Total	$ 5,458,893	$ 611,657	$ 6,070,550

NOTE 4. 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 the 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; LAIF; 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 collateral 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, 2023 and 2022, $1.3 million and $5.6 million of the Agency's cash balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 136 percent and 128 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the Agency had money market funds of $10.2 million and $4.5 million which were uninsured, respectively. The Agency's money market 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 Agency had no investments subject to this risk at December 31, 2023 and 2022.

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. The Agency had no investments subject to this risk at December 31, 2023 and 2022.

The following schedules present credit risk by type of security held at December 31, 2023 and 2022. The credit ratings listed are from Standard & Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit Rating	December 31, 2023	2022
Cash and Cash Equivalents:			
Deposits	N/A	$ 1,518,846	$ 5,867,512
LAIF	Not Rated	34,938,661	30,579,453
Money market funds	AAAm	10,213,875	4,514,426
Total cash and cash equivalents		$ 46,671,382	$ 40,961,391

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

	December 31, 2023	2022
Cash and Cash Equivalents:		
Debt service funds	$ 10,213,875	$ 4,507,714
Unrestricted cash and cash equivalents	36,457,507	36,453,677
Total cash and cash equivalents	$ 46,671,382	$ 40,961,391

NOTE 5. LONG-TERM DEBT

The Agency issued $193.3 million of 2015 Cosumnes Project Revenue Refunding Bonds (Bonds) in June 2015 with interest rates ranging from 2.0 percent to 5.0 percent, maturing July 2030.

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

	December 31, 2023	2022
2015 Cosumnes project revenue refunding bonds, fixed rates 5%, 2024-2030	$ 87,890,000	$ 89,735,000
Unamortized premiums	5,807,096	7,663,307
Total long-term debt	93,697,096	97,398,307
Less: amounts due within one year	(13,115,000)	(1,845,000)
Total long-term debt - net	$ 80,582,096	$ 95,553,307

The following summarizes long-term debt activity for the year ended December 31, 2023:

	January 1, 2023	Additions	Refunding, Payments or Amortization	December 31, 2023
Cosumnes project revenue bonds	$ 89,735,000	$ -0-	$ (1,845,000)	$ 87,890,000
Unamortized premiums	7,663,307	-0-	(1,856,211)	5,807,096
Total long-term debt	$ 97,398,307	$ -0-	$ (3,701,211)	$ 93,697,096

The following summarizes long-term debt activity for the year ended December 31, 2022:

	January 1, 2022	Additions	Refunding, Payments or Amortization	December 31, 2022
Cosumnes project revenue bonds	$ 101,185,000	$ -0-	$ (11,450,000)	$ 89,735,000
Unamortized premiums	9,685,892	-0-	(2,022,585)	7,663,307
Total long-term debt	$ 110,870,892	$ -0-	$ (13,472,585)	$ 97,398,307

The annual debt service requirements to maturity for Bonds are as follows at December 31, 2023:

Year	Principal	Interest	Total
2024	$ 13,115,000	$ 4,394,500	$ 17,509,500
2025	14,270,000	3,738,750	18,008,750
2026	13,630,000	3,025,250	16,655,250
2027	13,065,000	2,343,750	15,408,750
2028	12,815,000	1,690,500	14,505,500
2029-2030 (combined)	20,995,000	1,326,500	22,321,500
Total	$ 87,890,000	$ 16,519,250	$ 104,409,250

Proceeds from the Bonds were used to refund previously issued 2006 Bonds that provided financing for the Project. The Bonds, payable through 2030, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes revenues from the PPA and investment income from funds established under the Indenture.

The Agency has pledged future net revenues to repay $87.9 million for the Bonds at December 31, 2023 and $89.7 million at December 31, 2022. Annual principal and interest payments on the Bonds required approximately 2.5 percent and 14.3 percent of the Agency's net revenues for 2023 and 2022, respectively. The total principal and interest remaining to be paid on the Bonds is $104.4 million and $110.7 million at December 31, 2023 and 2022, respectively. Debt service payments are made semi-annually on January 1 and July 1. Principal and interest paid was $6.3 million and $16.5 million for 2023 and 2022, respectively. Total gross revenues were $258.4 million and $115.3 million for 2023 and 2022, respectively.

The payments of principal and interest related to the Agency's long-term debt are not dependent upon the continued successful operation of the Project. SMUD guarantees to make payments in an amount sufficient to pay principal and interest and all other payments required to be made under the Indenture, under a "take-or-pay" contract. The Agency is not required to repay SMUD for any amounts paid under this guarantee.

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.

NOTE 6. ACCRUED DECOMMISSIONING

Asset Retirement Obligation (ARO). The Agency accounts for the ARO associated with the future retirement of Carson. GASB No. 83 requires the measurement of the ARO be based on the best estimate of the current value of the outlays expected to be incurred and the current value be adjusted for the effects of the general inflation or deflation at least annually. In addition, it also requires a government to evaluate relevant factors that may significantly change the estimated asset retirement outlays.

The Agency's ground lease agreement with the SRCSD for Carson requires to restore the premises to its original condition upon termination of the contract. In 2018 a study to determine the current value of the asset retirement obligation was conducted by an external contractor who specializes in decommissioning studies. The expected costs and scope of work were based on the 2018 cost estimate and assumes a contractor will be responsible for the work and that decommissioning would take place between 2025 and 2027. The result of this study was used to determine the balance of the ARO and the deferred outflows at January 1, 2018. The Agency used the annual All Urban Consumer Price Index to adjust this obligation for inflation in 2023. At December 31, 2023, the remaining useful life of Carson's assets is two years.

NOTE 7. INSURANCE PROGRAMS

The Agency purchases commercial property and casualty insurance coverage at levels consistent with coverages on similar facilities. Policy deductibles vary depending on the type of coverage. The excess liability limit for most claims against the Agency is $140.0 million, and property damage is covered under an all-risk policy to replacement value of the asset. The all-risk coverage also includes business interruption (BI) coverage for the generation assets, which is sublimited based on the projected output. Generally, the maximum risk that the Agency would be exposed to is limited to $0.25 million for casualty claims, $5.0 million for property claims, and a 60-day waiting period for BI coverage. The Project, however, is subject to a $10.0 million equipment deductible and a 90-day BI waiting period. 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 8. FAIR VALUE MEASUREMENTS

SGAS No. 72, ***"Fair Value Measurement and Application"*** (GASB No. 72), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Agency utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- 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 in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Agency's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are disclosed below. All the Agency's investments are valued using Level 2 inputs.

- LAIF - uses the fair value of the pool's share price multiplied by the number of shares held. This pool can include a variety of investments such as U.S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, and other investments. The fair values of the securities are generally based on quoted and/or observable market prices.

The following table identifies the level within the fair value hierarchy that the Agency's financial assets are accounted for on a recurring basis as of December 31, 2023 and 2022, respectively. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures (Level 2)

	December 31,	
	2023	2022
Investments reported as Cash and Cash Equivalents:		
LAIF	$ 34,938,661	$ 30,579,453
Total fair value investments	$ 34,938,661	$ 30,579,453

NOTE 9. COMMITMENTS

Natural Gas Interconnection and Supply Agreements. Pursuant to the Natural Gas Interconnection and Supply Agreements, SMUD supplies all the natural gas requirements of the Project and the assigned Power Plants. The Agency pays for the actual supply, storage and transportation costs for the fuel supplied to the Project and the assigned Power Plants as specified in the agreements for 30 years following acceptance. The agreements will be in effect for Carson through October 2025, for Procter and Gamble through March 2027, for Campbell through December 2027 and for the Project through September 2039.

Operation and Maintenance Agreements. Ethos serves as the Operator and is responsible for the primary operation, repair, overhaul and maintenance services of the Project and the assigned Power Plants. The Agency pays for such services according to the terms of the agreements and provides, at no cost to Ethos, fuel, water, and power not already provided for in other agreements. At December 31, 2023, the minimum annual commitment to Ethos was approximately $12.3 million.

Water Supply Agreement. Pursuant to the Water Supply Agreement, SMUD supplies water to the Agency. The Agency is obligated to pay for the actual water supply, storage, and transportation costs for 30 years through September 2039.

Commodity Agreement. Carson provides SRCSD's sewage treatment plant with all the steam required for its operation and emergency power should the outside power supply become disrupted. The Agency also purchases a minimum of 90 percent of the digester gas made available to Carson by the sewage treatment plant, provided the gas meets standards set forth in this agreement, as amended, which expires in October 2025.

NOTE 10. 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.