SACRAMENTO COGENERATION AUTHORITY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Cogeneration 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 Cogeneration 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 Cogeneration Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Cogeneration 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 COGENERATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Using this Financial Report

This annual financial report for Sacramento Cogeneration 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 Procter & Gamble Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in 1997, is comprised of a 136 megawatt (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 operation in 2001.

SMUD purchases all of the electricity produced by the Project pursuant to the Power Purchase Agreement (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 2015, the Agency's operator, Carson Energy Group, continued implementation of a normal six-week cycle of gas turbine water washes and inspections as part of standard maintenance protocols. These outages and inspections have been an integral part of the Agency's successful performance, which for 2015 included an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 95.08 percent, an IEEE Reliability rating of 99.81 percent and a successful call-up ratio for the simple cycle unit of 100 percent with all 166 call-up attempts being successful.

In June 2015, the unit 1B gas turbine, which had been removed from service in late 2014 and sent to the GE Depot for a full zero time overhaul in January 2015 was reinstalled. In 2015, the cost of the hot section overhaul and other maintenance totaled $4.6 million. The cold iron regulatory inspections and testing outages were performed on schedule in May and October.

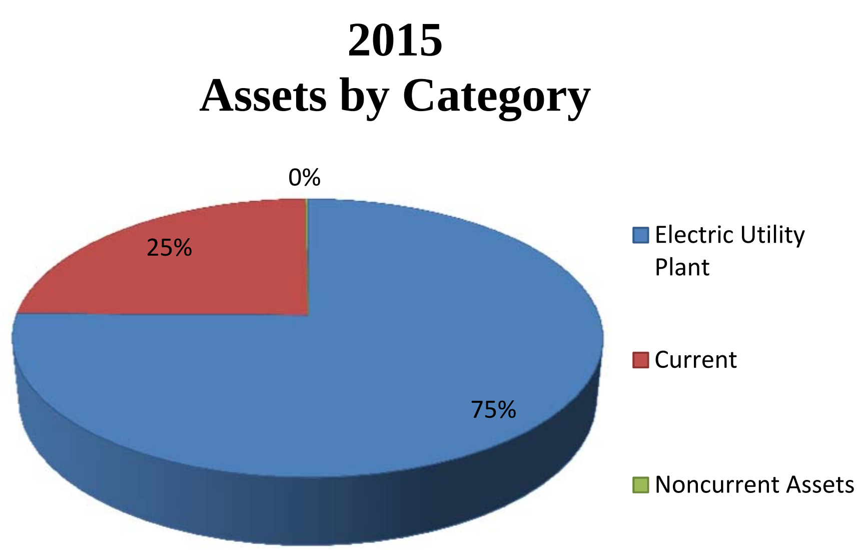
In November 2015, a new Operations and Maintenance Agreement between the Agency and Ethos Energy Power Plant Services, LLC was signed and will take effect in January 2016.

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	$ 80,484	$ 84,537	$ 90,446	$ (4,053)	-4.8%	$ (5,909)	-6.5%
Current assets	26,373	23,422	22,058	2,951	12.6%	1,364	6.2%
Noncurrent assets	179	218	258	(39)	-17.9%	(40)	-15.5%
Total assets	107,036	108,177	112,762	(1,141)	-1.1%	(4,585)	-4.1%
Deferred outflows of resources	1,071	1,430	1,832	(359)	-25.1%	(402)	-21.9%
Total assets and deferred outflows of resources	$ 108,107	$ 109,607	$ 114,594	$ (1,500)	-1.4%	$ (4,987)	-4.4%
Liabilities							
Long-term debt - net	$ 31,316	$ 36,885	$ 42,230	$ (5,569)	-15.1%	$ (5,345)	-12.7%
Current liabilities	14,666	14,663	15,766	3	0.0%	(1,103)	-7.0%
Total liabilities	45,982	51,548	57,996	(5,566)	-10.8%	(6,448)	-11.1%
Net position							
Net investment in capital assets	45,089	44,212	45,378	877	2.0%	(1,166)	-2.6%
Restricted	2,575	2,464	2,356	111	4.5%	108	4.6%
Unrestricted	14,461	11,383	8,864	3,078	27.0%	2,519	28.4%
Total net position	62,125	58,059	56,598	4,066	7.0%	1,461	2.6%
Total liabilities and net position	$ 108,107	$ 109,607	$ 114,594	$ (1,500)	-1.4%	$ (4,987)	-4.4%

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



2015 Compared to 2014

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

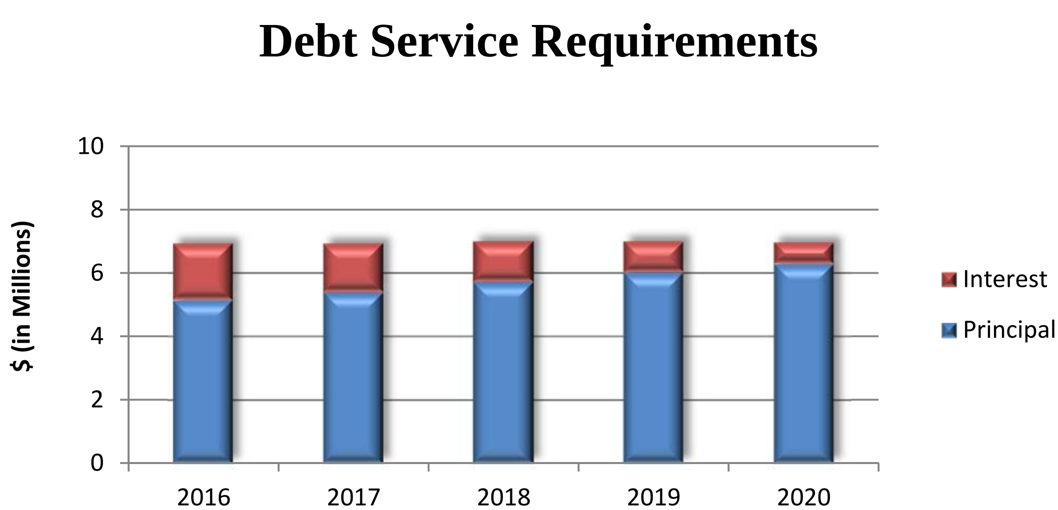
- The Agency's main asset is its investment in the Project, which comprises $80.5 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2015. The Electric Utility Plant – net decreased primarily due to $6.8 million depreciation expense for the year, partially offset by $2.8 million of additions. The current year additions include the refurbishment of the auxiliary boiler, digital generator protection upgrade and the condensate return piping project. Electric Utility Plant assets make up about 75 percent of the Agency's assets.

- Current Assets increased primarily due to higher Unrestricted funds as a result of lower distribution to member in 2015, partially offset by lower Receivable from SMUD for the fuel portion of the PPA billings in November and December 2015 and lower Steam sales.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $4.9 million of the scheduled principal payments for 2015. At December 31, 2015, the Agency had bonds outstanding of $35.3 million with maturities through 2021. The Agency's Bonds are rated "AA-" by Standard and Poor's and Fitch, and "Aa3" by Moody's.

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



2014 Compared to 2013

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project, which comprises $84.5 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2014. The Electric Utility Plant – net decreased primarily due to $6.8 million depreciation expense for the year, partially offset by $0.9 million of additions. The additions included the refurbishment of the auxiliary boiler, digital generator protection upgrade and the condensate return piping project.

- Current Assets increased primarily due to higher Unrestricted funds as a result of a decrease in the distribution to member in 2014, partially offset by lower Receivable from 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 $4.7 million of the scheduled principal payments for 2014. At December 31, 2014, the Agency had bonds outstanding of $40.1 million with maturities through 2021.

- Current Liabilities decreased primarily due to lower fuel billings from SMUD for November and December 2014, partially offset by higher accounts payable for the hot section overhaul and capital projects at December 31, 2014.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

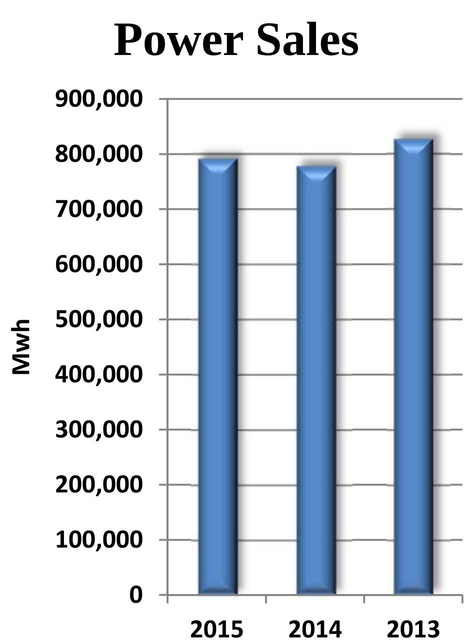
	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Operating revenues	$ 61,255	$ 59,378	$ 66,725	$ 1,877	3.2%	$ (7,347)	-11.0%
Operating expenses	(54,535)	(53,837)	(62,308)	(698)	-1.3%	8,471	13.6%
Operating income	6,720	5,541	4,417	1,179	21.3%	1,124	25.4%
Interest income	2	2	4	-0-	0.0%	(2)	-50.0%
Interest on debt	(1,856)	(2,082)	(2,296)	226	10.9%	214	9.3%
Change in net position before distributions	4,866	3,461	2,125	1,405	40.6%	1,336	62.9%
Distributions to Member	(800)	(2,000)	(7,500)	1,200	60.0%	5,500	73.3%
Change in net position	4,066	1,461	(5,375)	2,605	178.3%	6,836	127.2%
Net position - beginning of year	58,059	56,598	61,973	1,461	2.6%	(5,375)	-8.7%
Net position - end of year	$ 62,125	$ 58,059	$ 56,598	$ 4,066	7.0%	$ 1,461	2.6%

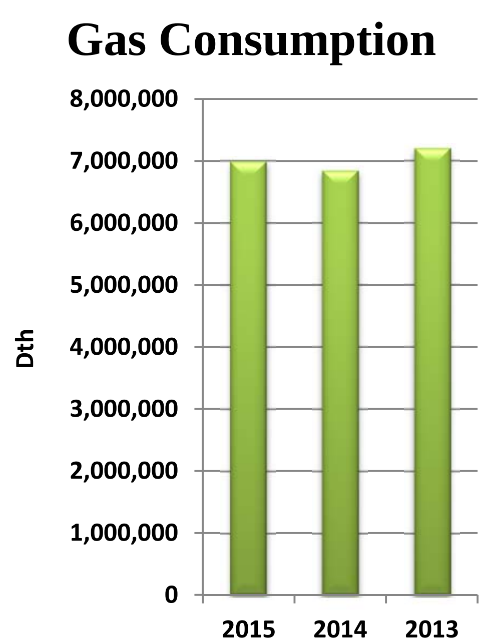
2015 Compared to 2014

OPERATING REVENUES

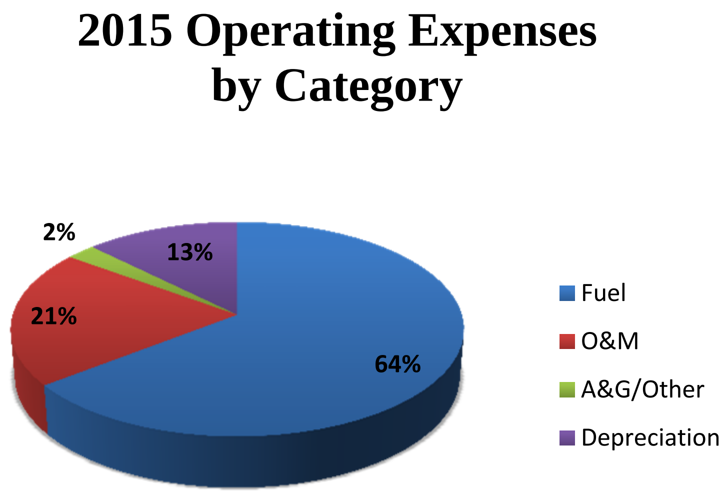
Operating Revenues increased primarily due to higher Power Sales to Member in 2015, partially offset by lower steam sales. The Agency's power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency's actual cost of operations including debt service. In 2015, more revenue was needed primarily due to higher maintenance costs, partially offset by lower fuel costs. Steam sales decreased primarily due to lower steam prices in 2015.

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	$ 35,117	$ 37,962	$ 47,916	$ (2,845)	-7.5%	$ (9,954)	-20.8%
Operations and Maintenance	11,251	7,732	6,328	3,519	45.5%	1,404	22.2%
Administrative & general and Other	1,339	1,332	1,258	7	0.5%	74	5.9%
Depreciation	6,828	6,811	6,806	17	0.2%	5	0.1%
Total operating expenses	$ 54,535	$ 53,837	$ 62,308	$ 698	1.3%	$ (8,471)	-13.6%

- Fuel expense decreased due to lower fuel cost of $3.7 million, partially offset by higher fuel volume of $0.8 million.

- Operations and Maintenance expense increased primarily due to the hot section maintenance overhaul in 2015.

DISTRIBUTIONS TO MEMBER

Distributions to SMUD are optional and based on excess funds collected through the billings for debt service and operating costs as compared to projected cash requirements, and may vary significantly from year to year. In 2015, the Agency distributed $0.8 million to SMUD.

2014 Compared to 2013

RESULTS OF OPERATIONS

- Operating Revenues decreased primarily due to lower Power Sales to Member in 2014. Power sales to Member cover the operating costs, including debt service. In 2014, less revenue was needed primarily due to lower fuel costs, partially offset by higher maintenance costs. Steam sales increased primarily due to higher steam prices in 2014.

- Fuel expense decreased due to lower fuel cost of $7.8 million and lower fuel consumption of $2.2 million.

- Operations and Maintenance expense increased primarily due to the hot section maintenance overhaul in 2014.

SACRAMENTO COGENERATION AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 191,637,437	$ 188,295,772
Less accumulated depreciation	(111,493,751)	(104,665,264)
Plant in service - net	80,143,686	83,630,508
Construction work in progress	340,606	906,239
Total electric utility plant - net	80,484,292	84,536,747
RESTRICTED ASSETS		
Debt service funds	3,472,419	3,483,250
Less current portion	(3,472,419)	(3,483,250)
Total restricted assets	-0-	-0-
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	8,767,853	5,137,569
Restricted cash and cash equivalents	3,472,419	3,483,250
Receivables:		
Power sales to Member	10,201,286	10,665,443
Steam sales	535,960	899,305
Accrued interest and other	434	345
Materials and supplies	3,087,090	2,924,659
Prepayments	267,924	271,846
Regulatory costs to be recovered within one year	39,501	39,501
Total current assets	26,372,467	23,421,918
NONCURRENT ASSETS		
Regulatory costs for future recovery	177,754	217,255
Other	1,054	1,406
Total noncurrent assets	178,808	218,661
TOTAL ASSETS	107,035,567	108,177,326
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	1,070,972	1,429,771
Total deferred outflows of resources	1,070,972	1,429,771
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 108,106,539	$ 109,607,097

SACRAMENTO COGENERATION AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2015		December 31, 2014	
LIABILITIES AND NET POSITION				
LONG-TERM DEBT - net	$	31,315,632	$	36,884,744
CURRENT LIABILITIES				
Accounts payable		930,737		2,092,504
Payable due to Member		7,687,480		6,681,586
Long-term debt due within one year		5,150,000		4,870,000
Accrued interest		897,419		1,019,169
Total current liabilities		14,665,636		14,663,259
TOTAL LIABILITIES		45,981,268		51,548,003
NET POSITION				
Net investment in capital assets		45,089,632		44,211,774
Restricted		2,575,000		2,464,081
Unrestricted		14,460,639		11,383,239
TOTAL NET POSITION		62,125,271		58,059,094
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)				
TOTAL LIABILITIES AND NET POSITION	$	108,106,539	$	109,607,097

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

SACRAMENTO COGENERATION 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	$ 57,798,443	$ 54,446,324
Steam sales	3,456,863	4,931,731
Total operating revenues	61,255,306	59,378,055
OPERATING EXPENSES		
Fuel	35,116,455	37,961,581
Operations	6,479,106	5,859,283
Maintenance	4,772,319	1,872,331
Administrative and general	1,298,711	1,292,913
Depreciation	6,828,487	6,811,496
Regulatory amounts collected in rates	39,501	39,501
Total operating expenses	54,534,579	53,837,105
OPERATING INCOME	6,720,727	5,540,950
NON-OPERATING REVENUES (EXPENSES)		
Interest	1,725	1,640
Interest on debt	(1,856,275)	(2,082,074)
Total non-operating expenses	(1,854,550)	(2,080,434)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	4,866,177	3,460,516
Distributions to Member	(800,000)	(2,000,000)
CHANGE IN NET POSITION	4,066,177	1,460,516
NET POSITION - BEGINNING OF YEAR	58,059,094	56,598,578
NET POSITION - END OF YEAR	$ 62,125,271	$ 58,059,094

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

SACRAMENTO COGENERATION AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 58,262,599	$ 55,175,460
Receipts from steam sales and other	3,690,347	4,923,777
Payments to Member	(35,388,468)	(42,085,534)
Payments to vendors	(12,295,236)	(6,456,842)
Net cash provided by operating activities	14,269,242	11,556,861
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distributions to Member	(800,000)	(2,000,000)
Net cash used in noncapital financing activities	(800,000)	(2,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES		
Repayment of long-term debt	(4,870,000)	(4,670,000)
Construction expenditures	(2,943,087)	(734,728)
Interest payments on long-term debt	(2,038,338)	(2,271,837)
Net cash used in capital and related financing activities	(9,851,425)	(7,676,565)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,636	2,113
Net cash provided by investing activities	1,636	2,113
Net increase in cash and cash equivalents	3,619,453	1,882,409
Cash and cash equivalents - beginning of the year	8,620,819	6,738,410
Cash and cash equivalents - end of the year	$ 12,240,272	$ 8,620,819
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 8,767,853	$ 5,137,569
Restricted cash and cash equivalents	3,472,419	3,483,250
Cash and cash equivalents - end of the year	$ 12,240,272	$ 8,620,819

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

SACRAMENTO COGENERATION AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 6,720,727	$ 5,540,950
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,828,487	6,811,496
Regulatory amortization	39,501	39,501
Changes in operating assets and liabilities:		
Receivables	827,502	591,320
Other assets	(158,157)	(73,308)
Payables and accruals	11,182	(1,353,098)
Net cash provided by operating activities	$ 14,269,242	$ 11,556,861
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of debt related costs	$ 60,313	$ 73,013

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

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Cogeneration 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. SFA is a JPA comprised of SMUD and the Modesto Irrigation District. The purpose of the Agency is to own and operate the Procter & Gamble Project (Project) for electric power generation. The Project, which began commercial operations in 1997, is comprised of a 136 megawatt (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. The Project is situated on approximately 8 acres of land owned by the Agency, which is adjacent to the Procter & Gamble plant in Sacramento.

The Agency has no employees. The Project is operated by Carson Energy Group (Carson) under the terms of the Operations and Maintenance Agreement.

Pursuant to the Power Purchase Agreement (PPA), SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project. The Agency 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 was charged $38.8 million in 2015 and $39.8 million in 2014 for general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

The Agency sells steam to Procter & Gamble pursuant to a Steam Sales Agreement, which was assigned to the Agency from SMUD.

SMUD is entitled to all rights and property associated with the Project 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, 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 August 1, 2009. Neither SFA 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 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, revenues and expenses. Actual results could differ from those estimates.

Plant in Service. The Agency provides for depreciation on the historical cost of Plant in Service on a straight-line basis over an estimated useful life of 30 years. The cost of replacement units is 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. 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. 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.

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.

Gains and Losses on Bond Refundings. 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.

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 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.

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:				
Land	$ 772,000	$ -0-	$ -0-	$ 772,000
Construction work in progress	906,239	2,776,032	(3,341,665)	340,606
Total nondepreciable utility plant	1,678,239	2,776,032	(3,341,665)	1,112,606
Depreciable utility plant:				
Generation	187,523,772	3,341,665	-0-	190,865,437
Less: accumulated depreciation	(104,665,264)	(6,828,487)	-0-	(111,493,751)
Total utility plant - net	$ 84,536,747	$ (710,790)	$ (3,341,665)	$ 80,484,292

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:				
Land	$ 772,000	$ -0-	$ -0-	$ 772,000
Construction work in progress	4,456	901,783	-0-	906,239
Total nondepreciable utility plant	776,456	901,783	-0-	1,678,239
Depreciable utility plant:				
Generation	187,523,772	-0-	-0-	187,523,772
Less: accumulated depreciation	(97,853,768)	(6,811,496)	-0-	(104,665,264)
Total utility plant - net	$ 90,446,460	$ (5,909,713)	$ -0-	$ 84,536,747

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; bankers' acceptances; certificates of deposit; 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 and 2014, $8.0 million and $4.4 million of the Agency's bank balances were uninsured, respectively. 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, reduced by deposits covered by FDIC) at December 31, 2015 and 2014, respectively. The Agency had money market mutual funds of $3.5 million which were uninsured at December 31, 2015 and 2014. 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 Agency did not have any concentrations of risk greater than five percent at December 31, 2015 and 2014.

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. At December 31, 2015 and 2014, the Agency did not have any investments.

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 and cash equivalents consist of the following:

	Credit Rating	December 31, 2015	December 31, 2014
Cash and Cash Equivalents:			
Deposits	N/A	$ 8,284,448	$ 4,655,513
LAIF	Not Rated	483,405	482,056
Money Market Mutual Funds	AAAm	3,472,419	3,483,250
Total cash and cash equivalents		$ 12,240,272	$ 8,620,819

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

	December 31, 2015	December 31, 2014
Cash and Cash Equivalents:		
Debt service fund	$ 3,472,419	$ 3,483,250
Unrestricted funds	8,767,853	5,137,569
Total cash and cash equivalents	$ 12,240,272	$ 8,620,819

NOTE 5. LONG-TERM DEBT

The Agency issued $57.5 million of 2009 Cogeneration project revenue bonds (Bonds) in August 2009 with interest rates ranging from 4.0 percent to 5.25 percent, maturing July 2021.

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

	December 31, 2015	December 31, 2014
2009 Cogeneration project revenue bonds, fixed rates of 5.00% - 5.25%, 2016-2021	$ 35,250,000	$ 40,120,000
Unamortized premiums - net	1,215,632	1,634,744
Total long-term debt	36,465,632	41,754,744
Less: amounts due within one year	(5,150,000)	(4,870,000)
Total long-term debt - net	$ 31,315,632	$ 36,884,744

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

	December 31, 2014	Additions	Refunding, Payments or Amortization	December 31, 2015
Cogeneration project				
Revenue bonds	$ 40,120,000	$ -0-	$ (4,870,000)	$ 35,250,000
Unamortized premiums – net	1,634,744	-0-	(419,112)	1,215,632
Total long-term debt	$ 41,754,744	$ -0-	$ (5,289,112)	$ 36,465,632

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

	December 31, 2013	Additions	Refunding, Payments or Amortization	December 31, 2014
Cogeneration project				
Revenue bonds	$ 44,790,000	$ -0-	$ (4,670,000)	$ 40,120,000
Unamortized premiums – net	2,109,774	-0-	(475,030)	1,634,744
Total long-term debt	$ 46,899,774	$ -0-	$ (5,145,030)	$ 41,754,744

The annual debt service requirements to maturity for the Bonds are as follows at December 31, 2015:

Year	Principal	Interest	Total
2016	$ 5,150,000	$ 1,794,837	$ 6,944,837
2017	5,405,000	1,537,338	6,942,338
2018	5,730,000	1,267,087	6,997,087
2019	6,030,000	980,588	7,010,588
2020	6,295,000	679,088	6,974,088
2021	6,640,000	348,600	6,988,600
Total	$ 35,250,000	$ 6,607,538	$ 41,857,538

Proceeds from the 2009 Series Bonds were used to refund previously issued bonds that provided financing for the Project. The 2009 Series Bonds, payable through 2021, 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 had pledged future net revenues to repay $35.3 million for 2009 Series Bonds at December 31, 2015 and $40.1 million at December 31, 2014. Annual principal and interest payments on the 2009 Series Bonds required approximately 12.0 and 12.8 percent of the Agency's net revenue for 2015 and 2014, respectively. The total principal and interest remaining to be paid on the 2009 Series Bonds is $41.9 million and $48.8 million at December 31, 2015 and 2014, respectively. Principal and interest paid was $6.9 million for both 2015 and 2014. Debt service payments are made semi-annually on January 1 and July 1. Total net revenues were $57.8 million and $54.4 million for 2015 and 2014, 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.

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. 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 $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 Agreement. Pursuant to the Natural Gas Interconnection and Supply Agreement, SMUD supplies all of the natural gas required by the Project and the auxiliary boiler. The Agency pays for the actual supply, storage and transportation costs of the fuel supplied to the Project as specified in this agreement through March 2027.

Operations and Maintenance Agreement. Carson serves as the Operator of the Project, and as such, is responsible for the primary operation, repair, overhaul and maintenance of the Project in connection with the agreement that expires on September 30, 2015 and was extended to December 31, 2015. A new Operations and Maintenance Agreement between the Agency and Ethos Energy Power Plant Services, LLC was signed in November 2015 and will take effect in January 2016. At December 31, 2015, the Agency's minimum annual obligation under this agreement was approximately $2.3 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.