

Sacramento Power Authority



Financial Statements

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

Independent Auditors' Report

SACRAMENTO POWER AUTHORITY
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Independent Auditors' Report

To the Board of Directors of
Sacramento Power Authority

We have audited the accompanying financial statements of Sacramento Power Authority, a component unit of Sacramento Municipal Utility District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Sacramento Power Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to Sacramento Power Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Power Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

SACRAMENTO POWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
As of and for the Years Ended December 31, 2020 and 2019

Using this Financial Report

This annual financial report for Sacramento Power Authority (Agency) consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The basic Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

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

Overview of the Financial Statements

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

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

The Statements of Revenues, Expenses and Changes in Net Position report 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 (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) in 1993. SFA is a JPA formed by SMUD and the Modesto Irrigation District (collectively, Members). The Agency was formed for the purpose of owning and operating the Campbell Soup Project (Project) and related facilities for electric power generation. The Project, which began commercial operation in 1997, is comprised of a 160 megawatt (MW) natural gas-fired combined cycle cogeneration plant. Campbell Soup closed its Sacramento plant in May 2013 and the Agency's Steam Sales Agreement with Campbell Soup ended in October 2013. The Agency also owns the McClellan Gas Turbine Power Plant (McClellan) which is a 72 MW natural gas-fired simple cycle combustion turbine and has been operating since 1986.

SMUD purchases all of the electricity produced by the Project and McClellan pursuant to the Purchase Power Agreements (PPA) between SMUD and the Agency. The Agency has no employees 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 financial statements of SMUD.

Financial & Operational Highlights

For the Water Reclamation project, a new horizontal fire pump was installed and fed by a repurposed tank to address concerns from the City of Sacramento Department of Utilities (Department of Utilities) about cross-contamination with the potable fire protection system. Recycled water was supplied in the summer of 2020, but then suspended shortly thereafter due to issues at Sacramento Regional County Sanitation District (SRCSD) (VOC content & PM10 (electrical conductance, TDS)) of the recycled water. The Agency continues working with the SRCSD and the Department of Utilities to address these concerns in an effort to accept recycled water for the Cooling Tower.

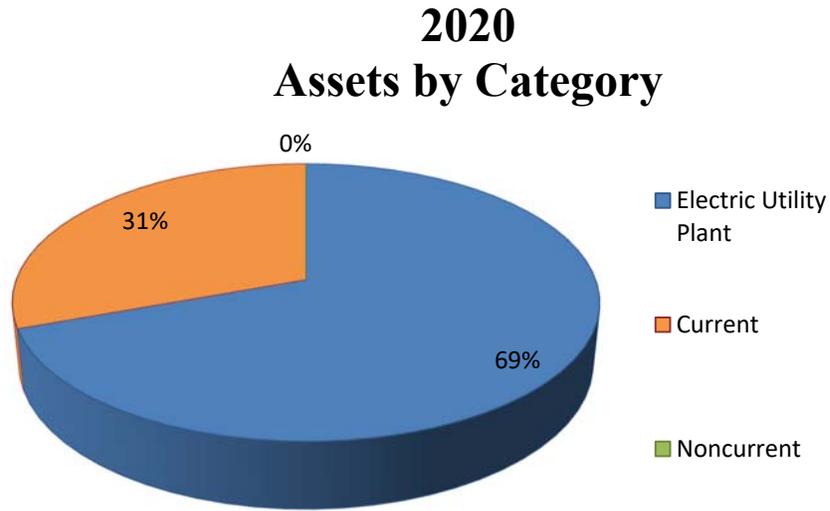
In 2020, the Agency completed the year with an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 96.23 percent, an IEEE Reliability rating of 99.92 percent and a unit capacity factor of 36.8 percent.

FINANCIAL POSITION

Statements of Net Position Summary (Dollars in thousands)

	December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Assets							
Electric utility plant - net	\$ 48,351	\$ 55,074	\$ 59,643	\$ (6,723)	-12.2%	\$ (4,569)	-7.7%
Current assets	21,285	20,487	20,356	798	3.9%	131	0.6%
Noncurrent assets	1	2	2	(1)	-50.0%	-0-	0.0%
Total assets	<u>\$ 69,637</u>	<u>\$ 75,563</u>	<u>\$ 80,001</u>	<u>\$ (5,926)</u>	-7.8%	<u>\$ (4,438)</u>	-5.5%
Liabilities							
Current liabilities	\$ 5,190	\$ 5,502	\$ 6,708	\$ (312)	-5.7%	\$ (1,206)	-18.0%
Total liabilities	<u>5,190</u>	<u>5,502</u>	<u>6,708</u>	<u>(312)</u>	-5.7%	<u>(1,206)</u>	-18.0%
Net position							
Net investment in capital assets	48,350	55,074	59,643	(6,724)	-12.2%	(4,569)	-7.7%
Unrestricted	16,097	14,987	13,650	1,110	7.4%	1,337	9.8%
Total net position	<u>64,447</u>	<u>70,061</u>	<u>73,293</u>	<u>(5,614)</u>	-8.0%	<u>(3,232)</u>	-4.4%
Total liabilities and net position	<u>\$ 69,637</u>	<u>\$ 75,563</u>	<u>\$ 80,001</u>	<u>\$ (5,926)</u>	-7.8%	<u>\$ (4,438)</u>	-5.5%

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



2020 Compared to 2019

ASSETS

- The Agency's main asset is its investment in the Project and McClellan, which comprises \$48.3 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2020. The Electric Utility Plant decreased primarily due to \$7.5 million depreciation expense for the year, partially offset by the \$0.7 million addition of the Fire Pump Upgrade of 2020. Electric Utility Plant assets make up about 69 percent of the Agency's assets.

LIABILITIES & NET POSITION

- Current Liabilities decreased due to lower accounts payable for operator costs.

2019 Compared to 2018

ASSETS

- The Agency's main asset is its investment in the Project and McClellan, which comprises \$55.1 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2019. The Electric Utility Plant - net decreased primarily due to \$7.2 million depreciation expense for the year, partially offset by \$3.5 million addition of the Wet Compression Upgrade and Safety Showers Flow Meter.

LIABILITIES & NET POSITION

- Current Liabilities decreased due to lower accounts payable for operator costs.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Operating revenues	\$ 26,818	\$ 27,732	\$ 36,421	\$ (914)	-3.3%	\$ (8,689)	-23.9%
Operating expenses	(32,545)	(31,106)	(39,549)	(1,439)	-4.6%	8,443	21.3%
Operating income	(5,727)	(3,374)	(3,128)	(2,353)	-69.7%	(246)	-7.9%
Interest income	113	142	109	(29)	-20.4%	33	30.3%
Change in net position	(5,614)	(3,232)	(3,019)	(2,382)	-73.7%	(213)	-7.1%
Net position - beginning of year	70,061	73,293	76,312	(3,232)	-4.4%	(3,019)	-4.0%
Net position - end of year	\$ 64,447	\$ 70,061	\$ 73,293	\$ (5,614)	-8.0%	\$ (3,232)	-4.4%

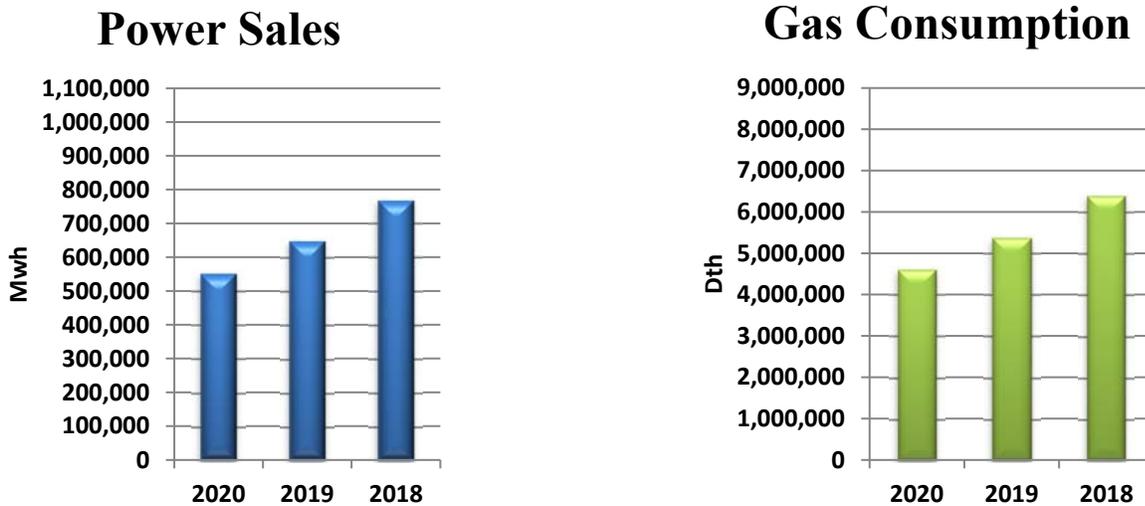
2020 Compared to 2019

OPERATING REVENUES

Operating Revenues decreased primarily due to lower Power sales to Member. The Agency’s power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency’s actual cost of operations. In 2020, less revenue was needed due to lower maintenance costs attributed to routine maintenance not requiring a major overhaul.

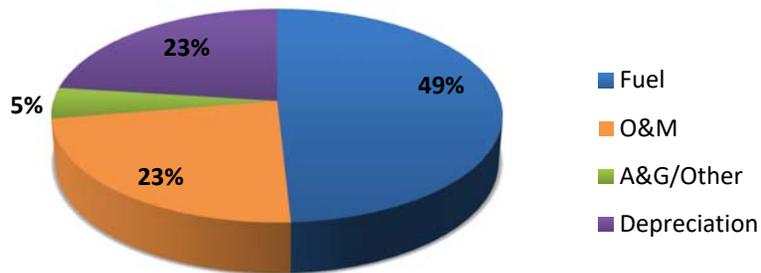
The Agency saw a decrease in power sales and gas consumption as a result of the Member’s entrance into the California Independent System Operator’s Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction in run time in 2019 and 2020.

The following charts show power sales and gas consumption in 2020, 2019, and 2018:



OPERATING EXPENSES

**2020 Operating Expenses
by Category**



The following table summarizes Operating Expenses for the years ended December 31 (dollars in thousands):

Operating Expenses	December 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Fuel	\$ 15,996	\$ 13,817	\$ 23,457	\$ 2,179	15.8%	\$ (9,640)	-41.1%
Operations and Maintenance	7,549	8,713	7,251	(1,164)	-13.4%	1,462	20.2%
Administrative & general and Other	1,528	1,356	1,283	172	12.7%	73	5.7%
Depreciation	7,472	7,220	7,558	252	3.5%	(338)	-4.5%
Total operating expenses	\$ 32,545	\$ 31,106	\$ 39,549	\$ 1,439	4.6%	\$ (8,443)	-21.3%

- Fuel expense increased due to higher fuel costs of \$4.2 million, partially offset by lower gas volume of \$2.0 million.
- Operation and maintenance decreased due to lower maintenance costs.

2019 Compared to 2018

RESULTS OF OPERATIONS

- Fuel expense decreased due to lower fuel costs of \$5.8 million and fuel volume of \$3.8 million.
- Operation and maintenance increased due to the combustion turbine overhaul.

Requests for Information

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

**SACRAMENTO POWER AUTHORITY
STATEMENTS OF NET POSITION**

	December 31,	
	2020	2019
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	\$ 208,220,325	\$ 208,220,325
Less accumulated depreciation	(160,618,243)	(153,145,978)
Plant in service - net	47,602,082	55,074,347
Construction work in progress	748,425	-0-
Total electric utility plant - net	48,350,507	55,074,347
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	10,904,665	9,585,780
Receivables:		
Power sales to Member	5,509,874	6,004,647
Accrued interest and other	14,370	39,279
Materials and supplies	4,658,757	4,691,349
Prepayments	197,736	166,354
Total current assets	21,285,402	20,487,409
NONCURRENT ASSETS		
Other	1,230	1,582
Total noncurrent assets	1,230	1,582
TOTAL ASSETS	\$ 69,637,139	\$ 75,563,338
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,423,366	\$ 1,189,727
Payable due to Member	3,766,284	4,312,465
Total current liabilities	5,189,650	5,502,192
TOTAL LIABILITIES	5,189,650	5,502,192
NET POSITION		
Net investment in capital assets	48,350,507	55,074,347
Unrestricted	16,096,982	14,986,799
TOTAL NET POSITION	64,447,489	70,061,146
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
TOTAL LIABILITIES AND NET POSITION	\$ 69,637,139	\$ 75,563,338

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

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

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Power sales to Member	\$ 26,817,535	\$ 27,732,067
Total operating revenues	26,817,535	27,732,067
OPERATING EXPENSES		
Fuel	15,996,403	13,816,696
Operations	6,197,447	5,782,487
Maintenance	1,350,197	2,930,744
Administrative and general	1,528,394	1,355,844
Depreciation	7,472,265	7,220,011
Total operating expenses	32,544,706	31,105,782
OPERATING LOSS	(5,727,171)	(3,373,715)
NON-OPERATING REVENUES		
Interest income	113,514	141,963
Total non-operating revenues	113,514	141,963
CHANGE IN NET POSITION	(5,613,657)	(3,231,752)
NET POSITION - BEGINNING OF YEAR	70,061,146	73,292,898
NET POSITION - END OF YEAR	\$ 64,447,489	\$ 70,061,146

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

**SACRAMENTO POWER AUTHORITY
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	\$ 27,312,308	\$ 28,264,797
Payments to Member	(18,619,180)	(16,037,784)
Payments to vendors	(6,764,241)	(8,932,192)
Net cash provided by operating activities	1,928,887	3,294,821
CASH FLOWS FROM CAPITAL ACTIVITIES		
Construction expenditures	(748,425)	(2,774,139)
Net cash used in capital activities	(748,425)	(2,774,139)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	138,423	133,913
Net cash provided by investing activities	138,423	133,913
Net increase in cash and cash equivalents	1,318,885	654,595
Cash and cash equivalents - beginning of the year	9,585,780	8,931,185
Cash and cash equivalents - end of the year	\$ 10,904,665	\$ 9,585,780
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (5,727,171)	\$ (3,373,715)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	7,472,265	7,220,011
Changes in operating assets and liabilities:		
Receivables	494,773	532,730
Other assets	1,562	(1,226)
Payables and accruals	(312,542)	(1,082,979)
Net cash provided by operating activities	\$ 1,928,887	\$ 3,294,821

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

SACRAMENTO POWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2020 and 2019

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Power Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code (collectively, Members). SFA is a JPA comprised of SMUD and the Modesto Irrigation District. The purpose of the Agency is to own and operate the Campbell Soup Project (Project) and the McClellan Gas Turbine Power Plant (McClellan) for electric power generation.

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

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

The Agency has no employees. The Project and McClellan are operated by Ethos Energy Power Plant Services, LLC (Ethos) under the terms of the Operations and Maintenance Agreement.

Pursuant to the Purchase Power Agreement (PPA) with SMUD, SMUD purchases, on a “take-or-pay” basis, all capacity, energy and environmental attributes of the Project and McClellan. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency’s behalf. The Agency was charged \$17.5 million in 2020 and \$15.2 million in 2019 for general and administrative services, fuel costs, and other costs paid by SMUD on the Agency’s behalf.

SMUD is entitled to all rights and property of the Project and McClellan in the event of termination of the JPA agreement. SFA has no obligation to make contributions or advances to the Agency. The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Project and McClellan agreements.

The Agency’s Commission is comprised of SMUD’s Board of Directors. The Agency is a separate legal entity; however, it is included in the 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 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 5 to 15 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.

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.

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

Prepayments. The Agency pays for property insurance, leases and permits annually. These prepayments are recognized as expenses in the month the actual costs are incurred.

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

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation. Deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets are also included.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of "Net investment in capital assets" or "Restricted."

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

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

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

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

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

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

In March 2020, GASB issued SGAS No. 94, “*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*” (GASB No. 94). The primary objective of this Statement is to provide guidance for accounting and financial reporting related to public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the Agency in 2023. The Agency is currently assessing the financial impact of adopting this statement but does not expect it to be material.

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

NOTE 3. ELECTRIC UTILITY PLANT

The Agency had the following electric utility plant activity during 2020:

	Balance January 1, 2020	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2020
Nondepreciable electric utility plant:				
Construction work in progress	\$ -0-	\$ 748,425	\$ -0-	\$ 748,425
Total nondepreciable electric utility plant	-0-	748,425	-0-	748,425
Depreciable electric utility plant:				
Generation	208,220,325	-0-	-0-	208,220,325
Less: accumulated depreciation	(153,145,978)	(7,472,265)	-0-	(160,618,243)
Total electric utility plant - net	<u>\$ 55,074,347</u>	<u>\$ (6,723,840)</u>	<u>\$ -0-</u>	<u>\$ 48,350,507</u>

The Agency had the following electric utility plant activity during 2019:

	Balance January 1, 2019	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2019
Nondepreciable electric utility plant:				
Construction work in progress	\$ 806,059	\$ 2,651,024	\$ (3,457,083)	\$ -0-
Total non-depreciable electric utility plant	806,059	2,651,024	(3,457,083)	-0-
Depreciable electric utility plant:				
Generation	204,763,242	3,457,083	-0-	208,220,325
Less: accumulated depreciation	(145,925,967)	(7,220,011)	-0-	(153,145,978)
Total electric utility plant - net	<u>\$ 59,643,334</u>	<u>\$ (1,111,904)</u>	<u>\$ (3,457,083)</u>	<u>\$ 55,074,347</u>

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 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 policy for custodial credit risk.

At December 31, 2020 and 2019, \$1.3 million and \$0.6 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 134 percent and 131 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, 2020 and 2019, respectively.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The agency had no investments at December 31, 2020 and 2019.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. The Agency had no investments at December 31, 2020 and 2019.

The following schedules present credit risk by type of security held at December 31, 2020 and 2019. If applicable, 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,	
		2020	2019
Cash and Cash Equivalents:			
Deposits	N/A	\$ 1,556,718	\$ 876,256
LAIF	Not Rated	9,347,947	8,709,524
Total cash and cash equivalents		<u>\$ 10,904,665</u>	<u>\$ 9,585,780</u>

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

	December 31,	
	2020	2019
Cash and Cash Equivalents:		
Unrestricted funds	\$ 10,904,665	\$ 9,585,780
Total cash and cash equivalents	<u>\$ 10,994,665</u>	<u>\$ 9,585,780</u>

NOTE 5. 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 and property is covered under an all-risk policy to replacement value. Generally, the maximum risk that the Agency would be exposed to is limited to \$0.3 million for most casualty claims, and \$2.5 million for property claims. 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 6. 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 of 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, 2020 and 2019, 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,	
	2020	2019
Investments reported as Cash and Cash Equivalents:		
LAIF	\$ 9,347,947	\$ 8,709,524
Total fair value investments	\$ 9,347,947	\$ 8,709,524

NOTE 7. COMMITMENTS

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

Operations and Maintenance Agreement. Ethos serves as the Project Operator and is responsible for the primary operation, repair, overhaul and maintenance services of the Project. The Agency pays for such services according to the terms of this agreement and provides, at no cost to Ethos, fuel, water, and power not already provided for in other agreements. At December 31, 2020, the Agency’s annual minimum obligation under this agreement was approximately \$3.0 million.

Ground Lease Agreement. The Agency leases land from SMUD under the ground lease agreement expiring December 2030. The minimum lease payment increases or decreases by the Producer Price Index annually. At December 31, 2020, the Agency’s annual minimum lease payment was approximately \$0.1 million.

NOTE 8. CONTINGENCIES

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