SACRAMENTO POWER AUTHORITY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Power Authority which comprise the Statements of Net Position as of December 31, 2017 and 2016, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Sacramento Power Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Power Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Power Authority at December 31, 2017 and 2016, 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 16, 2018

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

Using this Financial Report

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

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public 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, 2017 and 2016. 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 (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. 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 consolidated financial statements of SMUD.

Financial & Operational Highlights

In the spring of 2017, the Agency's plant was shut down for a cold iron outage for the Combustion Turbine Inspection. All discovery work was within budget and all other work was completed without incident. During the spring outage, the Agency's plant operator, Ethos Energy Power Plant Services, LLC, successfully completed the Water Reclamation capital project which enables the plant to receive reclaimed water from the Sacramento Regional County Sanitation District (SRCSD) to use in the cooling tower instead of potable city water. SRCSD finished installing the piping from SRCSD to the plant in the fourth quarter of 2017 and the plant anticipates receiving water for commercial operations in the first quarter of 2018.

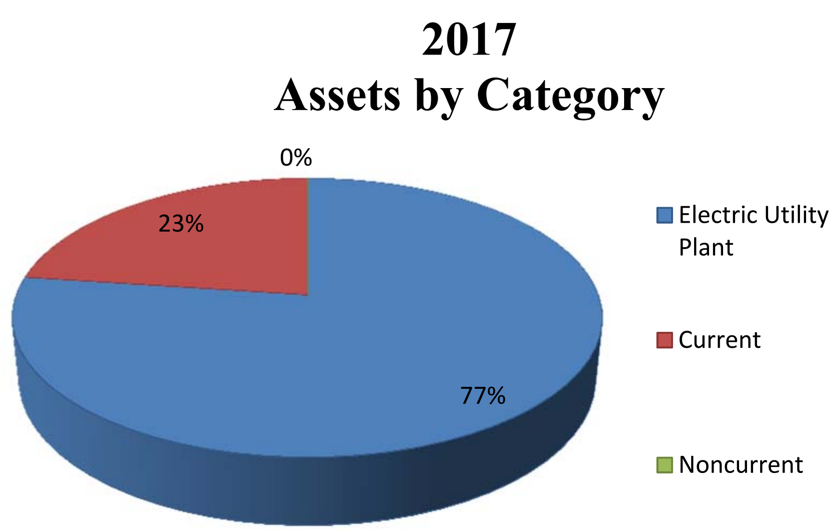
In 2017, the Agency completed the year with an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 89.17 percent, an IEEE Reliability rating of 99.98 percent and a unit capacity factor of 36.66 percent.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Assets							
Electric utility plant - net	$ 65,054	$ 72,233	$ 71,838	$ (7,179)	-9.9%	$ 395	0.5%
Current assets	19,296	18,139	20,190	1,157	6.4%	(2,051)	-10.2%
Noncurrent assets	2	2	3	-0-	0.0%	(1)	-33.3%
Total assets	$ 84,352	$ 90,374	$ 92,031	$ (6,022)	-6.7%	$ (1,657)	-1.8%
Liabilities							
Current liabilities	$ 8,040	$ 8,256	$ 8,831	$ (216)	-2.6%	$ (575)	-6.5%
Total liabilities	8,040	8,256	8,831	(216)	-2.6%	(575)	-6.5%
Net position							
Net investment in capital assets	65,054	72,233	71,838	(7,179)	-9.9%	395	0.5%
Unrestricted	11,258	9,885	11,362	1,373	13.9%	(1,477)	-13.0%
Total net position	76,312	82,118	83,200	(5,806)	-7.1%	(1,082)	-1.3%
Total liabilities and net position	$ 84,352	$ 90,374	$ 92,031	$ (6,022)	-6.7%	$ (1,657)	-1.8%

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



2017 Compared to 2016

ASSETS

- The Agency's main asset is its investment in the Project and McClellan, which comprises $65.1 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2017. The Electric Utility Plant - net decreased primarily due $7.5 million depreciation expense for the year, partially offset by a $0.3 million addition for the Water Reclamation project. Electric Utility Plant assets make up about 77 percent of the Agency's assets.

- Current Assets increased primarily due to higher Unrestricted cash as part of normal operations, partially offset by lower Receivable from SMUD for the fuel portion of the PPA billings in November and December 2017.

2016 Compared to 2015

ASSETS

- The Agency's main asset is its investment in the Project and McClellan, which comprises $72.2 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2016. Electric Utility Plant assets make up about 80 percent of the Agency's assets. The Electric Utility Plant - net increased primarily due to the CT major overhaul capital project, partially offset by $6.7 million depreciation expense for the year.

- Current Assets decreased primarily due to the transfer of inventory to the capital project of $2.8 million and a lower Receivable from SMUD for the fuel portion of the PPA billings in November and December 2016, partially offset by higher Unrestricted cash as part of normal operations.

LIABILITIES & NET POSITION

- Current Liabilities decreased primarily due to lower fuel billings from SMUD for November and December 2016.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

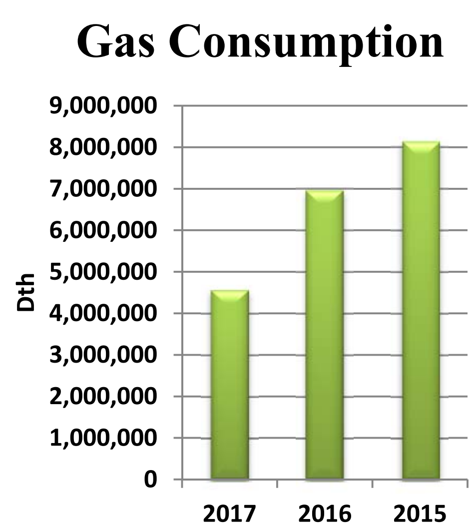
	December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Operating revenues	$ 31,959	$ 44,719	$ 55,209	$ (12,760)	-28.5%	$ (10,490)	-19.0%
Operating expenses	(37,809)	(49,179)	(54,069)	11,370	23.1%	4,890	9.0%
Operating income	(5,850)	(4,460)	1,140	(1,390)	-31.2%	(5,600)	-491.2%
Interest income	44	10	24	34	340.0%	(14)	-58.3%
Interest on debt	-0-	-0-	(1,855)	-0-	0.0%	1,855	100.0%
Other income	-0-	3,368	-0-	(3,368)	-100.0%	3,368	100.0%
Change in net position before distributions and contributions	(5,806)	(1,082)	(691)	(4,724)	-436.6%	(391)	-56.6%
Distributions to Member	-0-	-0-	(6,000)	-0-	0.0%	(6,000)	-100.0%
Member contributions	-0-	-0-	28,200	-0-	0.0%	(28,200)	-100.0%
Change in net position	(5,806)	(1,082)	21,509	(4,724)	-436.6%	(22,591)	-105.0%
Net position - beginning of year	82,118	83,200	61,691	(1,082)	-1.3%	21,509	34.9%
Net position - end of year	$ 76,312	$ 82,118	$ 83,200	$ (5,806)	-7.1%	$ (1,082)	-1.3%

2017 Compared to 2016

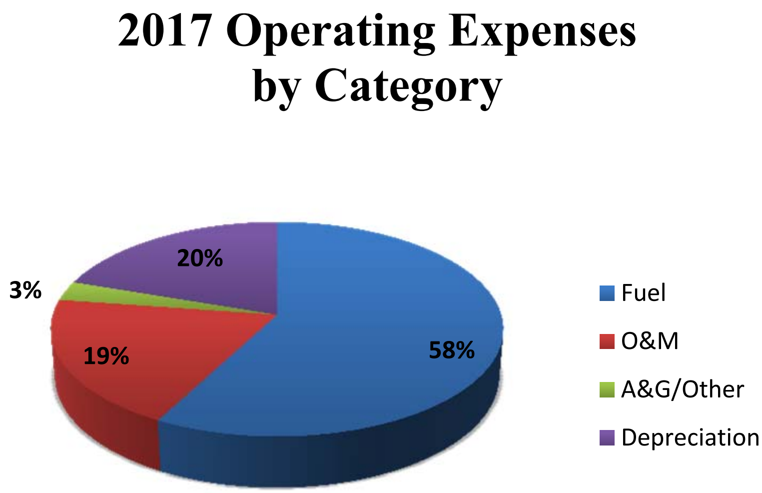
OPERATING REVENUES

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 2017, less revenue was needed due to lower fuel and capital costs, partially offset by the pass through of the California Public Utilities Commission (CPUC) mandated PG&E gas refund in 2016.

The following charts show power sales and gas consumption in 2017, 2016, and 2015:



OPERATING EXPENSES



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

	December 31,			Change			
	2017	2016	2015	2017 vs. 2016		2016 vs. 2015	
Operating Expenses							
Fuel	$ 21,833	$ 33,871	$ 39,211	$ (12,038)	-35.5%	$ (5,340)	-13.6%
Operations and Maintenance	7,395	7,497	6,665	(102)	-1.4%	832	12.5%
Administrative & general and Other	1,102	1,126	1,608	(24)	-2.1%	(482)	-30.0%
Depreciation	7,479	6,685	6,585	794	11.9%	100	1.5%
Total operating expenses	$ 37,809	$ 49,179	$ 54,069	$ (11,370)	-23.1%	$ (4,890)	-9.0%

- Fuel expense decreased due to lower fuel volume of $11.6 million and cost of $0.4 million.

OTHER INCOME

Other income decreased due to the CPUC mandated PG&E gas refund in 2016.

2016 Compared to 2015

RESULTS OF OPERATIONS

- Operating Revenues decreased primarily due to lower Power sales to Member as a result of lower fuel cost due to scheduled outages for the CT major overhaul, and the pass through of the CPUC mandated PG&E gas refund, partially offset by higher operating costs.

- Fuel expense decreased due to lower fuel volume of $5.5 million, partially offset by higher fuel cost of $0.2 million.

- Operations and Maintenance expense increased primarily due to higher steam turbine repairs and operator reimbursable costs.

- There was no interest on debt due to the redemption of the Agency bonds in July 2015.

- 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. There was no distribution to member in 2016.

SACRAMENTO POWER AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2017	December 31, 2016
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 203,422,570	$ 202,818,905
Less accumulated depreciation	(138,368,208)	(130,888,907)
Plant in service - net	65,054,362	71,929,998
Construction work in progress	-0-	303,034
Total electric utility plant - net	65,054,362	72,233,032
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	7,197,322	5,794,607
Receivables:		
Power sales to Member	8,367,131	8,654,694
Accrued interest and other	16,115	5,281
Materials and supplies	3,577,445	3,552,288
Prepayments	137,211	131,550
Total current assets	19,295,224	18,138,420
NONCURRENT ASSETS		
Other	2,109	2,461
Total noncurrent assets	2,109	2,461
TOTAL ASSETS	$ 84,351,695	$ 90,373,913
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	2,113,829	1,533,121
Payable due to Member	5,925,585	6,722,429
Total current liabilities	8,039,414	8,255,550
TOTAL LIABILITIES	8,039,414	8,255,550
NET POSITION		
Net investment in capital assets	65,054,362	72,233,032
Unrestricted	11,257,919	9,885,331
TOTAL NET POSITION	76,312,281	82,118,363
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
TOTAL LIABILITIES AND NET POSITION	$ 84,351,695	$ 90,373,913

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, 2017	Years Ended December 31, 2016
OPERATING REVENUES		
Power sales to Member	$ 31,958,948	$ 44,719,210
Total operating revenues	31,958,948	44,719,210
OPERATING EXPENSES		
Fuel	21,832,555	33,870,829
Operations	6,587,820	6,754,218
Maintenance	807,300	743,613
Administrative and general	1,102,120	1,125,623
Depreciation	7,479,301	6,684,690
Total operating expenses	37,809,096	49,178,973
OPERATING LOSS	(5,850,148)	(4,459,763)
NON-OPERATING REVENUES		
Interest income	44,066	9,660
Other income	-0-	3,368,005
Total non-operating revenues	44,066	3,377,665
CHANGE IN NET POSITION	(5,806,082)	(1,082,098)
NET POSITION - BEGINNING OF YEAR	82,118,363	83,200,461
NET POSITION - END OF YEAR	$ 76,312,281	$ 82,118,363

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

SACRAMENTO POWER AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 32,246,511	$ 45,623,797
Payments to Member	(24,171,599)	(32,558,805)
Payments to vendors	(6,353,090)	(4,404,431)
Net cash provided by operating activities	1,721,822	8,660,561
CASH FLOWS FROM CAPITAL ACTIVITES		
Construction expenditures	(352,339)	(7,028,013)
Net cash used in capital activities	(352,339)	(7,028,013)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	33,232	5,385
Net cash provided by investing activities	33,232	5,385
Net increase in cash and cash equivalents	1,402,715	1,637,933
Cash and cash equivalents - beginning of the year	5,794,607	4,156,674
Cash and cash equivalents - end of the year	$ 7,197,322	$ 5,794,607
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 7,197,322	$ 5,794,607
Cash and cash equivalents - end of the year	$ 7,197,322	$ 5,794,607
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (5,850,148)	$ (4,459,763)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,479,301	6,684,690
Other income	-0-	3,368,005
Changes in operating assets and liabilities:		
Receivables	287,563	904,587
Other assets	(30,466)	2,790,125
Payables and accruals	(164,428)	(627,083)
Net cash provided by operating activities	$ 1,721,822	$ 8,660,561

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

SACRAMENTO POWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Power Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code. 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 6 acres of land which is owned by SMUD and leased to the Agency.

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

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

In July 2015, the outstanding SPA Cogeneration project revenue bonds (Bonds) were redeemed and the Agency entered into a new Power Purchase Agreement (PPA) with SMUD. Pursuant to the new PPA, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project and McClellan. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf. The Agency was charged $22.9 million in 2017 and $31.6 million in 2016 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 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. Overhaul parts are depreciated over their estimated useful lives, ranging from 5 to 15 years. The remaining balance of the Electric Utility Plant is depreciated over the estimated useful life of 30 years. The costs of replacement units are capitalized. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than three thousand dollars and an estimated useful life in excess of two years.

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 \$65.0 million maximum and cash equivalents representing amounts which may be withdrawn once per month after a thirty-day period.

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.

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 three 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.

Other Income. In June 2016, SMUD received a $17.9 million refund from PG&E in association with the PG&E 2010 natural gas transmission pipeline explosion in San Bruno. The California Public Utilities Commission imposed a penalty on PG&E requiring them to provide a one-time bill credit to natural gas customers on their June 2016 bills based on usage for a prescribed time period. SMUD recorded the $17.9 million refund as Other Income, and the allocable portion was passed through to the Agency. The Agency recorded $3.4 million related to the refund as Other Income in the Statements of Revenues, Expenses and Changes in Net Position.

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 16, 2018, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements. In January 2017, GASB issued SGAS No. 84, ***"Fiduciary Activities"*** (GASB No. 84). This statement establishes standards of accounting and financial reporting for fiduciary activities. GASB No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position reports the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the fiduciary activities. The statement of changes in fiduciary net position reports the additions to and deductions from the fiduciary fund(s). This statement also provides for the recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the Agency in 2019. The Agency is currently assessing the financial statement impact of adopting this statement.

In March 2017, GASB issued SGAS No. 85, ***"Omnibus 2017"*** (GASB No. 85). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement is effective for the Agency in 2018. The Agency is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

In May 2017, GASB issued SGAS No. 86, ***"Certain Debt Extinguishment Issues"*** (GASB No. 86). The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB No. 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for the Agency in 2018. The Agency is currently assessing the financial statement impact of adopting this statement.

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. GASB No. 87 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. It 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. The lease liability should be measured at the present value of payments expected to be made during the lease term. As payments are made the lease liability is reduced and an outflow of resources (interest expense) is recognized for the interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The lease receivable should be measured at the present value of the lease payments expected to be received during the lease term. Any payments received are first allocated to accrued interest receivable and then to lease receivable. The deferred inflow of resources should be recognized as inflows of resources (revenue) in a systematic and rational manner over the term of the lease. The lessor should not derecognize the asset underlying the lease. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement. The lease term is defined as the period during which a lessee has a noncancellable right to use an underlying asset, plus the following periods, if applicable. A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources (expenses) or inflows of resources (revenues), respectively, based on the payment provisions of the lease contract. This statement is effective for the Agency in 2020. 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 2017:

	Balance December 31, 2016	Additions	Adjustments Transfers/ Disposals	Balance December 31, 2017
Nondepreciable utility plant:				
Construction work in progress	$ 303,034	$ 409,452	$ (712,486)	$ -0-
Total nondepreciable utility plant	303,034	409,452	(712,486)	$ -0-
Depreciable utility plant:				
Generation	202,818,905	712,486	(108,821)	203,422,570
Less: accumulated depreciation	(130,888,907)	(7,479,301)	-0-	(138,368,208)
Total utility plant - net	$ 72,233,032	$ (6,357,363)	$ (821,307)	$ 65,054,362

The Agency had the following electric utility plant activity during 2016:

	Balance December 31, 2015	Additions	Adjustments Transfers/ Disposals	Balance December 31, 2016
Nondepreciable utility plant:				
Construction work in progress	$ 157,441	$ 7,079,721	$ (6,934,128)	$ 303,034
Total nondepreciable utility plant	157,441	7,079,721	(6,934,128)	303,034
Depreciable utility plant:				
Generation	195,884,777	6,934,128	-0-	202,818,905
Less: accumulated depreciation	(124,204,217)	(6,684,690)	-0-	(130,888,907)
Total utility plant - net	$ 71,838,001	$ 7,329,159	$ (6,934,128)	$ 72,233,032

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, 2017 and 2016, $1.5 million and $0.8 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 122 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest) at December 31, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016.

The following schedules present credit risk by type of security held at December 31, 2017 and 2016. The credit ratings listed are from S&P. 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, 2017	December 31, 2016
Cash and Cash Equivalents:			
Deposits	N/A	$ 1,715,136	$ 1,045,653
LAIF	Not Rated	5,482,186	4,748,954
Total cash and cash equivalents		$ 7,197,322	$ 5,794,607

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

	December 31, 2017	December 31, 2016
Cash and Cash Equivalents:		
Unrestricted funds	$ 7,197,322	$ 5,794,607
Total cash and cash equivalents	$ 7,197,322	$ 5,794,607

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. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims, $0.5 million for property claims, and up to $25.0 million for earthquakes. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 6. FAIR VALUE MEASUREMENTS

Effective January 1, 2016, the Agency adopted GASB No. 72, which 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, 2017 and 2016, 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,	
	2017	2016
Investments reported as Cash and Cash Equivalents:		
LAIF	$ 5,482,186	$ 4,748,954
Total fair value investments	$ 5,482,186	$ 4,748,954

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, 2017, the Agency's annual minimum obligation under this agreement was approximately $2.9 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, 2017, 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.