Northern California Gas Authority No. 1

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
TABLE OF CONTENTS

Independent Auditors' Report

To the Board of Directors of
Northern California Gas Authority No. 1

Opinion

We have audited the accompanying financial statements of the Northern California Gas Authority No. 1 (Agency), a component unit of the Sacramento Municipal Utility District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
February 23, 2024

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Using this Financial Report

This annual financial report for Northern California Gas Authority No. 1 (Agency) consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The basic Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

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

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2023 and 2022. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

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

The Statements of Revenues, Expenses and Changes in Net Position report all of the Agency's revenues and expenses during the periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for debt service.

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

Organization and 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 2007. SFA is a JPA formed by SMUD and the Modesto Irrigation District. The Agency was formed for the purpose of prepaying for a fixed quantity supply of natural gas to be delivered over a twenty-year period by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Agreement) between the Agency and MSCG. The Agency then sells the natural gas to SMUD. The Agency issued bonds in May 2007 and commenced gas sales in June 2007.

SMUD purchases all of the natural gas delivered to the Agency pursuant to the Gas Supply Contract between SMUD and the Agency. SMUD requested to have its entire daily contract quantity remarketed for each gas day of each month from November 1, 2023 until May 31, 2027. MSCG shall purchase all of the remarketed gas for its own account and make payment of such disposition proceeds to the Agency consistent with the terms of the Prepaid Agreement. The Agency has no employees and SMUD contributes to the Agency the actual costs of providing general and administrative services.

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 POSITION

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

CONDENSED STATEMENT OF NET POSITION

	2023	2022	2021
Assets			
Current assets	$ 45,409	$ 40,591	$ 39,938
Noncurrent assets	84,273	112,872	138,186
Total assets	$ 129,682	$ 153,463	$ 178,124
Liabilities			
Long-term debt - net	$ 94,540	$ 120,070	$ 142,935
Current liabilities	27,315	24,404	25,351
Total liabilities	121,855	144,474	168,286
Net position			
Restricted	12,500	11,178	10,022
Unrestricted	(4,673)	(2,189)	(184)
Total net position	7,827	8,989	9,838
Total liabilities and net position	$ 129,682	$ 153,463	$ 178,124

TOTAL ASSETS

Total assets in 2023 decreased $23.8 million or 15.5% over 2022, primarily due to a decrease of $25.2 million in prepaid gas supply due to amortization for gas delivered in 2023.

Total assets in 2022 decreased $24.7 million or 13.8% over 2021, primarily due to a decrease of $22.3 million in prepaid gas supply due to amortization for gas delivered in 2022.

TOTAL LIABILITIES & NET POSITION

The total liabilities in 2023 decreased $22.6 million or 15.7% over 2022, primarily due to a decrease of $22.9 million in long-term debt as result of scheduled principal payment.

Net position in 2023 decreased $1.2 million or 12.9% over 2022, primarily due to a $0.7 million distribution to Member.

The total liabilities in 2022 decreased $23.8 million or 14.1% over 2021, primarily due to a decrease of $20.6 million in long-term debt as result of scheduled principal payment and $3.0 million in Credit support for collateral obligation due to increase in long-term senior unsecured debt credit rating of MSCG removing the collateral requirement.

Net position in 2022 decreased $0.8 million or 8.6% over 2021, primarily due to a $0.6 million distribution to Member.

RESULTS OF OPERATIONS

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

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

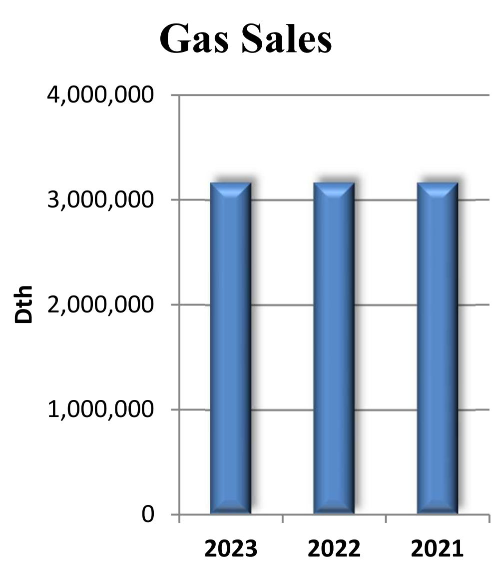
	2023	2022	2021
Operating revenues	$ 29,999	$ 28,472	$ 27,092
Operating expenses	(25,361)	(22,520)	(19,980)
Operating income	4,638	5,952	7,112
Interest income	615	326	492
Interest on debt	(5,819)	(6,610)	(7,449)
Change in net position before distributions and contributions	(566)	(332)	155
Distributions to Member	(659)	(590)	(543)
Member contributions	63	73	80
Change in net position	(1,162)	(849)	(308)
Net position - beginning of year	8,989	9,838	10,146
Net position - end of year	$ 7,827	$ 8,989	$ 9,838

OPERATING REVENUES

Total operating revenues were $30.0 million for 2023, an increase of $1.5 million or 5.4% over 2022. The gas dekatherm (Dth) sales decreased 0.1% compared to 2022. Gas swap settlement - net increased $8.2 million due to the higher net swap price and other gas sales increased $1.0 million due to remarketed gas sales to MSCG, offset by a decrease of $7.8 million in gas sales to Member as a result of lower gas price index.

Total operating revenues were $28.5 million for 2022, an increase of $1.4 million or 5.1% over 2021. The gas Dth sales decreased 0.1% compared to 2021. Gas sales to Member increased $4.6 million as a result of higher gas price index, offset by a decrease of $3.2 million in gas swap settlement - net due to lower net swap price.

The following chart shows gas sales to member in 2023, 2022 and 2021.



OPERATING EXPENSES

Total operating expenses were $25.4 million for 2023, an increase of $2.8 million or 12.6% over 2022, primarily due to an increase of $2.8 million in amortization of the prepaid gas supply.

Total operating expenses were $22.5 million for 2022, an increase of $2.5 million or 12.7% over 2021, primarily due to an increase of $2.5 million in amortization of the prepaid gas supply.

Requests for Information

For more information about the Northern California Gas Authority No. 1, visit our website at www.smud.org or contact us at customerservices@smud.org.

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF NET POSITION

	December 31, 2023		December 31, 2022	
ASSETS				
CURRENT ASSETS				
Restricted cash and cash equivalents	$	13,935,731	$	12,715,944
Receivables:				
Gas sales to Member		-0-		1,092,185
Accrued interest and other		2,874,196		1,469,101
Prepaid gas supply		28,478,928		25,193,326
Other prepayments		15,630		15,630
Regulatory costs to be recovered within one year		104,796		104,796
Total current assets		45,409,281		40,590,982
NONCURRENT ASSETS				
Prepaid gas supply		83,971,494		112,450,422
Regulatory costs for future recovery		261,993		366,789
Prepaid bond insurance costs		39,076		54,706
Total noncurrent assets		84,272,563		112,871,917
TOTAL ASSETS	$	129,681,844	$	153,462,899
LIABILITIES AND NET POSITION				
LONG-TERM DEBT - net	$	94,540,000	$	120,070,000
CURRENT LIABILITIES				
Payable due to Member		349,255		-0-
Credit support for collateral obligation		70		1,211
Long-term debt due within one year		25,530,000		22,865,000
Accrued interest and other		1,435,844		1,537,981
Total current liabilities		27,315,169		24,404,192
TOTAL LIABILITIES		121,855,169		144,474,192
NET POSITION				
Restricted		12,499,887		11,177,963
Unrestricted		(4,673,212)		(2,189,256)
TOTAL NET POSITION		7,826,675		8,988,707
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)				
TOTAL LIABILITIES AND NET POSITION	$	129,681,844	$	153,462,899

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2023	Years Ended December 31, 2022
OPERATING REVENUES		
Gas sales to Member	$ 3,559,308	$ 11,316,836
Gas swap settlement, net	25,400,010	17,155,280
Other gas sales	1,039,843	-0-
Total operating revenues	29,999,161	28,472,116
OPERATING EXPENSES		
Prepaid gas amortization	25,193,326	22,342,124
Administrative and general	63,108	73,367
Regulatory amounts collected in rates	104,796	104,796
Total operating expenses	25,361,230	22,520,287
OPERATING INCOME	4,637,931	5,951,829
NON-OPERATING REVENUES (EXPENSES)		
Interest income	614,932	325,746
Interest on debt	(5,819,387)	(6,609,789)
Total non-operating revenues (expenses)	(5,204,455)	(6,284,043)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS	(566,524)	(332,214)
Distributions to Member	(658,616)	(590,207)
Member contributions	63,108	73,367
CHANGE IN NET POSITION	(1,162,032)	(849,054)
NET POSITION - BEGINNING OF YEAR	8,988,707	9,837,761
NET POSITION - END OF YEAR	$ 7,826,675	$ 8,988,707

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

NORTHERN CALIFORNIA GAS AUTHORITY No. 1
STATEMENTS OF CASH FLOWS

	December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	$ 4,651,493	$ 11,089,345
Receipts from others	25,037,059	17,263,381
Payments for credit support collateral	(1,141)	(3,040,898)
Payments to Member	349,255	-0-
Net cash provided by operating activities	30,036,666	25,311,828
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of long-term debt	(22,865,000)	(20,550,000)
Interest payments on long-term debt	(5,905,894)	(6,815,277)
Distributions to Member	(658,616)	(590,207)
Net cash used in noncapital financing activities	(29,429,510)	(27,955,484)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	612,631	536,315
Net cash provided by investing activities	612,631	536,315
Net increase (decrease) in cash and cash equivalents	1,219,787	(2,107,341)
Cash and cash equivalents - beginning of the year	12,715,944	14,823,285
Cash and cash equivalents - end of the year	$ 13,935,731	$ 12,715,944
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 4,637,931	$ 5,951,829
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	25,193,326	22,342,124
Regulatory amortization	104,796	104,796
Payments for credit support collateral	(1,141)	(3,040,898)
Changes in operating assets and liabilities:		
Receivables	(310,609)	(119,390)
Payables and accruals	412,363	73,367
Net cash provided by operating activities	$ 30,036,666	$ 25,311,828
SUPPLEMENTAL DISCLOSURE OF NONCASH RELATED FINANCING ACTIVITIES		
Amortization of debt related premiums	$ (15,630)	$ (15,630)
Contributions from Member	63,108	73,367

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

NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Gas Authority No. 1 (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 formed by SMUD and the Modesto Irrigation District. The purpose of the Agency is to prepay for a supply of a fixed quantity of natural gas to be delivered over a twenty-year period (Gas Project) by Morgan Stanley Capital Group, Inc. (MSCG) under a Prepaid Gas Purchase and Sale Agreement (Prepaid Agreement) between the Agency and MSCG. The Prepaid Agreement terminates on May 31, 2027. MSCG is obligated to make payments to the Agency for any shortfall of gas not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

The Agency has entered into a Gas Supply Contract (GSC) with SMUD that provides for the sale of all of the natural gas delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of gas delivered under the GSC and to pay damages for gas that SMUD fails to take pursuant to the terms of the GSC. SMUD has no obligation to pay for gas that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Gas Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the GSC, the Agency has agreed to terminate the GSC and may enter into a replacement GSC with one or more municipal utilities on substantially the same terms as the GSC. SMUD requested to have its entire daily contract quantity remarketed for each gas day of each month from November 1, 2023 until May 31, 2027. MSCG, pursuant to the Gas remarketing provisions of the Prepaid Agreement shall purchase all of the remarketed gas for its own account at a price equal to the monthly index price minus an administrative charge of $0.05 per million British Thermal Units (MMBtu) and make payment of such disposition proceeds to the Agency consistent with the terms of the Prepaid Agreement.

The Agency has no employees. The Gas Project is operated by SMUD's staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed $0.1 million both in 2023 and 2022.

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. Gas Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are dependent upon the continued delivery of natural gas to the Gas Project under the Prepaid Agreement. Various termination events are specified in the Prepaid Agreement. Upon the occurrence of any such event, the Prepaid Agreement may be terminated by the Agency or MSCG. If the Prepaid Agreement is terminated, MSCG will be required to pay a scheduled termination payment to the Agency. Any termination of the Prepaid Agreement will result in the extraordinary mandatory redemption of the Agency's long-term debt. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Gas Project agreement.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is included in the financial statements of SMUD as a component unit because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Natural gas sale revenues, gas swap payments and purchase costs that are directly related to delivery of natural gas 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.

Restricted Assets. The Agency's restricted assets are comprised of U.S. government securities and commercial paper which use is limited for specific purposes pursuant to the Indenture of Trust (Indenture) requirements. The Indenture specifies the flow of cash into the various Agency funds and dictates when they may become unrestricted.

Credit and Market Risk. The Agency entered into a synthetic guaranteed investment contract (see Note 3) in 2007 and is exposed to credit risk related to nonperformance by its investment provider. This contract requires the investment provider, MSCG, to post collateral if their credit ratings fall below agreed upon levels. The amount is recorded as current restricted asset with an associated current liability on the Statements of Net Position.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, 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; Local Agency Investment Fund; and money market funds.

Receivable from Member. The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of natural gas from the Gas Project.

Prepaid Gas Supply. The Agency has prepaid for delivery of a natural gas supply with the proceeds from revenue bonds. The Agency provides for amortization on the historical cost of the Prepaid gas supply on a net present value (NPV) basis in which the change in the NPV of the Prepaid Agreement for the remaining term of its contract life from the beginning of the period to the end of the period is the amortization charged for the period. When the Agency amortizes its Prepaid gas supply, the amortization is recorded against the current portion of Prepaid gas supply.

Regulatory Deferrals. As a regulated entity, the Agency's financial statements are prepared in accordance with GASB Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants Pronouncements,"*** which require that the effects of the rate making process be recorded in the financial statements. The Agency records regulatory assets and credits to reflect rate-making actions of the Commission. The account includes the unamortized debt issuance costs of previously issued bonds of the Agency. The regulatory asset is amortized using the straight line method over the remaining life of the associated bonds and recorded in Regulatory amounts collected in rates in the Statements of Revenues, Expenses and Changes in Net Position.

Prepaid Bond Insurance Costs. The Agency recorded a prepaid asset for the prepaid bond insurance portion of unamortized debt issuance costs of previously issued bonds of the Agency. The prepaid bond insurance costs will be amortized using the straight line method over the remaining life of the associated bonds and recorded in Interest on debt in the Statements of Revenues, Expenses and Changes in Net Position.

Derivative Instruments. The Agency enters into forward contracts (interest rate swap and natural gas commodity price swap agreements) to manage its exposure to interest rate risk and market volatility of natural gas commodity prices. The Agency does not enter into these agreements for trading purposes. Due to the termination provisions of these agreements, they have no fair value, and therefore, there is no mark-to-market and the Agency does not record these derivative instruments on its Statements of Net Position. The Agency is exposed to the risk of early termination of the Prepaid Agreement if the counterparties default or if the swap agreements are terminated. Net swap payments received or paid for the gas swap are reported as a component of Operating Revenues in the Statement of Revenues, Expenses and Changes in Net Position.

Gas Swap Agreement. The Agency uses forward contracts to hedge the impact of market volatility on gas commodity prices for its GSC.

Interest Rate Swap Agreements. The Agency enters into interest rate swap agreements to modify the effective interest rates on outstanding debt. Interest expense is reported net of the swap payments received or paid as a component of Interest on debt in the Statement of Revenues, Expenses and Changes in Net Position.

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

- 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, grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets.
- Unrestricted - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

Gas Sales to Member. Gas sales to Member are recorded as revenues when the natural gas is delivered.

Other Gas Sales. Other gas sales are payments from MSCG for remarketed gas and are recorded as revenues when the natural gas is delivered.

Operating Expenses. Operating expenses include the cost of sales and services, administrative expenses and amortization on Prepaid gas supply assets and Regulatory amounts collected in rates 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 for the actual costs of providing administrative and general services are recorded as Member contributions.

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

Recent Accounting Pronouncements, adopted. In March 2020, GASB issued SGAS No. 93, ***"Replacement of Interbank Offered Rates"*** (GASB No. 93). The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021. This statement provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment. By removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, GASB No. 93 identifies the Secured Overnight Financing Rate (SOFR) and the Effective Federal Funds Rate as appropriate benchmark interest rates to replace LIBOR. This statement is effective for the Agency in 2023. GASB No. 99 (see below) further states that the LIBOR is no longer an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021. The Agency utilizes LIBOR for its interest rate swap agreement. The Agency has fully implemented GASB No. 93 in 2023 and modified its interest rate swap agreement to the benchmark interest rate SOFR effective October 1, 2023 (see Note 5).

In April 2022, GASB issued SGAS No. 99, ***"Omnibus 2022"*** (GASB No. 99). This statement addresses a variety of topics and is effective for the Agency in 2022, 2023, or 2024 depending on the requirement. The only topic effective for the Agency in 2023 is GASB No. 93, discussed above. The Agency is currently assessing the financial impact of adopting the remaining topic in this statement that is effective in 2024.

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

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

NOTE 3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investment policy is 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; Local Agency Investment Fund; 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 securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2023 and 2022, the Agency had money market funds of $0.3 million and $0.1 million which were uninsured, respectively. At December 31, 2023 and 2022, $0.2 million and $0.1 million of the money market funds were held in trust for the benefit of the Agency, respectively. In 2022, the Agency returned $3.0 million held as a collateral deposit to MSCG due to the upgrade in their credit rating. There is no collateral deposit held at December 31, 2023 or 2022.

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. To limit the Agency's credit risk for commercial paper purchased under the Debt Service Fund Agreement, the aggregate maturity amount invested in any combination of one issuer, affiliate of issuer, or backed by any one credit support, cannot exceed $30.0 million. The Agency has concentrations of risk greater than five percent invested in Chesham of 100 percent at December 31, 2023 and at December 31, 2022.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. At December 31, 2023 and 2022, all of the Agency's investments had maturities of one year or less.

Debt Service Fund Agreement. The Agency has entered into a synthetic guaranteed investment contract, in the form of a forward supply agreement, in which it has agreed to purchase securities with the debt service deposit amounts for a guaranteed fixed rate of return of 5.148 percent. Commercial paper delivered under the forward supply agreement is included within the investments below. The agreement terminates on June 30, 2027.

The following schedules present credit risk by type of security held at December 31, 2023 and 2022. The credit ratings listed are from Standard & Poor's (S&P).

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

	Credit Rating	December 31, 2023	December 31, 2022
Cash and Cash Equivalents:			
Money market funds	AAAm	$ 326,410	$ 138,737
Commercial paper	A-1	13,609,321	12,577,207
Total cash and cash equivalents		$ 13,935,731	$ 12,715,944

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

	December 31, 2023	December 31, 2022
Cash and Cash Equivalents:		
Debt service fund	$ 13,763,046	$ 12,712,169
Other restricted funds:		
Interest on credit support	70	1,211
Revenue fund	172,615	2,564
Total other restricted funds	172,685	3,775
Total cash and cash equivalents	$ 13,935,731	$ 12,715,944

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31, 2023	December 31, 2022
Prepaid gas supply	$ 111,766,389	$ 136,783,269
Prepaid gas supply revenue	684,033	860,479
Total prepaid gas supply	112,450,422	137,643,748
Less: amounts due within one year	(28,478,928)	(25,193,326)
Total prepaid gas supply - noncurrent portion	$ 83,971,494	$ 112,450,422

The following summarizes prepaid gas supply activity for the year ended December 31, 2023:

	January 1, 2023	Terminations	Amortization	December 31, 2023
Prepaid gas supply	$ 136,783,269	$ -0-	$ (25,016,880)	$ 111,766,389
Prepaid gas supply revenue	860,479	-0-	(176,446)	684,033
Total prepaid gas supply	$ 137,643,748	$ -0-	$ (25,193,326)	$ 112,450,422

The following summarizes prepaid gas supply activity for the year ended December 31, 2022:

	January 1, 2022	Terminations	Amortization	December 31, 2022
Prepaid gas supply	$ 158,958,581	$ -0-	$ (22,175,312)	$ 136,783,269
Prepaid gas supply revenue	1,027,291	-0-	(166,812)	860,479
Total prepaid gas supply	$ 159,985,872	$ -0-	$ (22,342,124)	$ 137,643,748

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per MMBtu as specified in, and over the remaining term of, the Prepaid Agreement. The prepaid gas supply revenue is the discounted NPV of $0.07 per MMBtu over the remaining term of the Prepaid Agreement.

NOTE 5. LONG-TERM DEBT

The Agency issued $668.5 million of 2007 Series B Gas Project Revenue Bonds (Bonds) in May 2007 with variable interest rates, maturing July 2027.

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

	December 31, 2023	December 31, 2022
2007 Series B Gas project revenue bonds, variable rates, 2024-2027	$ 120,070,000	$ 142,935,000
Less: amounts due within one year	(25,530,000)	(22,865,000)
Total long-term debt - net	$ 94,540,000	$ 120,070,000

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

	January 1, 2023	Additions	Payments/ Amortizations	December 31, 2023
2007 Gas project revenue bonds	$ 142,935,000	$ -0-	$ (22,865,000)	$ 120,070,000
Total long-term debt	$ 142,935,000	$ -0-	$ (22,865,000)	$ 120,070,000

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

	January 1, 2022	Additions	Payments/ Amortizations	December 31, 2022
2007 Gas project revenue bonds	$ 163,485,000	$ -0-	$ (20,550,000)	$ 142,935,000
Total long-term debt	$ 163,485,000	$ -0-	$ (20,550,000)	$ 142,935,000

At December 31, 2023 scheduled annual principal maturities and interest are as follows:

Year	Principal	Interest	Total
2024	$ 25,530,000	$ 4,893,110	$ 30,423,110
2025	28,295,000	3,764,547	32,059,547
2026	31,420,000	2,513,106	33,933,106
2027	34,825,000	1,124,151	35,949,151
Total	$ 120,070,000	$ 12,294,914	$ 132,364,914

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates and variable rate debt covered by interest rate swaps at their fixed swap rate.

The Agency had pledged future net revenues to repay $120.1 million and $142.9 million at December 31, 2023 and 2022, respectively, for Bonds issued in May 2007. Proceeds from the Bonds were used to purchase the Gas Project from MSCG at a price of $754.1 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2027, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the GSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100 percent of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds was $132.4 million and $161.1 million at December 31, 2023 and 2022, respectively. Debt service payments on the Bonds are made quarterly on January 1, April 1, July 1 and October 1. Principal and interest paid was $28.8 million and $27.4 million for 2023 and 2022, respectively. Total gross revenues were $30.6 million and $28.8 million for 2023 and 2022, respectively.

The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon the continued successful operation of the Gas Project. If the Prepaid Agreement were to terminate, a termination payment would be received into the trust estate from MSCG. The amount of the termination payment, together with the amounts required to be on deposit in certain funds and accounts held by the trustee, has been calculated to provide a sum sufficient to pay the redemption price of the Bonds upon early termination of the Prepaid Agreement. The amount of termination payment declines over time as MSCG performs its gas delivery obligations under the Prepaid Agreement. The Members are not obligated to pay debt service costs if the Gas Project is unable to operate pursuant to the Prepaid Agreement or if revenues generated by the Gas Project are insufficient to meet debt service obligations.

Terms of Debt Indenture. The debt indenture contains a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

Interest Rate Swap Agreements - 2007 Series B Bonds.

The following summarizes the Agency's swap agreement at December 31, 2023:

Notional Amount	Agency Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating (S&P)
$ 120,070,000	Fixed	4.304%	67% of SOFR + .89528%	07/01/27	A+

The following summarizes the Agency's swap agreement at December 31, 2022:

Notional Amount	Agency Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating (S&P)
$ 142,935,000	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A+

The Agency has a variable-to-fixed interest rate swap agreement with a counterparty. The Agency pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month LIBOR (3.74 percent for 2022) plus an interest rate spread, as specified in the swap agreement. Due to cessation of LIBOR, effective October 1, 2023, the floating rate is equal to 67 percent of three-month Chicago Mercantile Exchange Term SOFR (5.39 percent for 2023) plus an interest rate spread. The total notional amount of the swap at December 31, 2023 and 2022 was $120.1 million and $142.9 million, respectively, and was equivalent to the outstanding principal balance on the Agency's Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the Bonds. Early termination of the swap would occur upon termination of the Prepaid Agreement for any reason. Upon early termination, the swap would have no value to either party.

Variable Rate 2007 Series B Bonds. The Agency's variable rate Bonds bear interest at a quarterly rate of 4.51 percent and 3.23 percent at December 31, 2023 and 2022, respectively.

NOTE 6. COMMITMENTS

Natural Gas Commodity Price Swap Agreement. The Agency has entered into a floating-to-fixed natural gas commodity price swap agreement (Gas Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's natural gas sales to SMUD under the GSC. The Agency pays an index-based natural gas price over the twenty-year period and receives a fixed natural gas price as specified in the Gas Swap Agreement, for notional quantities of natural gas at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Gas Swap Agreement terminates on May 31, 2027. The total notional amount of the Gas Swap Agreement remaining at December 31, 2023 was 10.8 million MMBtu. Presently, the Gas Swap Agreement is 8,675 MMBtu per calendar day, and this amount will change on June 1 of each remaining year of the Gas Swap Agreement and will range from 8,673 to 8,675 MMBtu per calendar day. Early termination of the Gas Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Gas Swap Agreement would have no value to either party.

NOTE 7. CONTINGENCIES

General Contingencies. The Agency's ability to make principal and interest payments on its Bonds is contingent upon the continued delivery of natural gas to the Gas Project under the Prepaid Agreement. The Members are not obligated to make principal and interest debt service payments in the event the Gas Project does not operate and there are insufficient funds to pay the bondholders. The Agency expects that the natural gas will continue to be delivered as planned.

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.