# Sacramento Cogeneration Authority

## Financial Statements

*as of and for the years ended*
*December 31, 2020 and 2019*
and
**Including**
**Independent Auditors' Report**

**SACRAMENTO COGENERATION AUTHORITY**
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**As of and for the Years Ended December 31, 2020 and 2019**

# Independent Auditors' Report

To the Board of Directors of
Sacramento Cogeneration Authority

We have audited the accompanying financial statements of Sacramento Cogeneration 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 Cogeneration 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 Cogeneration Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sacramento Cogeneration 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 Cogeneration 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

## Using this Financial Report

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

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public 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 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 (collectively, Members). The Agency was formed for the purpose of owning and operating the Procter & Gamble Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in 1997, is comprised of a 136 megawatt (MW) natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operation in 2001.

SMUD purchases all of the electricity produced by the Project pursuant to the Power Purchase Agreement (PPA) between SMUD and the Agency. The Agency has no 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**

In 2020, the Agency's operator, Ethos Energy Power Plant Services, LLC, continued implementation of a normal six-week cycle of gas turbine water washes and inspections as part of standard maintenance protocols. These outages and inspections have been an integral part of the Agency's successful performance, which for 2020 included an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 93.51 percent, an IEEE Reliability rating of 99.84 percent and a successful call-up ratio for the simple cycle unit of 100.00 percent.

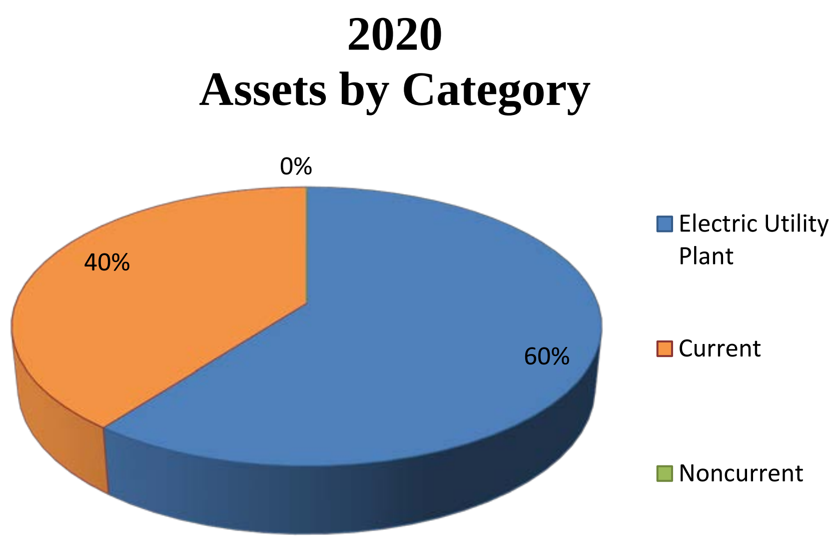
The plant completed combustion turbine 1A (Engine 185-191) major overhaul and the DCS Controls Upgrade.

## 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 | $ 48,502 | $ 56,309 | $ 64,171 | $ (7,807) | -13.9% | $ (7,862) | -12.3% |
| Current assets | 31,823 | 26,939 | 30,453 | 4,884 | 18.1% | (3,514) | -11.5% |
| Noncurrent assets | 1 | 2 | 61 | (1) | -50.0% | (59) | -96.7% |
| Total assets | 80,326 | 83,250 | 94,685 | (2,924) | -3.5% | (11,435) | -12.1% |
| Deferred outflows of resources | -0- | -0- | 283 | -0- | 0.0% | (283) | -100.0% |
| Total assets and deferred outflows of resources | $ 80,326 | $ 83,250 | $ 94,968 | $ (2,924) | -3.5% | $ (11,718) | -12.3% |
| Liabilities | | | | | | | |
| Long-term debt - net | $ -0- | $ -0- | $ 13,250 | $ -0- | 0.0% | $ (13,250) | -100.0% |
| Current liabilities | 5,515 | 4,952 | 12,735 | 563 | 11.4% | (7,783) | -61.1% |
| Total liabilities | 5,515 | 4,952 | 25,985 | 563 | 11.4% | (21,033) | -80.9% |
| Net position | | | | | | | |
| Net investment in capital assets | 48,502 | 56,309 | 45,174 | (7,807) | -13.9% | 11,135 | 24.6% |
| Restricted | -0- | -0- | 3,015 | -0- | 0.0% | (3,015) | -100.0% |
| Unrestricted | 26,309 | 21,989 | 20,794 | 4,320 | 19.6% | 1,195 | 5.7% |
| Total net position | 74,811 | 78,298 | 68,983 | (3,487) | -4.5% | 9,315 | 13.5% |
| Total liabilities and net position | $ 80,326 | $ 83,250 | $ 94,968 | $ (2,924) | -3.5% | $ (11,718) | -12.3% |

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




**2020 Compared to 2019**

**ASSETS & DEFERRED OUTFLOWS OF RESOURCES**

- The Agency's main asset is its investment in the Project, which comprises $48.5 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2020. The Electric Utility Plant - net decreased primarily due to $7.9 million of depreciation expense for the year. Electric Utility Plant assets make up about 60 percent of the Agency's assets.

- Current Assets increased primarily due to higher Unrestricted cash as part of normal operations.

**LIABILITIES & NET POSITION**

- Current Liabilities increased primarily due to higher fuel billings from SMUD for November and December 2020.

**2019 Compared to 2018**

**ASSETS & DEFERRED OUTFLOWS OF RESOURCES**

- The Agency's main asset is its investment in the Project, which comprises $56.3 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2019. The Electric Utility Plant - net decreased primarily due to $7.9 million depreciation expense for the year.

- Current Assets decreased primarily due to lower Restricted cash as a result of the defeasance of the 2009 Series Bonds, Receivable from SMUD for the debt service payments, and fuel portions of the PPA billings in November and December 2019, partially offset by higher Unrestricted cash as part of normal operations.

## LIABILITIES & NET POSITION

- Long-Term Debt - net decreased due to defeasance of the 2009 Series Bonds in September 2019.

- Current liabilities decreased primarily due to lower Long-term debt due within one year due to defeasance of the 2009 Series Bonds and lower accounts payable due to lower overhaul costs and fuel billings from SMUD for November and December 2019.

## 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 | $ 35,932 | $ 36,208 | $ 52,109 | $ (276) | -0.8% | $ (15,901) | -30.5% |
| Operating expenses | (39,624) | (33,947) | (47,031) | (5,677) | -16.7% | 13,084 | 27.8% |
| Operating income | (3,692) | 2,261 | 5,078 | (5,953) | -263.3% | (2,817) | -55.5% |
| Interest income | 205 | 363 | 268 | (158) | -43.5% | 95 | 35.4% |
| Interest on debt | -0- | (1,211) | (1,096) | 1,211 | -100.0% | (115) | -10.5% |
| Other income | -0- | -0- | 1,079 | -0- | 0.0% | (1,079) | -100.0% |
| Change in net position before distributions | (3,487) | 1,413 | 5,329 | (4,900) | -346.8% | (3,916) | -73.5% |
| Distributions to Member | -0- | -0- | (10,000) | -0- | 0.0% | 10,000 | 100.0% |
| Contributions to Member | -0- | 7,902 | -0- | (7,902) | -100.0% | 7,902 | 100.0% |
| Change in net position | (3,487) | 9,315 | (4,671) | (12,802) | 137.4% | 13,986 | 299.4% |
| Net position - beginning of year | 78,298 | 68,983 | 73,654 | 9,315 | 13.5% | (4,671) | -6.3% |
| Net position - end of year | $ 74,811 | $ 78,298 | $ 68,983 | $ (3,487) | -4.5% | $ 9,315 | 13.5% |

### 2020 Compared to 2019

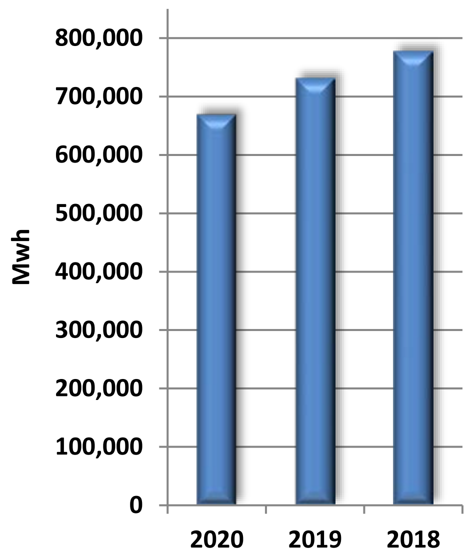
## OPERATING REVENUES

Operating revenues decreased due to lower steam sales offset by higher power sales to member. Steam sales decreased due to lower steam prices and volume in 2020. 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, Power sales to Member increased due to higher fuel, operator and capital costs, offset by lower financial payments due to the defeasance of the Agency bonds in 2019 and lower overhaul costs. There was no debt service cost in 2020 as a result of the defeasance of the Agency bonds in 2019.

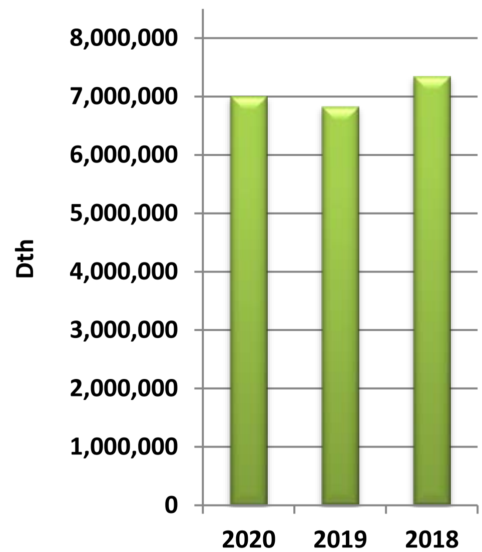
The Agency saw a decrease in power sales as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction in run time in 2019 and 2020. The increase in gas consumption in 2020 is the due to the Agency's agreement to provide steam to Proctor & Gamble requiring the plant to run in order to produce the required amount of steam.

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

## Power Sales

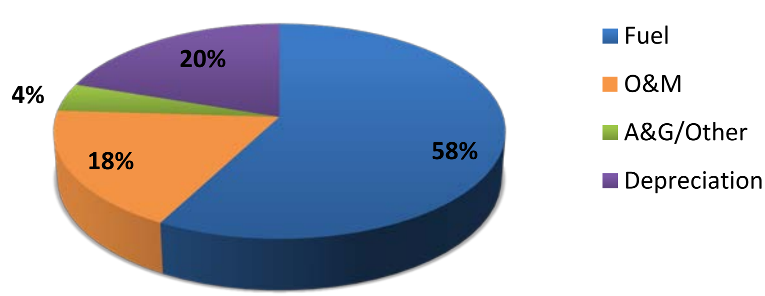



## Gas Consumption




**<u>OPERATING EXPENSES</u>**

## 2020 Operating Expenses by Category



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

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| **Operating Expenses** | | | | | | | |
| Fuel | $ 22,885 | $ 17,514 | $ 26,041 | $ 5,371 | 30.7% | $ (8,527) | -32.7% |
| Operations and Maintenance | 7,210 | 7,059 | 11,797 | 151 | 2.1% | (4,738) | -40.2% |
| Administrative & general and Other | 1,668 | 1,513 | 1,370 | 155 | 10.2% | 143 | 10.4% |
| Depreciation | 7,861 | 7,861 | 7,823 | -0- | 0.0% | 38 | 0.5% |
| Total operating expenses | $ 39,624 | $ 33,947 | $ 47,031 | $ 5,677 | 16.7% | $ (13,084) | -27.8% |

- Fuel expense increased due to higher fuel prices of $5.1 million and fuel volume of $0.3 million.

**MEMBER CONTRIBUTIONS**

Member contributions from SMUD in 2019 was used for the September defeasance of the 2009 Series Bonds.

**DISTRIBUTIONS TO MEMBER**

Distributions to SMUD are optional and based on excess funds collected through the billings for operating costs as compared to projected cash requirements and may vary significantly from year to year. There was no distribution to SMUD in 2020.

**INTEREST ON DEBT**

Interest on debt decreased due to defeasance of the 2009 Series Bonds in 2019.

**2019 Compared to 2018**

**RESULTS OF OPERATIONS**

- Operating Revenues decreased primarily due to lower Power sales to Member. In 2019, less revenue was needed due to lower fuel, overhaul costs, debt service payments and other costs.
- Fuel expense decreased due to lower fuel cost of $6.9 million and fuel volume of $1.6 million.
- Operations and Maintenance expense decreased due to lower steam turbine overhaul costs.
- Other income decreased due to the 2018 Generator Step-up Transformer replacement insurance claim.
- SMUD contributed $7.9 million to Agency for the defeasance of the 2009 Series Bonds.

**Requests for Information**

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

**SACRAMENTO COGENERATION AUTHORITY**
**STATEMENTS OF NET POSITION**

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **ELECTRIC UTILITY PLANT** | | | | |
| Plant in service | $ | 197,577,692 | $ | 197,577,692 |
| Less accumulated depreciation | | (149,129,788) | | (141,268,347) |
| Plant in service - net | | 48,447,904 | | 56,309,345 |
| Construction work in progress | | 54,348 | | -0- |
| Total electric utility plant - net | | 48,502,252 | | 56,309,345 |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents: | | | | |
| Unrestricted cash and cash equivalents | | 20,652,945 | | 16,003,255 |
| Receivables: | | | | |
| Power sales to Member | | 6,005,051 | | 5,690,325 |
| Steam sales | | 384,452 | | 483,355 |
| Accrued interest and other | | 27,327 | | 64,858 |
| Materials and supplies | | 4,282,052 | | 4,353,726 |
| Prepayments | | 471,192 | | 343,398 |
| Total current assets | | 31,823,019 | | 26,938,917 |
| **NONCURRENT ASSETS** | | | | |
| Other | | 1,055 | | 1,406 |
| Total noncurrent assets | | 1,055 | | 1,406 |
| TOTAL ASSETS | | 80,326,326 | | 83,249,668 |
| TOTAL ASSETS | $ | 80,326,326 | $ | 83,249,668 |

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

**SACRAMENTO COGENERATION AUTHORITY**
**STATEMENTS OF NET POSITION**

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **LIABILITIES AND NET POSITION** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | $ | 744,777 | $ | 1,012,014 |
| Payable due to Member | | 4,770,960 | | 3,940,117 |
| Total current liabilities | | 5,515,737 | | 4,952,131 |
| TOTAL LIABILITIES | | 5,515,737 | | 4,952,131 |
| **NET POSITION** | | | | |
| Net investment in capital assets | | 48,502,252 | | 56,309,345 |
| Unrestricted | | 26,308,337 | | 21,988,192 |
| TOTAL NET POSITION | | 74,810,589 | | 78,297,537 |
| **COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)** | | | | |
| TOTAL LIABILITIES AND NET POSITION | $ | 80,326,326 | $ | 83,249,668 |

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

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

| | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Power sales to Member | $ 31,711,865 | $ 30,847,925 |
| Steam sales | 4,219,979 | 5,359,515 |
| Total operating revenues | 35,931,844 | 36,207,440 |
| **OPERATING EXPENSES** | | |
| Fuel | 22,884,836 | 17,513,528 |
| Operations | 7,137,574 | 6,700,339 |
| Maintenance | 71,865 | 358,105 |
| Administrative and general | 1,667,672 | 1,414,552 |
| Depreciation | 7,861,441 | 7,861,442 |
| Regulatory amounts collected in rates | -0- | 98,752 |
| Total operating expenses | 39,623,388 | 33,946,718 |
| **OPERATING INCOME (LOSS)** | (3,691,544) | 2,260,722 |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Interest income | 204,596 | 362,378 |
| Interest on debt | -0- | (1,210,929) |
| Other income | -0- | 31 |
| Total non-operating revenues (expenses) | 204,596 | (848,520) |
| **CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS** | (3,486,948) | 1,412,202 |
| Member Contributions | -0- | 7,902,006 |
| CHANGE IN NET POSITION | (3,486,948) | 9,314,208 |
| NET POSITION - BEGINNING OF YEAR | 78,297,537 | 68,983,329 |
| NET POSITION - END OF YEAR | $ 74,810,589 | $ 78,297,537 |

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

## SACRAMENTO COGENERATION AUTHORITY
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from power sales to Member | $ 31,397,139 | $ 32,672,457 |
| Receipts from steam sales and other | 4,318,882 | 5,525,013 |
| Payments to Member | (24,091,215) | (20,156,756) |
| Payments to vendors | (7,162,895) | (7,186,094) |
| Net cash provided by operating activities | 4,461,911 | 10,854,620 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Contributions from Member | -0- | 7,902,006 |
| Net cash provided by noncapital financing activities | -0- | 7,902,006 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Construction expenditures | (54,348) | -0- |
| Repayment of long-term debt | -0- | (18,965,000) |
| Interest payments on long-term debt | -0- | (1,732,618) |
| Net cash used in capital and related financing activities | (54,348) | (20,697,618) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 242,127 | 351,181 |
| Net cash provided by investing activities | 242,127 | 351,181 |
| Net increase (decrease) in cash and cash equivalents | 4,649,690 | (1,589,811) |
| Cash and cash equivalents - beginning of the year | 16,003,255 | 17,593,066 |
| Cash and cash equivalents - end of the year | $ 20,652,945 | $ 16,003,255 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income (loss) | $ (3,691,544) | $ 2,260,722 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 7,861,441 | 7,861,442 |
| Regulatory amortization | -0- | 98,752 |
| Other income | -0- | 31 |
| Changes in operating assets and liabilities: | | |
| Receivables | (215,823) | 1,989,999 |
| Other assets | (55,769) | (93,510) |
| Payables and accruals | 563,606 | (1,262,816) |
| Net cash provided by operating activities | $ 4,461,911 | $ 10,854,620 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Net amortization of debt related premiums | $ -0- | $ 31,395 |

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

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

## NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Cogeneration Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Municipal Utility District Financing Authority (SFA) pursuant to the California Government Code (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 Procter & Gamble Project (Project) for electric power generation. The Project, which began commercial operations in 1997, is comprised of a 136 megawatt (MW) natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. The Project is situated on approximately 8 acres of land owned by the Agency, which is adjacent to the Procter & Gamble plant in Sacramento.

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

Pursuant to the Power Purchase Agreement (PPA) with SMUD, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf. The Agency was charged $24.6 million in 2020 and $18.8 million in 2019 for general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

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

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

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is included in the 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 cost of replacement units is capitalized. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than 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.

**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. Accordingly, certain expenses and credits normally reflected in the Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, SMUD through the PPA. The Agency records regulatory assets and credits to reflect rate-making actions of the Commission. The account includes the unamortized debt issuance costs of previously issued bonds of the Agency. The regulatory asset is amortized using the straight line method over the remaining life of the associated bonds and recorded in Regulatory Amounts Collected in Rates in the Statements of Revenues, Expenses and Changes in Net Position. In September 2019, the Agency defeased all outstanding bonds and the related regulatory asset was written off.

**Gains and Losses on Bond Refundings.** Gains and losses resulting from bond refundings are included in Deferred Outflows and Deferred Inflows of Resources and amortized as a part of Interest on Debt, over the shorter of the life of the refunded debt or the new debt using the effective interest method, in the Statements of Revenues, Expenses and Changes in Net Position. In September 2019, the Agency defeased all outstanding bonds and the related loss on bond refunding was written off.

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

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

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

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

**Member Contributions.** Amounts contributed by SMUD are recorded as Member Contributions. In September 2019, SMUD contributed $7.9 million to the Agency to be used for the defeasance of the remaining 2009 Series Bonds, maturing July 2021.

**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 June 2018, GASB issued SGAS No. 89, ***"Accounting for Interest Cost Incurred before the End of a Construction Period"*** (GASB No. 89). The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. This statement is effective for the Agency in 2021. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency has no borrowings for construction, this statement has no impact on the Agency.

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: | | | | |
| Land | $ 772,000 | $ -0- | $ -0- | $ 772,000 |
| Construction work in progress | -0- | 54,348 | -0- | 54,348 |
| Total nondepreciable electric utility plant | 772,000 | 54,348 | -0- | 826,348 |
| | | | | |
| Depreciable utility plant: | | | | |
| Generation | 196,805,692 | -0- | -0- | 196,805,692 |
| Less: accumulated depreciation | (141,268,347) | (7,861,441) | -0- | (149,129,788) |
| Total electric utility plant - net | $ 56,309,345 | $ (7,807,093) | $ -0- | $ 48,502,252 |

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: | | | | |
| Land | $ 772,000 | $ -0- | $ -0- | $ 772,000 |
| Construction work in progress | -0- | -0- | -0- | -0- |
| Total nondepreciable electric utility plant | 772,000 | -0- | -0- | 772,000 |
| Depreciable utility plant: | | | | |
| Generation | 196,805,692 | -0- | -0- | 196,805,692 |
| Less: accumulated depreciation | (133,406,905) | (7,861,442) | -0- | (141,268,347) |
| Total electric utility plant - net | $ 64,170,787 | $ (7,861,442) | $ -0- | $ 56,309,345 |

**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 or investment policy for custodial credit risk.

At December 31, 2020 and 2019, $2.3 million and $0.9 million of the Agency's bank balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 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. The Agency had no money market funds at December 31, 2020 and December 31, 2019.

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

The following schedules present credit risk by type of security held at December 31, 2020 and 2019. 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 | December 31, 2019 |
|---|---|---|---|
| Cash and Cash Equivalents: | | | |
| Deposits | N/A | $ 2,527,962 | $ 1,120,399 |
| LAIF | Not Rated | 18,124,983 | 14,882,856 |
| Total cash and cash equivalents | | $ 20,652,945 | $ 16,003,255 |

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and Cash Equivalents: | | |
| Unrestricted funds | $ 20,652,945 | $ 16,003,255 |
| Total cash and cash equivalents | $ 20,652,945 | $ 16,003,255 |

**NOTE 5. LONG-TERM DEBT**

The Agency issued $57.5 million of 2009 Cogeneration project revenue bonds (Bonds) in August 2009 with interest rates ranging from 4.0 percent to 5.25 percent, maturing July 2021 which were defeased in 2019. The Agency did not have outstanding bonds at December 31, 2020.

The following summarizes activity in long-term debt for the year ended December 31, 2019:

| | January 1, 2019 | Defeasance, Payments or Amortizations | December 31, 2019 |
|---|---|---|---|
| Cogeneration project revenue bonds | $ 18,965,000 | $ (18,965,000) | $ -0- |
| Unamortized premium/ (discounts) - net | 314,749 | (314,749) | -0- |
| Total long-term debt | $ 19,279,749 | $ (19,279,749) | $ -0- |

**2019 Bond Defeasance.** In September 2019, the Agency defeased $12.9 million of 2009 Series Bonds maturing July 2020 and July 2021, along with the accrued interest using SMUD's contribution of $7.9 million and the Agency's available funds. The corresponding amount was placed in an irrevocable trust which has a remaining balance of $6.9 million and $13.7 million as of December 31, 2020 and 2019, respectively. The defeasance resulted in an accounting loss of $0.6 million which is included in Interest on Debt in the Statements of Revenues, Expenses, and Changes in Net Position.

## NOTE 6. INSURANCE PROGRAMS

The Agency purchases commercial, property and casualty insurance coverage at levels consistent with coverages 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 7. 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 | $ 18,124,983 | $ 14,882,856 |
| Total fair value investments | $ 18,124,983 | $ 14,882,856 |

## NOTE 8. COMMITMENTS

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

**Operations and Maintenance Agreement.** 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 minimum annual commitment to Ethos under this agreement was approximately $2.5 million.

## NOTE 9. 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.