Sacramento Municipal Utility District Financing Authority

Financial Statements

as of and for the years ended
December 31, 2020 and 2019

and

Including
Independent Auditors' Report

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING 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 Municipal Utility District Financing Authority

We have audited the accompanying financial statements of Sacramento Municipal Utility District Financing 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 Municipal Utility District Financing 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 Municipal Utility District Financing 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 Municipal Utility District Financing 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 Municipal Utility District Financing Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
As of and For the Years Ended December 31, 2020 and 2019

Using this Financial Report

This annual financial report for Sacramento Municipal Utility District Financing 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 formed by the Sacramento Municipal Utility District (SMUD) and the Modesto Irrigation District (collectively, Members). The Agency owns and operates the Cosumnes Power Plant Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in 2006, is comprised of a 602 megawatt (MW) natural gas-fired combined cycle generation plant.

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, water, 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 plant operator, Ethos Energy Power Plant Services, LLC, continued to perform quarterly off line 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 89.84 percent, an IEEE Reliability rating of 99.8 percent and an overall capacity factor of 69.3 percent.

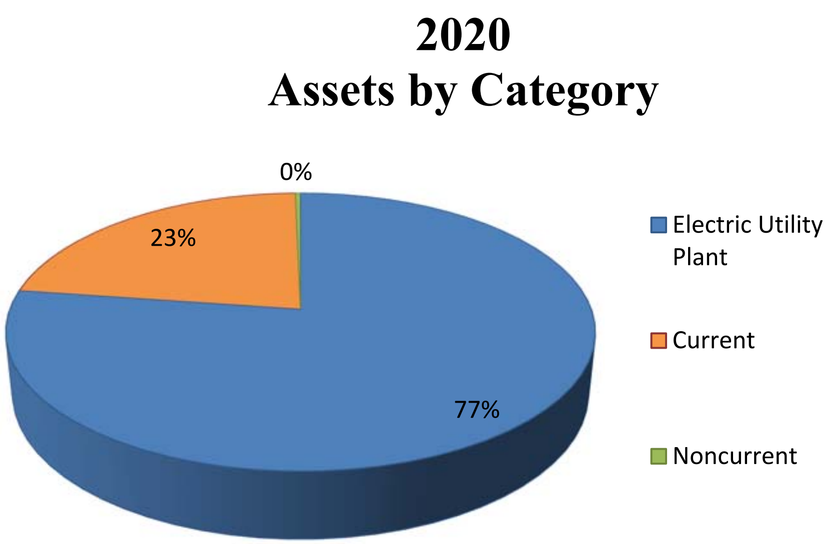
The plant completed the Zero Liquid Discharge (ZLD) Evaporator Replacement Project. The ZLD evaporator / brine loop section was exhibiting significant cracks. The material used in 2006 was not the recommended stainless material now being recommended by the original equipment manufacturer. The existing stainless steel was replaced with an AL-6XN weldable stainless steel to provide better resistance to chloride stress-corrosion cracking.

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	$ 207,058	$ 220,676	$ 230,315	$ (13,618)	-6.2%	$ (9,639)	-4.2%
Current assets	60,107	54,906	74,372	5,201	9.5%	(19,466)	-26.2%
Noncurrent assets	892	998	1,103	(106)	-10.6%	(105)	-9.5%
Total assets	268,057	276,580	305,790	(8,523)	-3.1%	(29,210)	-9.6%
Deferred outflows of resources	1,829	2,195	2,593	(366)	-16.7%	(398)	-15.3%
Total assets and deferred outflows of resources	$ 269,886	$ 278,775	$ 308,383	$ (8,889)	-3.2%	$ (29,608)	-9.6%
Liabilities							
Long-term debt - net	$ 113,152	$ 126,571	$ 138,049	$ (13,419)	-10.6%	$ (11,478)	-8.3%
Current liabilities	36,819	33,257	84,439	3,562	10.7%	(51,182)	-60.6%
Total liabilities	149,971	159,828	222,488	(9,857)	-6.2%	(62,660)	-28.2%
Net position							
Net investment in capital assets	84,835	87,590	83,154	(2,755)	-3.1%	4,436	5.3%
Restricted	5,450	4,355	5,852	1,095	25.1%	(1,497)	-25.6%
Unrestricted	29,630	27,002	(3,111)	2,628	9.7%	30,113	968.0%
Total net position	119,915	118,947	85,895	968	0.8%	33,052	38.5%
Total liabilities and net position	$ 269,886	$ 278,775	$ 308,383	$ (8,889)	-3.2%	$ (29,608)	-9.6%

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 $207.1 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2020. The Electric Utility Plant - net decreased primarily due to $15.5 million depreciation expense for the year, offset $1.9 million of additions. The additions included the ZLD Upgrade and Candle Filter Upgrade. Electric Utility Plant assets make up about 77 percent of the Agency's assets.

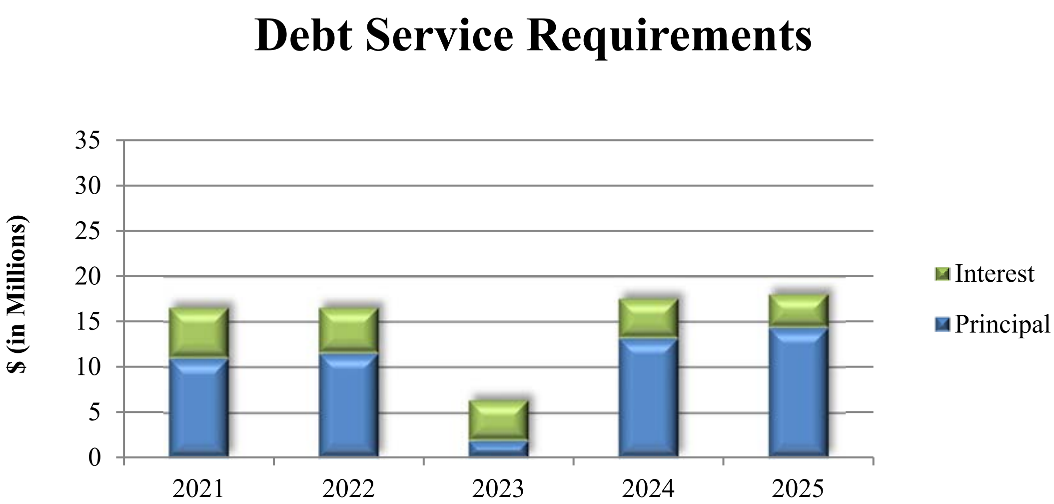
- Current Assets increased primarily due to higher Unrestricted cash as part of normal operations, Restricted cash for debt service, Receivables from SMUD for the fuel portion of the PPA billings in November and December 2020, and Prepayments due to a milestone payment for the purchase of the spare gas turbine rotor.

- Deferred Outflows of Resources decreased due to amortization of the loss on bond refunding.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $13.4 million of scheduled principal payments for 2020. At December 31, 2020, the Agency had bonds outstanding of $112.1 million with maturities through 2030. The Agency's Bonds are rated "AA" by Standard and Poor's and Fitch.

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



- Current Liabilities increased due to higher fuel payables to SMUD in November and December 2020 and current portion of the long-term debt.

2019 Compared to 2018

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project, which comprises $220.7 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2019. The Electric Utility Plant - net decreased primarily due to $13.5 million depreciation expense for the year, offset by $3.9 million of additions. The additions included the Combustion Turbine Generator 2 and Spare Advanced Gas Path, ZLD Upgrade, Flex Software Upgrade, and Valve Access Platform.

- Current Assets decreased primarily due to lower Receivable from SMUD for the advance portion of the PPA billings in November and December 2018, Restricted cash for debt service, and Unrestricted cash as part of normal operations, partially offset by higher Materials and supplies for the purchase of the spare gas turbine rotor.

- Deferred Outflows of Resources decreased due to amortization of the loss on bond refunding.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $11.7 million of the scheduled principal payments for 2019. At December 31, 2019, the Agency had bonds outstanding of $120.8 million with maturities through 2030.

- Current Liabilities decreased due to the 2018 advance from SMUD to cover payments for the AGP project, lower accounts payable for the AGP project, and current portion of the long-term debt.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	December 31, 2020	December 31, 2019	December 31, 2018	Change 2020 vs. 2019		Change 2019 vs. 2018	
Operating revenues	$ 141,874	$ 157,200	$ 154,235	$ (15,326)	-9.7%	$ 2,965	1.9%
Operating expenses	(137,415)	(120,562)	(131,133)	(16,853)	-14.0%	10,571	8.1%
Operating income	4,459	36,638	23,102	(32,179)	-87.8%	13,536	58.6%
Interest income	179	368	302	(189)	-51.4%	66	21.9%
Interest on debt	(3,669)	(3,962)	(4,269)	293	7.4%	307	-7.2%
Other income (expense)	(1)	8	(12,730)	(9)	112.5%	12,738	100.1%
Change in net position	968	33,052	6,405	(32,084)	-97.1%	26,647	416.0%
Net position - beginning of year	118,947	85,895	79,490	33,052	38.5%	6,405	8.1%
Net position - end of year	$ 119,915	$ 118,947	$ 85,895	$ 968	0.8%	$ 33,052	38.5%

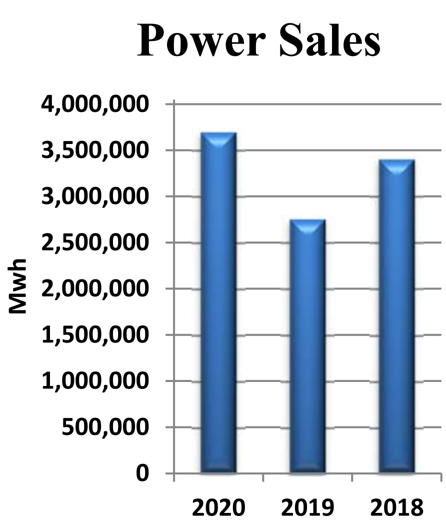
2020 Compared to 2019

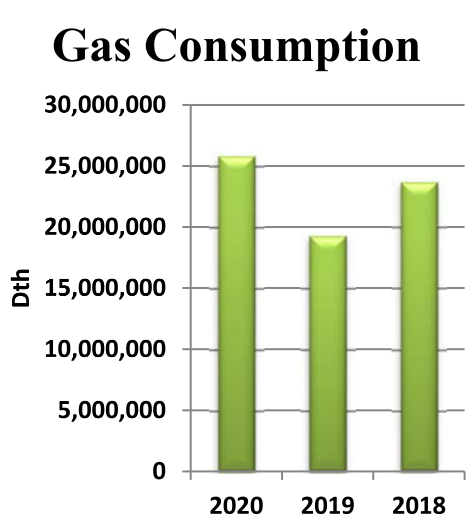
OPERATING REVENUES

Operating Revenues decreased primarily due to lower Power sales to Member 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 including debt service. In 2020, less revenue was needed due to lower capital, overhaul, financial payment, and other costs, partially offset by higher fuel and operator costs.

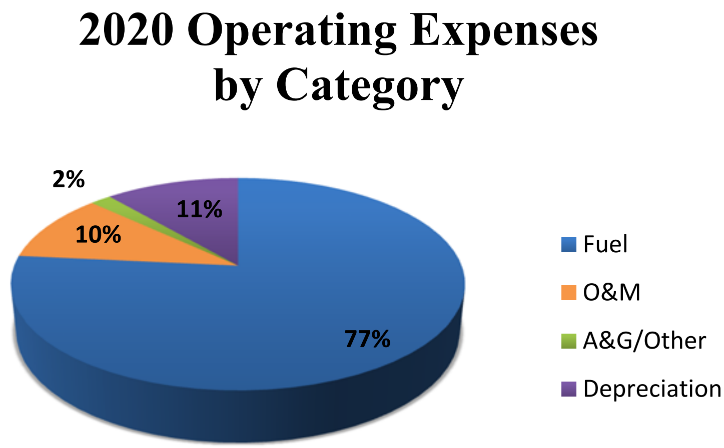
In 2020, the Agency saw an increase in power sales and gas consumption as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provides other California and western United States utilities access to a larger more cost effective energy market. The Agency's plant is the most efficient in California requiring the plant to run more to provide energy for the market. In 2019 the decrease in power sales and gas consumption are due to an extended maintenance outage.

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





OPERATING EXPENSES



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	$ 105,187	$ 86,902	$ 93,008	$ 18,285	21.0%	$ (6,106)	-6.6%
Operations and Maintenance	14,303	17,888	20,548	(3,585)	-20.0%	(2,660)	-12.9%
Administrative & general and Other	2,451	2,242	2,088	209	9.3%	154	7.4%
Depreciation	15,474	13,530	15,489	1,944	14.4%	(1,959)	-12.6%
Total operating expenses	$ 137,415	$ 120,562	$ 131,133	$ 16,853	14.0%	$ (10,571)	-8.1%

- Fuel expense increased due to higher fuel volume of $29.3 million, offset by lower fuel prices of $11.0 million.
- Operations and Maintenance expense decreased primarily due to the lower steam turbine overhaul costs, partially offset by higher operator fees.
- Depreciation expense increased due to unitization of CTG assets.

2019 Compared to 2018

RESULTS OF OPERATIONS

- Operating Revenues increased primarily due to higher Power sales to Member in 2019 due to higher capital and other costs, partially offset by lower fuel, overhaul costs, and financial payment.
- Fuel expense decreased due to lower fuel volume of $17.3 million, partially offset by higher fuel cost of $11.2 million.
- Operations and Maintenance expense decreased primarily due to the lower steam turbine overhaul costs, partially offset by higher operator fees.
- Depreciation expense decreased due to the retirement of CTG assets.
- Other expenses decreased due to the retirement of CTG assets in 2018.

Requests for Information

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2020	December 31, 2019
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 390,507,984	$ 388,181,575
Less accumulated depreciation	(183,449,762)	(169,723,822)
Plant in service - net	207,058,222	218,457,753
Construction work in progress	-0-	2,218,147
Total electric utility plant - net	207,058,222	220,675,900
RESTRICTED ASSETS		
Debt service funds	8,252,135	7,374,875
Less current portion	(8,252,135)	(7,374,875)
Total restricted assets	-0-	-0-
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	15,613,637	13,274,986
Restricted cash and cash equivalents	8,252,135	7,374,875
Receivables:		
Power sales to Member	26,526,800	25,577,192
Accrued interest and other	20,115	66,811
Materials and supplies	7,344,348	7,235,618
Prepayments	2,245,313	1,272,444
Regulatory costs recovered within one year	104,416	104,416
Total current assets	60,106,764	54,906,342
NONCURRENT ASSETS		
Regulatory costs for future recovery	887,534	991,950
Other	4,571	5,626
Total noncurrent assets	892,105	997,576
TOTAL ASSETS	268,057,091	276,579,818
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	1,829,027	2,195,364
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,829,027	2,195,364
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 269,886,118	$ 278,775,182

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2020		December 31, 2019	
LIABILITIES AND NET POSITION				
LONG-TERM DEBT - net	$	113,152,421	$	126,571,174
CURRENT LIABILITIES				
Accounts payable		2,651,395		2,422,389
Payable due to Member		20,465,473		19,104,190
Long-term debt due within one year		10,900,000		8,710,000
Accrued interest		2,802,125		3,019,875
Total current liabilities		36,818,993		33,256,454
TOTAL LIABILITIES		149,971,414		159,827,628
NET POSITION				
Net investment in capital assets		84,834,828		87,590,090
Restricted		5,450,010		4,355,000
Unrestricted		29,629,866		27,002,464
TOTAL NET POSITION		119,914,704		118,947,554
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)				
TOTAL LIABILITIES AND NET POSITION	$	269,886,118	$	278,775,182

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING 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	$ 141,874,444	$ 157,200,782
Total operating revenues	141,874,444	157,200,782
OPERATING EXPENSES		
Fuel	105,187,258	86,901,965
Operations	12,172,685	11,940,605
Maintenance	2,129,611	5,947,916
Administrative and general	2,347,251	2,137,594
Depreciation	15,474,370	13,529,809
Regulatory amounts collected in rates	104,416	104,416
Total operating expenses	137,415,591	120,562,305
OPERATING INCOME	4,458,853	36,638,477
NON-OPERATING REVENUES (EXPENSES)		
Interest income	179,451	368,258
Interest on debt	(3,669,584)	(3,961,890)
Other revenues (expenses) - net	(1,570)	7,622
Total non-operating revenues (expenses)	(3,491,703)	(3,586,010)
CHANGE IN NET POSITION	967,150	33,052,467
NET POSITION - BEGINNING OF YEAR	118,947,554	85,895,087
NET POSITION - END OF YEAR	$ 119,914,704	$ 118,947,554

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING 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	$ 140,924,836	$ 155,282,407
Payments to Member	(106,744,121)	(89,942,489)
Payments to vendors	(14,507,939)	(22,653,605)
Net cash provided by operating activities	19,672,776	42,686,313
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction expenditures	(1,933,262)	(28,132,469)
Repayment of long-term debt	(8,710,000)	(11,705,000)
Interest payments on long-term debt	(6,039,750)	(6,625,000)
Net cash used in capital and related financing activities	(16,683,012)	(46,462,469)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	226,147	389,184
Net cash provided by investing activities	226,147	389,184
Net increase (decrease) in cash and cash equivalents	3,215,911	(3,386,972)
Cash and cash equivalents - beginning of the year	20,649,861	24,036,833
Cash and cash equivalents - end of the year	$ 23,865,772	$ 20,649,861
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 15,613,637	$ 13,274,986
Restricted cash and cash equivalents	8,252,135	7,374,875
Cash and cash equivalents - end of the year	$ 23,865,772	$ 20,649,861

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 4,458,853	$ 36,638,477
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,474,370	13,529,809
Regulatory amortization	104,416	104,416
Changes in operating assets and liabilities:		
Receivables	(949,608)	(1,918,375)
Other assets	(1,080,544)	(4,649,869)
Payables and accruals	1,665,289	(1,018,145)
Net cash provided by operating activities	$ 19,672,776	$ 42,686,313
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Net amortization of debt related (expenses) and premiums	$ 2,152,416	$ 2,370,485
Gain (loss) on asset retirements	(1,570)	7,622

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

NOTE 1. ORGANIZATION AND OPERATIONS

The Sacramento Municipal Utility District Financing Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Modesto Irrigation District (MID) pursuant to the California Government Code (collectively, Members). The purpose of the Agency is to own and operate the Cosumnes Power Plant Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in February 2006, is comprised of a 602 megawatt natural gas-fired combined cycle generation plant. The Project is situated on approximately 38 acres adjacent to SMUD's decommissioned nuclear power plant. The land is owned by SMUD and leased to the Agency.

The Agency has no employees. The Project is operated by Ethos Energy Power Plant Services, LLC (Ethos) under the terms of the Operations and 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 $107.9 million in 2020 and $89.3 million in 2019 for general and administrative services, water, fuel costs, and other costs paid by SMUD on the Agency's behalf.

SMUD is entitled to all rights and property of the Project in the event of termination of the JPA agreement. MID has no obligation to make contributions or advances to the Agency. The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect, or while any bonds or notes of the Agency are outstanding. Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are not dependent upon the continued successful operation of the Project. SMUD is required to make payments in an amount sufficient to pay principal and interest and all other payments required to be made under the Indenture of Trust (Indenture), dated June 1, 2015. Neither MID 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, deferred outflows of resources, liabilities, revenues and expenses. Actual results could differ from those estimates.

Plant in Service. The Agency generally computes depreciation on Electric Utility Plant on a straight-line basis using five years for software and the remaining life of the JPA for all other capital assets. The costs of replacement units are capitalized. Major overhaul parts are depreciated over their estimated useful lives, ranging from 4 to 24 years. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years.

Restricted Assets. The Agency's restricted assets are comprised of cash, which is limited for specific purposes pursuant to the Indenture requirements. The Indenture specifies the flow of cash into the various Agency funds and dictates when they may become unrestricted.

Cash and Cash Equivalents. Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less and all investments in the Local Agency Investment Fund (LAIF), and money market funds. LAIF has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments.

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's prepayments consist of an advance payment for inventory, property insurance, leases and permits. The Agency pays for property insurance, leases and permits annually in advance. 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.

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.

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

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included.
- Restricted - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital, above), grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the 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, deferred outflows of resources and liabilities that do not meet the definition of "Net investment in capital assets" or "Restricted."

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

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

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

Recent Accounting Pronouncements, adopted. In 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* and GASB No. 93, *Replacement of Interbank Offered Rates*.

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. 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 and the Effective Federal Funds Rate as appropriate benchmark interest rates to replace LIBOR. This statement is effective for the Agency in 2022. The Agency is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

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

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

NOTE 3. ELECTRIC UTILITY PLANT

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

	Balance January 1, 2020	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2020
Nondepreciable electric utility plant:				
Construction work in progress	$ 2,218,147	$ 1,858,262	$ (4,076,409)	$ -0-
Total nondepreciable electric utility plant	2,218,147	1,858,262	(4,076,409)	-0-
Depreciable electric utility plant:				
Generation	388,181,575	4,076,409	(1,750,000)	390,507,984
Less: accumulated depreciation	(169,723,822)	(15,474,370)	1,748,430	(183,449,762)
Total electric utility plant - net	$ 220,675,900	$ (9,539,699)	$ (4,077,979)	$ 207,058,222

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

	Balance January 1, 2019	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2019
Nondepreciable electric utility plant:				
Construction work in progress	$ 30,648,861	$ 3,883,155	$ (32,313,869)	$ 2,218,147
Total nondepreciable electric utility plant	30,648,861	3,883,155	(32,313,869)	2,218,147
Depreciable electric utility plant:				
Generation	355,888,891	32,313,869	(21,185)	388,181,575
Less: accumulated depreciation	(156,222,818)	(13,529,809)	28,805	(169,723,822)
Total electric utility plant - net	$ 230,314,934	$ 22,667,215	$ (32,306,249)	$ 220,675,900

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 the 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, $2.1 million and $0.5 million of the Agency's cash balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 134 percent and 131 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the Agency had money market funds of $8.3 million and $7.4 million which were uninsured, respectively. The Agency's money market funds are held in trust for the benefit of the Agency.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The Agency 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	$ 2,381,815	$ 739,723
LAIF	Not Rated	13,231,822	12,535,263
Money market funds	AAAm	8,252,135	7,374,875
Total cash and cash equivalents		$ 23,865,772	$ 20,649,861

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:		
Debt service funds	$ 8,252,135	$ 7,374,875
Unrestricted funds	15,613,637	13,274,986
Total cash and cash equivalents	$ 23,865,772	$ 20,649,861

NOTE 5. LONG-TERM DEBT

The Agency issued $193.3 million of 2015 project revenue bonds in June 2015 with interest rates ranging from 2.0 percent to 5.0 percent, maturing July 2030.

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

	December 31, 2020	December 31, 2019
2015 Cosumnes project revenue refunding bonds, fixed rates 5.00%, 2021-2030	$ 112,085,000	$ 120,795,000
Unamortized premium - net	11,967,421	14,486,174
Total long-term debt	124,052,421	135,281,174
Less: amounts due within one year	(10,900,000)	(8,710,000)
Total long-term debt - net	$ 113,152,421	$ 126,571,174

The following summarizes activity in long-term debt for the year ended December 31, 2020:

	January 1, 2020	Additions	Refunding, Payments or Amortization	December 31, 2020
Cosumnes project revenue bonds	$ 120,795,000	$ -0-	$ (8,710,000)	$ 112,085,000
Unamortized premiums - net	14,486,174	-0-	(2,518,753)	11,967,421
Total long-term debt	$ 135,281,174	$ -0-	$ (11,228,753)	$ 124,052,421

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

	January 1, 2019	Additions	Refunding, Payments or Amortization	December 31, 2019
Cosumnes project revenue bonds	$ 132,500,000	$ -0-	$ (11,705,000)	$ 120,795,000
Unamortized premiums - net	17,254,455	-0-	(2,768,281)	14,486,174
Total long-term debt	$ 149,754,455	$ -0-	$ (14,473,281)	$ 135,281,174

The annual debt service requirements to maturity for Bonds are as follows at December 31, 2020:

Year	Principal	Interest	Total
2021	$ 10,900,000	$ 5,604,250	$ 16,504,250
2022	11,450,000	5,059,250	16,509,250
2023	1,845,000	4,486,750	6,331,750
2024	13,115,000	4,394,500	17,509,500
2025	14,270,000	3,738,750	18,008,750
2026-2030(combined)	60,505,000	8,386,000	68,891,000
Total	$ 112,085,000	$ 31,669,500	$ 143,754,500

Proceeds from the 2015 Series Bonds were used to refund previously issued 2006 Bonds that provided financing for the Project. The 2015 Series Bonds, payable through 2030, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes revenues from the PPA and investment income from funds established under the Indenture.

The Agency has pledged future net revenues to repay $112.1 million for 2015 Series Bonds at December 31, 2020 and $120.8 million at December 31, 2019. Annual principal and interest payments on the 2015 Series Bonds required approximately 10.4 percent and 11.7 percent of the Agency's net revenues for 2020 and 2019, respectively. The total principal and interest remaining to be paid on the 2015 Series Bonds is $143.8 million and $158.5 million at December 31, 2020 and 2019, respectively. Debt service payments are made semi-annually on January 1 and July 1. Principal and interest paid was $14.7 million and $18.3 million for 2020 and 2019, respectively. Total net revenues were $141.9 million and $157.4 million for 2020 and 2019, respectively.

The payments of principal and interest related to the Agency's long-term debt are not dependent upon the continued successful operation of the Project. SMUD guarantees to make payments in an amount sufficient to pay principal and interest and all other payments required to be made under the Indenture, under a "take-or-pay" contract. The Agency is not required to repay SMUD for any amounts paid under this guarantee.

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.

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 and 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	$ 13,231,822	$ 12,535,263
Total fair value investments	$ 13,231,822	$ 12,535,263

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 requirements of the Project. The Agency pays for the actual supply, storage and transportation costs for the fuel supplied to the Project as specified in this agreement for 30 years following Acceptance, which means that the Natural Gas Interconnection and Supply Agreement will be in effect through September 2039.

Operation 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 $4.0 million.

Ground Lease Agreement. The Agency leases land from SMUD under the Ground Lease Agreement expiring December 2040. The minimum lease payment increases by three percent annually and the rate is renegotiated based on the average Consumer Price Index every five years. At December 31, 2020, the Agency's annual minimum lease payment was approximately $0.2 million.

Water Supply Agreement. Pursuant to the Water Supply Agreement, SMUD supplies water to the Agency. The Agency is obligated to pay for the actual water supply, storage, and transportation costs for 30 years through September 2039.

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.