# Board Finance & Audit Committee Meeting and Special SMUD Board of Directors Meeting

Date: Tuesday, March 16, 2021

Time: 5:30 p.m.

Location: Virtual Meeting (online)

Powering forward. Together.

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# AGENDA
# BOARD FINANCE & AUDIT COMMITTEE MEETING
# AND SPECIAL SMUD BOARD OF DIRECTORS MEETING

**Tuesday, March 16, 2021**
**Scheduled to begin at 5:30 p.m.**
**Zoom Webinar Link: Join SMUD Finance & Audit Committee Meeting Here**
**Webinar ID:** 160 872 6058
**Password:** 565123
**Phone Dial-in Number:** 1-669-254-5252

In accordance with the Governor's Executive Order N-29-20 and the Emergency Board Meeting Procedures adopted by the SMUD Board of Directors, the regular Board meeting and other public meetings are closed to the public to align with state, local, and federal guidelines and social distancing recommendations for the containment of the coronavirus.

Live video streams and indexed archives of meetings are available at: http://smud.granicus.com/ViewPublisher.php?view_id=16

Members of the public may register to provide verbal comments at an upcoming Board or Committee meeting by emailing a request to speak to PublicComment@smud.org. Please include the date of the meeting, name, and topic or agenda item the requestor wishes to speak on. The request may also be submitted while the meeting is in progress during the standard time for the agenda item or topic. **Pre-registration is strongly encouraged by no later than 3:00 p.m. on the day of the meeting.**

Members of the public may provide written public comments on a specific agenda item or on items not on the agenda (general public comment) by submitting comments via e-mail. Comments may be submitted to PublicComment@smud.org and will be placed into the record of the meeting.

Members of the public that are listening to or watching the live stream of a Committee meeting and wish to submit written comments on a specific agenda item as it is being heard may submit their comments, limited to 250 words or less, to PublicComment@smud.org, noting the agenda item number in the subject line. The Committee Chair may read comments for items on the agenda into the record, in her discretion, based upon such factors as the length of the agenda or the number of e-mail comments received. General public comment for items not on the agenda will not be read into the record but will be provided to the Board and placed into the record of the Board meeting if it is received within two hours after the meeting ends.

This Committee meeting is noticed as a joint meeting with the Board of Directors for the purpose of compliance with the Brown Act. In order to preserve the function of the Committee as advisory to the Board, members of the Board may attend and participate in the discussions, but no Board action will be taken. The Energy Resources and Customer Services Committee will review, discuss and provide the Committee's recommendation on the following:

## INFORMATIONAL ITEMS

| | | |
|---|---|---|
| 1. | Aaron Worthman<br>BAKER TILLY US, LLP | Presentation to the Board by SMUD's independent auditor on the 2020 Financial Statements External Audit Report.<br>Presentation: 10 minutes<br>Discussion: 2 minutes |
| 2. | Lisa Limcaco | SMUD's Financial Results for the year 2020.<br>Presentation: 5 minutes<br>Discussion: 5 minutes |
| 3. | Laurie Rodriguez | Provide update on the Multi-Party **SMUD**, **UC Davis Health**, and **Sacramento State/University Enterprises, Inc. (UEI) Child Development Center**, including construction, cost projections, schedule, and staff and family transition.<br>Presentation: 25 minutes<br>Discussion: 5 minutes |

## DISCUSSION ITEMS

| | | |
|---|---|---|
| 4. | Casey Fallon | Authorize the Chief Executive Officer and General Manager to execute a direct procurement contract with **Hot Line Construction, Inc.** for Pole Replacement and Other Line Work for a period of two years from March 22, 2021, to March 21, 2023, with two optional one-year extensions, for a total aggregate contract amount not-to-exceed $51,220,537.<br>Presentation: 5 minutes<br>Discussion: 2 minutes |
| 5. | Casey Fallon | Authorize the Chief Executive Officer and General Manager to award contracts to **Hot Line Construction, Inc.** and **Mountain G Enterprises** for General Line Construction Work for a period of two years from March 22, 2021, to March 21, 2023, for a total aggregate contract amount not-to-exceed $20 million.<br>Presentation: 5 minutes<br>Discussion: 3 minutes |

## DISCUSSION ITEMS *(cont.)*

| | | |
|---|---|---|
| 6. | Ross Gould | Authorize the Chief Executive Officer and General Manager to award a contract to **Doug Veerkamp General Engineering, Inc.** to provide construction services for the **West Point and Yellowjacket Campgrounds and Appurtenant Boat Ramps Project** in the Crystal Basin region of the **Upper American River Project (UARP)** for a total contract amount not-to-exceed $8,396,902, and for a contract term from April 1, 2021, to January 31, 2022.<br>Presentation: 5 minutes<br>Discussion: 3 minutes |
| 7. | Erik Krause | Authorize the Chief Executive Officer and General Manager to execute a four-year **Customer-Tailored Electric Services Agreement** with **NTT Global Data Centers Americas, Inc. (NTT)**.<br>Presentation: 5 minutes<br>Discussion: 4 minutes |

## INFORMATIONAL ITEMS *(cont.)*

| | | |
|---|---|---|
| 8. | Public Comment | |
| 9. | Rosanna Herber | Summary of Committee Direction.<br>Discussion: 1 minute |

*Pursuant to Resolution No. 20-06-08 adopted on June 18, 2020, Emergency Board Meeting Procedures are in effect:*

*Members of the public may make either a general public comment or comment on a specific agenda item by submitting comments via email. Comments may be submitted to PublicComment@smud.org. Comments will be provided to the Board and placed into the record of the Committee meeting if it is received within two hours after the meeting ends.*

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*ADA Accessibility Procedures: Upon request, SMUD will generally provide appropriate aids and services leading to effective communication for qualified persons with disabilities so that they can participate equally in this virtual meeting. If you need a reasonable auxiliary aid or service for effective communication to participate, please email* Toni.Stelling@smud.org*, or contact by phone at (916) 732-7143, no later than 48 hours before this virtual meeting.*

# 1

| SSS No. | BOARD AGENDA ITEM | Committee Meeting & Date |
|---|---|---|
| ACC 21-001 | STAFFING SUMMARY SHEET | Finance Committee<br>March 16, 2021 |
| | | Board Meeting Date<br>N/A |

| TO | | TO | |
|---|---|---|---|
| 1. | Jennifer Davidson | 6. | |
| 2. | Gary King | 7. | |
| 3. | | 8. | |
| 4. | | 9. | **Legal** |
| 5. | | 10. | **CEO & General Manager** |

| Consent Calendar | | Yes | | No *If no, schedule a dry run presentation.* | Budgeted | | Yes | | No *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Lisa Limcaco | Accounting | B352 | 7045 | 02/16/2021 |

**NARRATIVE:**

**Requested Action:** Presentation to the Board by SMUD's independent auditor on the 2020 Financial Statements External Audit Report.

**Summary:** SMUD's independent auditor will present the results of the 2020 Financial Statements External Audit Report.

**Board Policy:** *(Number & Title)* GP-3, Board Job Descriptions

**Benefits:** Provides Board Members with the current information on the 2020 financial results for SMUD. Fulfills requirements of the MUD Act and bond resolutions.

**Cost/Budgeted:** The cost of this presentation is included in the contract for the annual audit of SMUD's financial statements.

**Alternatives:** None

**Affected Parties:** Accounting

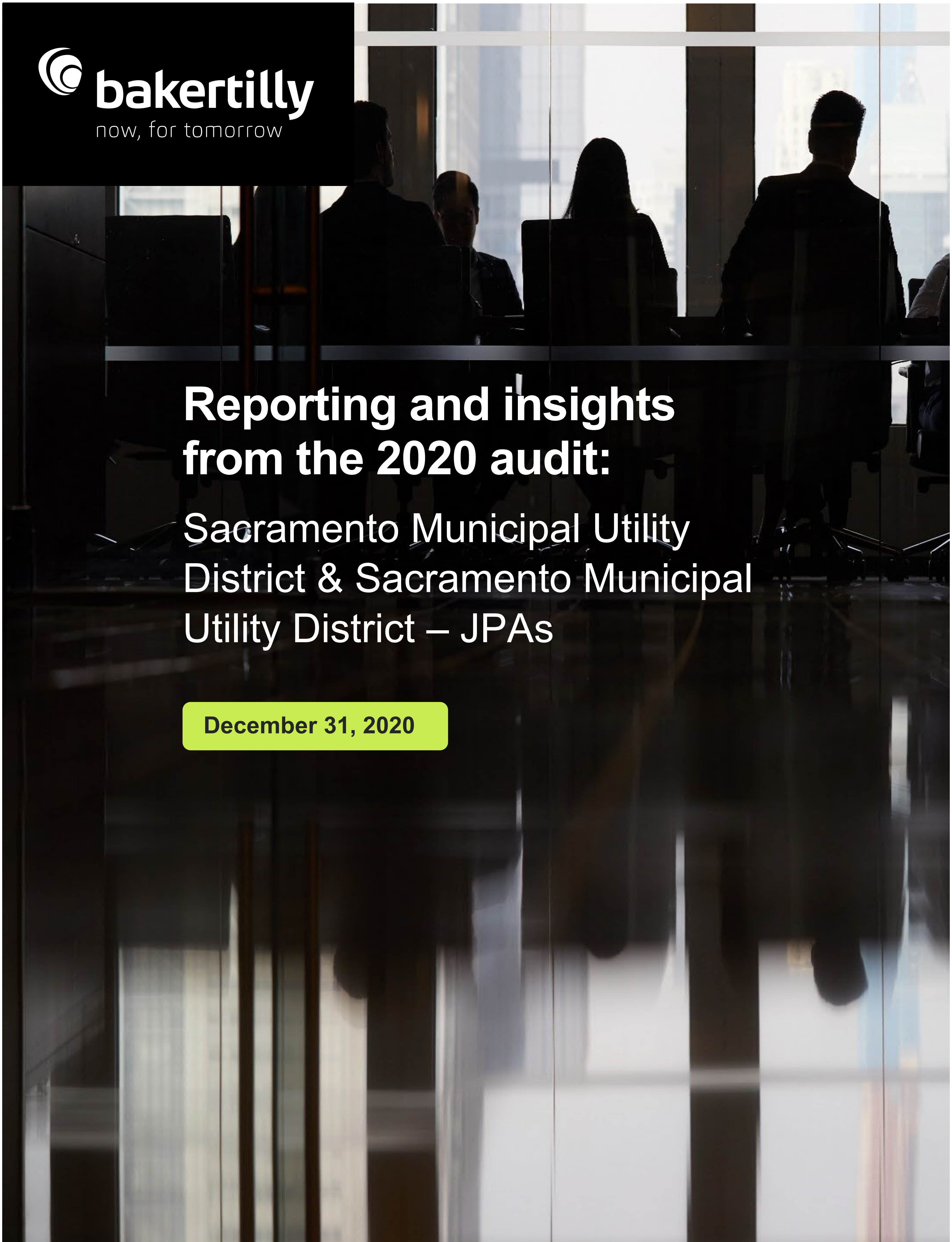
**Coordination:** Accounting

**Presenter:** Aaron Worthman, Baker Tilly US, LLP

**Additional Links:**

| SUBJECT | ITEM NO. *(FOR LEGAL USE ONLY)* |
|---|---|
| 2020 Financial Statements External Audit Report | |

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.



bakertilly
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# Reporting and insights from the 2020 audit:

## Sacramento Municipal Utility District & Sacramento Municipal Utility District – JPAs

December 31, 2020

# Executive summary

February 19, 2021

The Board of Directors
Sacramento Municipal Utility District
6201 S Street
Sacramento, California 95817

We have completed our audits of the financial statements of Sacramento Municipal Utility District (SMUD) and the Sacramento Cogeneration Authority, SMUD Financing Authority, Sacramento Power Authority, Central Valley Financing Authority, Northern California Gas Authority No.1, and Northern California Energy Authority (SMUD – JPAs) for the year ended December 31, 2020, and have issued our reports thereon dated February 19, 2021.This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of SMUD's and SMUD – JPAs operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas SMUD and SMUD – JPAs should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Aaron Worthman, Partner: Aaron.Worthman@bakertilly.com or 1 (512) 975 7281
- Ryan O'Donnell, Senior Manager: Ryan.Odonnell@bakertilly.com or 1 (608) 240 2606

Sincerely,

Baker Tilly US, LLP

Aaron Worthman

Aaron Worthman, CPA, Partner

Ryan O'Donnell

Ryan O'Donnell, CPA, Senior Manager

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THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

# Responsibilities

# Responsibilities

## Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of SMUD and SMUD – JPAs internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing opinions based on our audits about whether the financial statements prepared by management, with the oversight of the Board of Directors:
  - Are free from material misstatement
  - Present fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America
- Performing tests related to compliance with certain provisions of laws, regulations, contracts and grants, as required by *Government Auditing Standards*

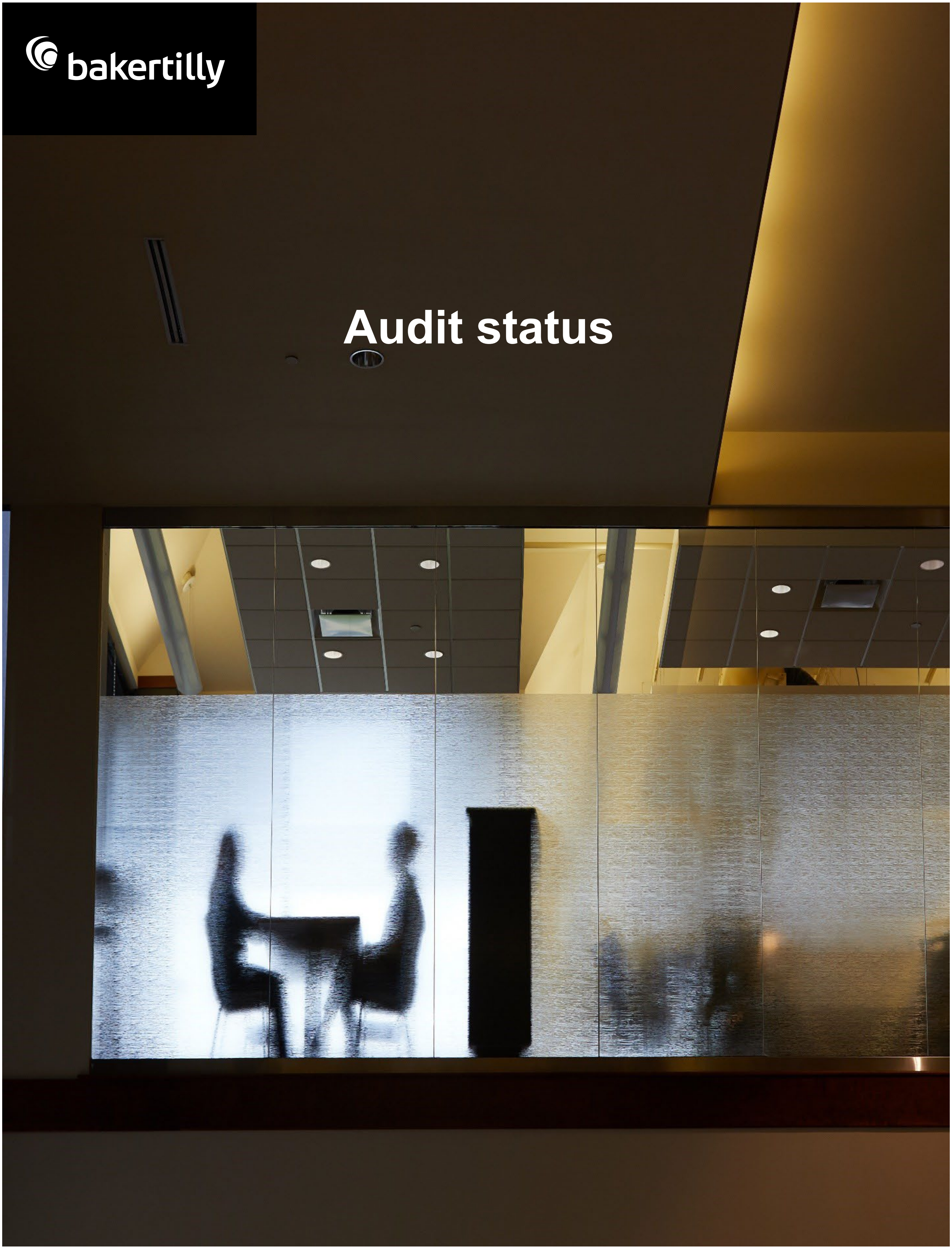
We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Board of Directors, including:

- Qualitative aspects of SMUD and SMUD – JPAs accounting practice including policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Corrected and uncorrected misstatements
- Internal control matters
- Significant estimates
- Other findings or issues arising from the audits

## Management's responsibilities

| Management | | Auditor |
|---|---|---|
| | Prepare and fairly present the financial statements | Our audits do not relieve management or the Board of Directors of their responsibilities |
| | Establish and maintain effective internal control over financial reporting and compliance with laws, regulations, contracts and grants | An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls |
| | Provide us with written representations at the conclusion of the audit | See Appendix B for a copy of management's representations |

# Audit status



# Audit status

## Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

# Audit approach and results

# Audit approach and results

## Planned scope and timing

### Audit focus

Based on our understanding of SMUD and SMUD – JPAs and the environment in which you operate, we focused our audits on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about SMUD and SMUD – JPAs current year results.

## Key areas of focus and significant findings

### Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audits, we focused on the following areas below.

| Significant risk areas | Testing approach | Conclusion |
|---|---|---|
| Management override of controls | Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise | Procedures identified provided sufficient evidence for our audit opinions |
| Improper revenue recognition due to fraud | Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables | Procedures identified provided sufficient evidence for our audit opinion |

### Other key areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

| Other key areas of emphasis | Testing approach | |
|---|---|---|
| Cash and investments | Revenues and receivables | General disbursements |
| Payroll | Pension and OPEB liabilities | Long-term debt |
| Capital assets | Inventory | Derivative instruments |
| Regulatory debits and credits | Accrued liabilities | Pollution remediation liability |
| Asset retirement obligation | Information technology | Financial reporting and required disclosures |

# Internal control matters

We considered SMUD and SMUD – JPAs internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. We are not expressing an opinion on the effectiveness of SMUD and SMUD – JPAs internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

# Required communications

### Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by SMUD and SMUD- JPAs are described in Note 2 to the financial statements. As described in Note 3, SMUD and SMUD – JPAs changed accounting policies related to capitalization of interest by adopting GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period"* in 2020. The requirements of this standard did not include prior period restatements. We noted no transactions entered into by SMUD and SMUD – JPAs during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.

- Accounting estimates: Accounting estimates, including fair value estimates, are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

| Estimate | Management's process to determine | Baker Tilly's conclusions regarding reasonableness |
|---|---|---|
| Fuel hedges | Evaluations based on future forward pricing using third party specialist | Reasonable in relation to the financial statements as a whole |
| Interest rate swaps | Evaluations based on discounted expected cash flows at corresponding zero coupon rate | Reasonable in relation to the financial statements as a whole |
| Net pension liability and related deferrals | Evaluation of information provided by the CALPERS Retirement System | Reasonable in relation to the financial statements as a whole |
| Asset Retirement Obligation | Evaluation based on current value of future outlays expected to be incurred. | Reasonable in relation to the financial statements as a whole |
| Pollution Remediation Obligation | Evaluation based on current value of future outlays expected to be incurred. | Reasonable in relation to the financial statements as a whole |
| Allowance for doubtful accounts | Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts | Reasonable in relation to the financial statements as a whole |
| Net/Total OPEB liability and related deferrals | Key assumptions set by management with the assistance of a third party specialist | Reasonable in relation to the financial statements as a whole |
| Depreciation | Evaluate estimated useful life of the asset and original acquisition value | Reasonable in relation to the financial statements as a whole |

| Estimate | Management's process to determine | Baker Tilly's conclusions regarding reasonableness |
|---|---|---|
| Unbilled revenue | Evaluation volume used by customers from their last billing date through the end of the month | Reasonable in relation to the financial statements as a whole |
| Accrued compensated absences | Evaluation of hours earned and accumulated in accordance with employment policies and average wage per hour rates | Reasonable in relation to the financial statements as a whole |
| Self-insurance claims | Historical claims analysis and report provided by a 3rd party administrator | Reasonable in relation to the financial statements as a whole |

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

### Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management and completing our audits.

### Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SMUD and SMUD – JPAs auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audits.

### Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial, and to communicate accumulated misstatements to management. The schedule within the Appendix summarizes the Northern California Gas Authority No.1's uncorrected misstatements that we presented to management, other than those that are clearly trivial, that, in our judgment, may not have been detected except through our auditing procedures. In our judgment, none of the uncorrected misstatements, either individually or in the aggregate, indicate matters that could have had a significant effect on the entity's financial reporting process.

Management has determined that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

### Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for SMUD and SMUD – JPAs or that otherwise appear to be unusual due to their timing, size or nature.

### Other information in documents containing audited financial statements

Our responsibility for this information does not extend beyond the financial information identified in the audit report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements regarding debt issues.

### Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

### Written communications between management and Baker Tilly

The Appendix includes copies of other material written communications, including a copy of the management representation letter.

### Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audits.

### Fraud

We did not identify any known or suspected fraud during our audits.

### Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of SMUD and SMUD – JPAs ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

## Independence

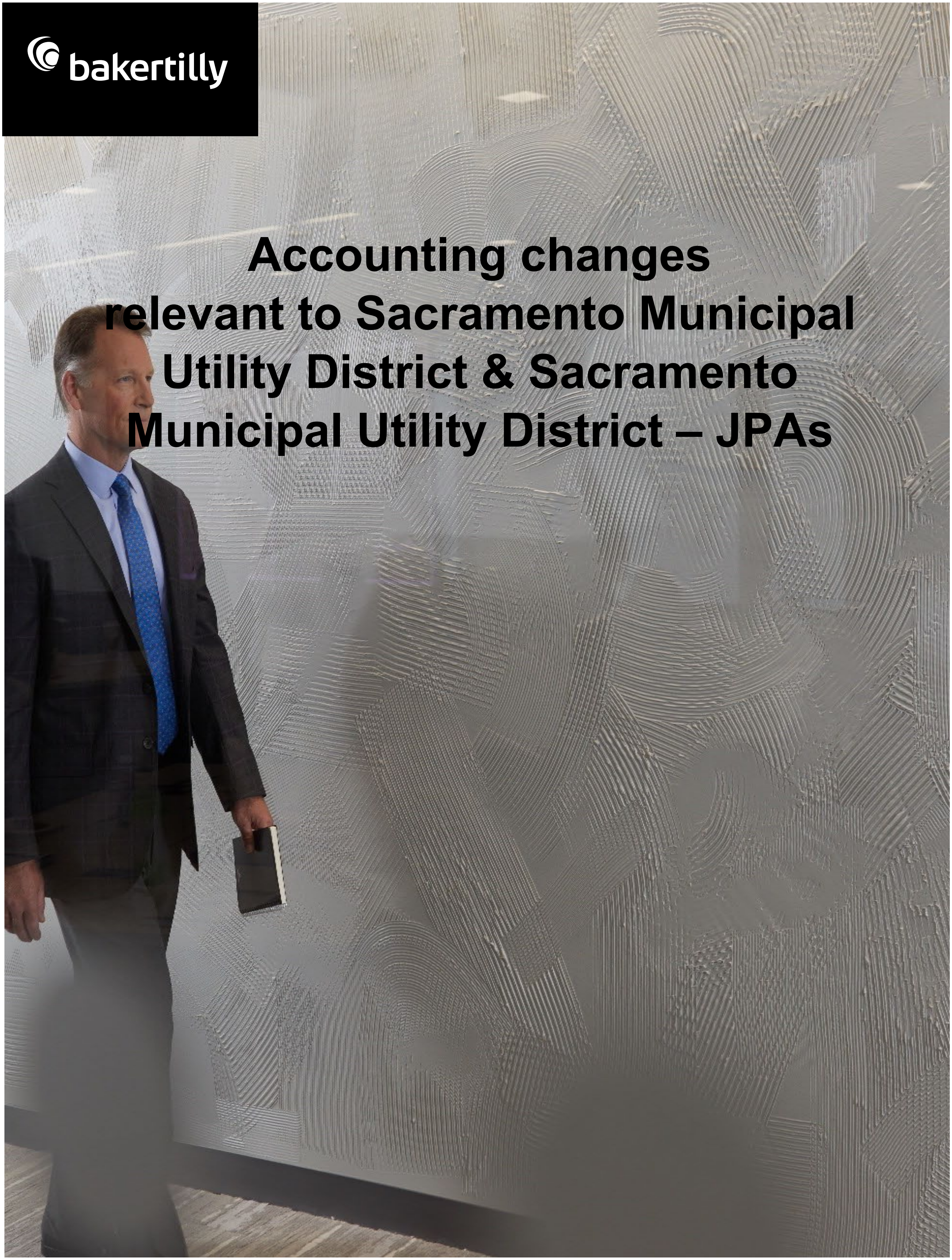
We are not aware of any relationships between Baker Tilly and SMUD and SMUD – JPAs that, in our professional judgment, may reasonably be thought to bear on our independence.

## Related parties

We did not have any significant findings or issues arise during the audit in connection with SMUD and SMUD – JPAs related parties.

## Other matter

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



# Accounting changes relevant to Sacramento Municipal Utility District & Sacramento Municipal Utility District – JPAs

# Accounting changes relevant to Sacramento Municipal Utility District & Sacramento Municipal Utility District – JPAs

### Future accounting standards update

| GASB Statement Number | Description | Potentially Impacts you | Effective Date |
|---|---|---|---|
| 87 | Leases | ✓ | 12/31/22* |
| 91 | Conduit Debt | ✓ | 12/31/22* |
| 92 | Omnibus 2020 | ✓ | 12/31/22* |
| 93 | Replacement of Interfund Bank Offered Rates | ✓ | 12/31/22* |
| 94 | Public-Private and Public-Public Partnerships and Availability Payment Arrangements | ✓ | 12/31/23 |
| 96 | Subscription-Based Information Technology Arrangements | ✓ | 12/31/23 |
| 97 | Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans | ✓ | 12/31/22 |

*The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Gui*dance, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.

Further information on upcoming GASB pronouncements.

### Preparing for the new lease standard

GASB's new single model for lease accounting will be effective soon. This standard will require governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources.

We recommend that SMUD and SMUD – JPAs review this standard and start planning now as to how this will affect your financial reporting. We recommend that you begin by completing an inventory of all contracts that might meet the definition of a lease. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, SMUD and SMUD – JPAs should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

Learn more about GASB 87.

### Planning for the new conduit debt reporting

Conduit debt includes arrangements where there are three separate parties involved including a third party that is obligated for payment, a debt holder or lender and an issuing party which is often a government. This standard provides additional criteria for identifying and classifying conduit debt with the intent of providing consistency in how the debt is recorded and reported in governmental financial statements. SMUD and SMUD – JPAs should identify any existing debt arrangements involving third-party obligors and evaluate how those arrangements will be reported under the new standard in order to determine the potential impact of this standard on future financial reporting.

# Trending challenges and opportunities for organizations

# Trending challenges and opportunities for organizations

Management and governing bodies must keep the future in mind as they evaluate strategies to achieve future growth. Keeping a balance between risk and sustainability is key, and organizations need to think beyond their immediate needs to their long-term goals. Economic uncertainty, coupled with key risk areas and fast-paced technology change, make strategic planning complex. Begin the discussion with your management team to find your path to your future.

## Turning toward recovery and growth

Many organizations are focusing on the strategic restart and ramp up of their operations.

With great uncertainty about what recovery will look like–or how long it will take–it is essential for your organization to understand the scenarios you may face and plan your path back to growth.

We can help you chart a way forward that will enhance and maximize your value, minimize further disruption and keep your workforce safe.

**Recommendation**

Follow our road map to reopen, recover and reset.

## Compliance with federal awards

**Challenge**

The COVID-19 crisis has had a significant effect on the nation, including recipients of federal awards resulting from various congressional acts. Federal funding adds an increased level of scrutiny and brings new challenges around compliance, reporting and administration.

Finance and spending departments are operating in unprecedented times as they manage and administer these funds while also remaining economically viable, maintaining operations and adapting to the "new normal."

**Recommendation**

Learn more about compliance for federal funds obtained for pandemic response efforts.

## Recession proofing measures

**Challenge**

Ever aware of the need to balance the needs of diverse constituents against constrained revenue streams and conflicting priorities, public leaders strive to effectively deploy scarce resources while maintaining the highest levels of accountability and transparency.

In times of crisis, additional challenges emerge to maintain essential services, ensure citizen safety, protect their workforce and jumpstart programs to mitigate negative local economic impacts–all while focusing on planning for long-term effects of revenue shortages and the subsequent recovery.

Developing strategic clarity, aligning resources with priorities, strengthening performance, optimizing processes and leveraging technology are imperative.

**Recommendation**

Learn about proactive measures to insulate your organization from financial hardship and to optimize your organization's performance.

## Recruiting and hiring

**Challenge**

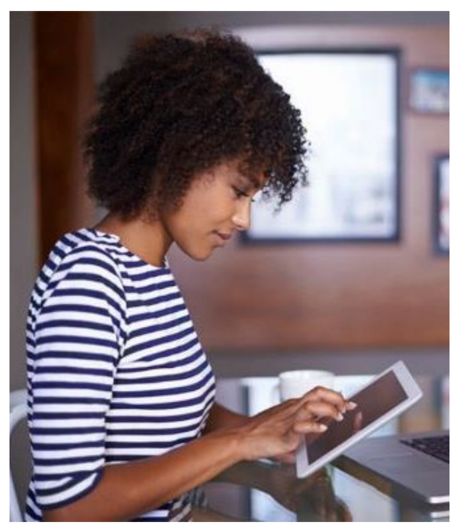
Public sector entities in need of key workforce personnel, such as city or county managers and administrators, city or county attorneys, fire chiefs, police chiefs and other departmental directors, may find themselves in an unenviable position during a pandemic.

Organizations need the talent, but a pandemic can disrupt essential business processes and cause apprehension about access to desirable candidates.

Hiring leaders should proactively discuss what-if scenarios, evaluate short-term and long-term hiring priorities, and plan for situations where immediate recruitment is imperative.

**Recommendation**

Learn the key considerations and actions for recruiting and hiring in a crisis.



# Risk assessment

### Challenge

Organizations today manage ever-expanding priorities in a constantly evolving, disruptive risk environment. Undetected risks, insufficient internal controls and inefficient business processes may negatively impact not only the entity but also its workforce and the community at large.

Risk assessment and internal audit prove essential to identifying top risks and the appropriateness of response in order to:

- Manage risk and compliance
- Enhance governance and strategy
- Optimize operations
- Gain assurance around key functions and processes that contribute toward meeting organizational goals

### Recommendation

Learn about the key considerations for the risk assessment process and internal audit planning.

# Economic development

### Challenge

In today's complex economic landscape, communities face the daunting challenge of rebuilding their local economies. Restoring the momentum of economic expansion and investment to enhance quality of life for residents and produce long-term financial gain for the community is at the forefront of concerns.

Whether attracting growth to maximize opportunity built around community strengths or accounting for the many unknowns caused by major disruptions, a robust economic development strategy is essential to recovery.

### Recommendation

Learn about the advantages of creating an economic development strategic plan and the framework to follow.

## Harnessing data and analytics for strategic insight and decision-making

**Challenge**

In crisis and recovery, organizations are investing in advanced analytic solutions to help them not only make better decisions faster and more consistently, but also to improve operational efficiency and performance. Of all the business analytics available, advanced analytic solutions should be at the top of your priority list given the impact it can have on your business.

**Recommendation**

Learn more about data & analytics strategy and roadmaps, MDM and data process re-engineering, AI strategy, data visualization and other digital and analytic capabilities.

## Information technology and cybersecurity

**Challenge**

While return-to-work scenarios are being developed, it is likely that remote workforces will remain a reality for many organizations in the short- to mid-term. Though many organizations have been able to adapt on a short-term basis, some will not be prepared for long-term operation on a remote and virtual basis. Organizations should increase monitoring of invasive cyber events, given the likely increase in hackers sending out fake emails, website links and ransomware attacks – and also consider:

- Adequacy of IT controls and security
- Performance of remote infrastructure supporting operations
- Improvements to remote applications for communication, collaboration and workflow
- Alternatives for data entry, work and information flow

**Recommendation**

Learn more about information technology and cybersecurity, including System & Organization Controls reporting.

# Appendix A: Client service team

# Client service team


### Aaron Worthman, CPA

**Partner**

4807 Innovate Lane
Madison, WI 53718
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**T +1 (512) 975 7281**
**Aaron.Worthman@bakertilly.com**



### Ryan O'Donnell, CPA

**Senior Manager**

4807 Innovate Lane
Madison, WI 53718
United States

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ryan.odonnell@bakertilly.com

# Appendix B: Management representation letter

February 19, 2021

Baker Tilly US, LLP
4807 Innovate Ln.
Madison, WI 53718

Dear Baker Tilly US, LLP

We are providing this letter in connection with your audits of the general purpose financial statements of the Sacramento Municipal Utility District as of December 31, 2020 and 2019 and for the years then ended for the purpose of expressing an opinion as to whether the general purpose financial statements present fairly, in all material respects, the financial position of the Sacramento Municipal Utility District and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

**Financial Statements**

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all blended component units and other financial information of the Sacramento Municipal Utility District required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, if any, are reasonable.

6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7) All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

8) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

10) Guarantees, whether written or oral, under which the Sacramento Municipal Utility District is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

11) We have provided you with:

   a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.

   b) Additional information that you have requested from us for the purpose of the audit.

   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   d) Minutes of the meetings of the Board of Directors and committees or summaries of actions of recent meetings for which minutes have not yet been prepared.

12) We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   a) Management,

   b) Employees who have significant roles in internal control, or

   c) Others where the fraud could have a material effect on the financial statements.

14) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16) We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

**Other**

17) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18) We have a process to track the status of audit findings and recommendations.

19) We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

21) The Sacramento Municipal Utility District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows, liabilities, deferred inflows or net position.

22) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

23) There are no:

    a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

    b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

    c) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

    d) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

24) The Sacramento Municipal Utility District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25) The Sacramento Municipal Utility District has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

26) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any. Component units have been properly presented as either blended or discrete.

27) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

28) We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The Sacramento Municipal Utility District's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies. The Sacramento Municipal Utility District follows the valuation, accounting, reporting and disclosure requirements outlined in GASB Statement No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.

29) Provisions for uncollectible receivables, if any, have been properly identified and recorded.

30) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

31) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

32) We believe that the estimate made for the pollution remediation liability is in accordance with GASB Statement No. 49 and reflects all known available facts at the time it was recorded.

33) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

34) Tax-exempt bonds issued have retained their tax-exempt status.

35) The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB Statement No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.

36) We have appropriately disclosed the Sacramento Municipal Utility District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.

37) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

38) We have provided, and agree with, the findings of specialists in evaluating the pension and OPEB-related figures and energy trading pricing, forecasting and risk assessment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

39) We believe the information provided by the CalPERS as audited by BDO USA, LLP relating to the net pension asset/liability and related deferred outflows and deferred inflows is accurate and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also believe the census data that has been reported to the plan is accurate.

40) We believe the information provided by the Bartel Associates LLC relating to the net OPEB asset/liability and related deferred outflows and deferred inflows is accurate and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also believe the census data that has been reported to the plan is accurate.

41) We have implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and believe that all liabilities, deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications and RSI have been computed in compliance with the Standard.

42) We have provided the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB Statement No. 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

43) We have identified and accounted for asset retirement obligations in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*.

44) As discussed in Note 3, SMUD has adopted the provisions of GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". Management has evaluated this implementation and recorded the appropriate amounts in the financial statements.

Sincerely,

Sacramento Municipal Utility District

Signed: Paul Lau
Digitally signed by Paul Lau
DN: cn=Paul Lau, o=SMUD, ou, email=paul.lau@smud.org, c=US
Date: 2021.02.19 15:23:23 -08'00'

Paul Lau, Chief Executive Officer and General Manager of SMUD

Signed:
Digitally signed by Jennifer Davidson
DN: cn=Jennifer Davidson, o=SMUD, ou=CFO, email=jennifer.davidson@smud.org, c=US
Date: 2021.02.19 13:36:22 -08'00'

Jennifer Davidson, Chief Financial Officer of SMUD

Signed: Laura Lewis
Digitally signed by Laura Lewis
Date: 2021.02.19 15:12:13 -08'00'

Laura Lewis, Chief Legal Officer of SMUD

Signed: Russell Mills
Digitally signed by Russell Mills
Date: 2021.02.18 15:35:21 -08'00'

Russell Mills, Director, Treasury and Risk Management and Treasurer of SMUD

Signed: Lisa Limcaco
Digitally signed by Lisa Limcaco
DN: dc=org, dc=smud, dc=corporate, ou=Corporate, ou=User Accounts, cn=Lisa Limcaco
Date: 2021.02.18 12:34:14 -08'00'

Lisa Limcaco, Director, Accounting and Controller of SMUD

February 19, 2021

Baker Tilly US, LLP
4807 Innovate Ln.
Madison, WI 53718

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audits of the financial statements of the Sacramento Cogeneration Authority, the Sacramento Municipal Utility District Financing Authority, the Sacramento Power Authority, the Central Valley Financing Authority, the Northern California Gas Authority No.1 , and the Northern California Energy Authority (SMUD JPA's) as of December 31, 2020 and 2019 and for the years then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the SMUD JPAs and the respective changes in financial position and cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

**Financial Statements**

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all financial information of the SMUD JPA's required by accounting principles generally accepted in the United States of America.

3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, if any, are reasonable.

6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7) All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

8) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

9) We believe the effects of the uncorrected financial statement misstatement summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole.

10) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

11) Guarantees, whether written or oral, under which the SMUD JPA's are contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

12) We have provided you with:

    a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.

    b) Additional information that you have requested from us for the purpose of the audit.

    c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d) Minutes of the meetings of the governing body(s) or summaries of actions of recent meetings for which minutes have not yet been prepared.

13) We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   a) Management,

   b) Employees who have significant roles in internal control, or

   c) Others where the fraud could have a material effect on the financial statements.

15) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

16) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

17) We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

**Other**

18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19) We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

21) The SMUD JPA's have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.

22) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

23) There are no:

   a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

   b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

c) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

d) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

24) SMUD JPA's have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

25) SMUD JPA's have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

26) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

27) SMUD JPA's have no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

28) Provisions for uncollectible receivables, if any, have been properly identified and recorded.

29) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

30) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

31) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

32) Tax-exempt bonds issued have retained their tax-exempt status.

33) The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB Statement No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.

34) We have appropriately disclosed the SMUD JPAs' policies regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.

35) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

36) We have provided the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB Statement No. 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

37) We have identified and accounted for asset retirement obligations in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations.*

Sincerely,

Sacramento Municipal Utility District

Signed: Paul Lau
Digitally signed by Paul Lau
DN: cn=Paul Lau, o=SMUD, ou, email=paul.lau@smud.org, c=US
Date: 2021.02.19 15:24:28 -08'00'
Paul Lau, Chief Executive Officer and General Manager of SMUD

Signed:
Digitally signed by Jennifer Davidson
DN: cn=Jennifer Davidson, o=SMUD, ou=CFO, email=jennifer.davidson@smud.org, c=US
Date: 2021.02.19 13:35:31 -08'00'
Jennifer Davidson, Chief Financial Officer of SMUD

Signed: Laura Lewis
Digitally signed by Laura Lewis
Date: 2021.02.19 15:13:04 -08'00'
Laura Lewis, Chief Legal Officer of SMUD

Signed: Russell Mills
Digitally signed by Russell Mills
Date: 2021.02.18 15:35:57 -08'00'
Russell Mills, Director, Treasury and Risk Management and Treasurer of SMUD

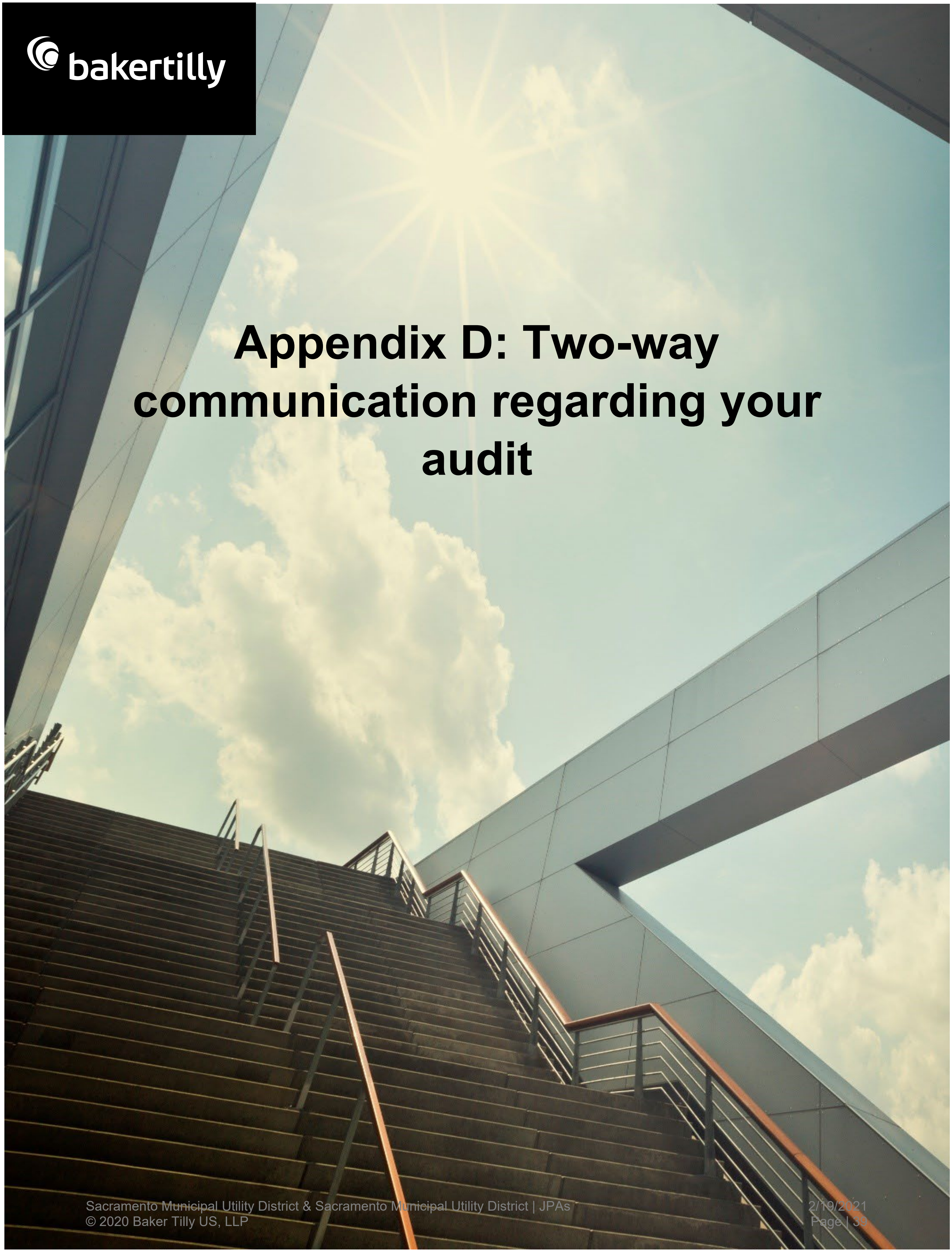
Signed: Lisa Limcaco
Digitally signed by Lisa Limcaco
DN: dc=org, dc=smud, dc=corporate, ou=Corporate, ou=User Accounts, cn=Lisa Limcaco
Date: 2021.02.18 14:33:04 -08'00'
Lisa Limcaco, Director, Accounting and Controller of SMUD

# Appendix C: Summary of uncorrected financial statement misstatements

**NORTHERN CALIFORNIA GAS AUTHORITY NO. 1**

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
December 31, 2020

| | 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Statements Effect - Increase (Decrease) to Financial Statement Total | | | | | | | | | |
| | Current Assets | Non-Current Assets | Total Assets | Current Liabilities | Non-Current Liabilities | Total Liabilities | Total Net Position | Total Revenues | Total Expenses | Net Income |
| Northern California Gas Authority No. 1 | $ (216,535) | $ - | $ (216,535) | $ - | $ - | $ - | $ (216,535) | $ (82,240) | $ - | $ (82,240) |
| Total Net Audit Differences | $ (216,535) | $ - | $ (216,535) | $ - | $ - | $ - | $ (216,535) | $ (82,240) | $ - | $ (82,240) |



bakertilly

# Appendix D: Two-way communication regarding your audit

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   - Identify types of potential misstatements.
   - Consider factors that affect the risks of material misstatement.
   - Design tests of controls, when applicable, and substantive procedures.

c. We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations and provisions of contracts or grant programs. For audits performed in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

d. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards.*

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the governing board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.

d. We anticipate that SMUD and SMUD – JPAs will receive an unmodified opinion on its financial statements

e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

f. Have you had any significant communications with regulators or grantor agencies?

g. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness and actions of the governing body concerning:

a. The entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of October-December, and sometimes early in January. Our final financial fieldwork is scheduled towards the end of January to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 3-6 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

Financial Statements

# Report of Independent Auditors

## December 31, 2020 and 2019

SMUD®

0091-21

# SACRAMENTO MUNICIPAL UTILITY DISTRICT
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## As of and for the Years Ended December 31, 2020 and 2019

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**
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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

**Report on the Financial Statements**

We have audited the accompanying financial statements 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'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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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'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'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 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 required supplemental information 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated February 19, 2021, on our consideration of Sacramento Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento Municipal Utility District's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

**Sacramento Municipal Utility District**
**Management's Discussion and Analysis - Unaudited**
**For the Years Ended December 31, 2020 and 2019**

## Using this Financial Report

This annual financial report for Sacramento Municipal Utility District (SMUD) consists of management's discussion and analysis and the financial statements, including notes to financial statements. The Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position and the Statements of Cash Flows.

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to accounting for contributions of utility property in aid of construction.

## Overview of the Financial Statements

The following discussion and analysis of the financial performance of SMUD 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 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 SMUD's revenues and expenses for the periods shown.

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

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The independently run community-owned utility began operations on December 31, 1946 and is not subject to regulation or oversight by the California Public Utilities Commission. It is now the sixth largest community-owned electric utility in the nation.

Governed by an elected board of directors (Board), SMUD has the rights and powers to fix rates and charges for commodities and services it furnishes, incur indebtedness, and issue bonds or other obligations. SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area with a population of approximately 1.5 million – most of Sacramento County and small adjoining portions of Placer and Yolo Counties. Its purpose is to enhance the quality of life for its customers and community through creative energy solutions. The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board.

In 2018, SMUD began rolling out the transition to Time-of-Day (TOD) rates to better align with the cost of providing electricity, send more accurate price signals to customers, and give customers the opportunity to better manage their electricity bills by shifting usage to lower-cost time periods. In 2020, after the first full year of TOD, SMUD showed a lower energy consumption and a 130 MW reduction in peak load, surpassing our environmental, peak load reduction and financial goals set for TOD. In June 2019, the Board approved a 3.75 percent rate increase effective January 2020, 3.0 percent rate increase effective October 1, 2020, a 2.50 percent rate increase effective January 1, 2021 and a 2.0 percent rate increase effective October 1, 2021, for all customer classes. Additionally, the Board approved a restructuring of the commercial rates and increases in the fixed bill components, such as the System Infrastructure Fixed Charge and demand charges along with a decrease in energy charges. Due to COVID-19, the Board delayed the implementation of the Commercial Rate Restructure for one year to be effective not later than May 31, 2022. Even with these increases, SMUD's rates continue to remain amongst the lowest in the state. In 2020, the average system rate was 35.0 percent below the average rate of the nearest investor-owned utility.

SMUD's vision is to be the trusted partner with its customers and the community, providing innovative solutions to ensure energy affordability and reliability, improve the environment, reduce the region's carbon footprint, and enhance the vitality of the community. SMUD's business strategy focuses on serving its customers in a progressive, forward looking manner, addressing current regulatory and legislative issues and potential competitive forces. This includes ensuring financial stability by establishing rates that provide acceptable cash coverage of all fixed charges, taking into consideration the impact of capital expenditures and other factors on cash flow.

**COVID-19 Global Pandemic**

In response to national, state, and local mandates, in mid-March SMUD ordered its non-essential employees to work remotely and reduced critical workforce onsite. SMUD continues to support its customers during the COVID-19 pandemic. SMUD provided its electric customers with suspension of disconnections and stopped collections, late fee, and security deposit processes for all customers to support them during this difficult time through April 2021. SMUD is working proactively with electric customers to create payment arrangements for those who need them. The effects of the pandemic have resulted in an increase in the number of past due customer accounts. As a result, SMUD increased its uncollectable reserve for account write-offs to $45.0 million as of December 31, 2020. Other financial and operational impacts to SMUD associated with COVID-19 are noted throughout this report.

**Financial & Operational Highlights**

In July 2020, the Board adopted a Climate Emergency Declaration to work toward an ambitious goal of delivering carbon neutral electricity by 2030 and indicating a strong commitment to finding additional opportunities to accelerate decarbonization in our energy supply. Building on the Board's Climate Emergency Declaration, our 2030 Clean Energy Vision calls for absolute zero carbon emission in our power supply by 2030. It's an aggressive and nation-leading goal and a dedicated team is now developing our 2030 Zero Carbon Plan, which will be presented to the Board in March 2021. To achieve zero carbon by 2030, we must address our reliability needs, and we see much promise in technologies such as long duration energy storage, flexible load, and renewable power-to-gas technologies.

Due to our strong credit rating and financial strength, SMUD was one of the first utilities able to issue debt after the debt markets froze due to COVID-19. This shows the importance of maintaining our strong credit rating of AA by two of the three major rating agencies and continuing to monitor our financial metrics by exceeding the Board's policy for a minimum fixed charge coverage ratio of 1.50 times of annual budgets. Our successful issuance of $400.0 million of new debt in May was used to reimburse SMUD for 2018 and 2019 capital projects and paid off all the outstanding commercial paper notes. This included the issuance of $25.2 million of Green Bonds, which reimbursed SMUD for capital expenditures tied to South Fork Powerhouse, Jones Powerhouse, and the Rancho Seco II Solar interconnection. This was SMUD's second green bond issuance. Paying off our commercial paper notes frees up additional capacity for future capital expenditures, provides reserves for any unforeseen circumstances and creates flexibility in choosing when to issue new debt. SMUD ended the year strong with more than 150 days cash on hand and over $168.0 million in the rate stabilization funds.

In 2020, SMUD was recognized by its residential and commercial customers as the top California utility by J.D. Power, receiving its highest scores ever. SMUD also received recognition for its efforts in innovations and environmental stewardship. SMUD developed and released the Sustainable Communities Resource Priorities Map to drive community support to under resourced neighborhoods. The map has logged over 3,500 unique hits since launch and has gained adoption by over 10 local jurisdictions. In addition, approximately 24.0 percent of contract dollars were awarded to small, local businesses.

SMUD has continued to grow its Greenergy® program and is now one of the largest of its kind in the nation. The program was redesigned in 2020 to now focus on carbon savings in addition to renewable energy to provide consistency and alignment with our 2040 Carbon Plan. In February 2020, the California Energy Commission approved SMUD to offer the Neighborhood SolarShares® program as an alternative to the 2019 solar mandate for new low-rise, residential homes.

In 2014, FERC issued a fifty-year license for the Upper American River Project (UARP) which consists of three relatively large storage reservoirs and eight powerhouses containing eleven turbines. The UARP is one of SMUD's lowest cost power sources. In addition to providing clean hydroelectric power and operational flexibility, it provides habitat for fish and wildlife and a variety of recreational opportunities, including camping, fishing, boating, hiking, horseback riding, mountain biking, and cross-country skiing. The combined capacity of the UARP is approximately 673 MW and represents about 15.0 percent of SMUD's average annual retail energy requirements. SMUD's other power generation facilities include a 3 MW of solar photovoltaic installations, 230 MW Solano Wind Project (Phase 1-3), and five local gas-fired power plants with total capacity of approximately 1,103 MW. In addition, SMUD has entered into several power purchase agreements to help meet its remaining power requirements.

As part of the hydro relicensing process, SMUD entered into long-term contracts to provide certain services to four different government agencies – U.S. Department of Interior Bureau of Land Management, U.S. Department of Agriculture Forest Service, El Dorado County, and the California Department of Parks and Recreation. At December 31, 2020, the liability for these contract payments was $64.8 million.

As of December 2020, SMUD's total reservoir storage in the UARP was about 51.0 percent of capacity, approximately 8.0 percent below the historical average for this date. SMUD manages its reservoirs to maximize water storage going into the summer season and thereby preserving generating capacity during SMUD's high load months. Although reservoir levels in the UARP are only slightly below historical averages, there remains the potential for wide swings in precipitation from year to year and dry conditions could return again in any year. In years with below average rainfall, SMUD may have to generate or purchase replacement energy at additional cost. A Hydro Rate Stabilization Fund (HRSF) was established to help absorb higher energy costs when hydroelectric production is down and to serve as a buffer against unexpected financial developments. In April 2020, $7.7 million was transferred from the HRSF due to below average precipitation. The balance in the HRSF at December 31, 2020 was $74.7 million.

SMUD also has a long-term agreement with the Western Area Power Administration (WAPA) to purchase power generated by the Central Valley Project, a series of federal hydroelectric facilities operated by the U.S. Bureau of Reclamation. SMUD uses a Rate Stabilization Fund (RSF) to offset any excess or deficits in WAPA energy deliveries. Due to excess deliveries by WAPA, $1.6 million was transferred to the RSF in 2020. SMUD also participates in carbon allowance auctions under California Assembly Bill 32 (AB-32), the Global Warming Solutions Act. Proceeds from these auctions are recognized with related expenses. When proceeds from these auctions exceed related expenses the difference is deferred into future years. SMUD participates in the Low Carbon Fuel Standards (LCFS) program under AB-32, which is designed to reduce greenhouse gas emissions associated with the lifecycle of transportation fuels used in California.

SMUD receives credit from this program which are then sold. Revenue from these sales are recognized with related expenses. When proceeds from these sales exceed related expenses the difference is deferred into future years. In 2020, amounts transferred from the RSF to revenue for related expenses for AB-32 and LCFS sales amounted to $4.1 million. In 2020, the Board authorized SMUD to transfer $35.0 million from revenue to the RSF to offset future one-time specific expenses which may have a significant financial impact on SMUD. This will provide reserves to cover large contingencies while limiting or leveling out the impact of cost increases to ratepayers. At December 31, 2020, the balance of the RSF was $94.0 million.

**Decommissioning**

SMUD has made significant progress toward completing the Decommissioning Plan for its Rancho Seco nuclear facility, which was shut down in 1989. The plan consists of two phases that allow SMUD to terminate its possession-only license. Phase I of the decommissioning was completed at the end of 2008. Phase II consists of a storage period for the Class B and Class C radioactive waste overseen by the existing facility staff, followed by shipment of the waste for disposal, and then complete termination of the possession-only license. SMUD also established and funded an external decommissioning trust fund as part of its assurance to the Nuclear Regulatory Commission (NRC) to pay for the cost of decommissioning. Shipment of the previously stored Class B and Class C radioactive waste was completed in November 2014 to a low-level radioactive waste facility located in Andrews, Texas. The remaining Phase II decommissioning activities required for termination of the possession-only license commenced in 2015. In September 2017, SMUD formally requested the termination of the possession-only license and termination of the possession-only license was completed in 2018.

As part of the Decommissioning Plan, the nuclear fuel and Greater Than Class C (GTCC) radioactive waste is being stored in a dry storage facility constructed by SMUD and licensed separately by the NRC. The U.S. Department of Energy (DOE), under the Nuclear Waste Policy Act of 1982, was responsible for permanent disposal of used nuclear fuel and GTCC radioactive waste and SMUD contracted with the DOE for removal and disposal of that waste. The DOE has yet to fulfill its contractual obligation to provide a permanent waste disposal site. SMUD has filed a series of successful lawsuits against the federal government for recovery of the past spent fuel costs, with recoveries to date in excess of $104.0 million. SMUD will continue to pursue cost recovery claims until the DOE fulfills its obligation.

The total Accrued Decommissioning balance in the Statements of Net Position, including Rancho Seco and other ARO's, amounted to $99.5 million as of December 31, 2020.

**Employee Relations and Benefits**

SMUD has a four-year memorandum of understanding (MOU) with both of its collective bargaining units, the International Brotherhood of Electrical Workers Local Union 1245, and the Organization of SMUD Employees that is effective through 2021. Both contracts contain a no-strike/no-lockout clause effective during the life of the agreements. In October 2019 SMUD began operating under an MOU for the Public Safety Officers' Association that is effective through 2021. This contract also contains a no-strike/no-lockout clause effective during the life of the agreement.

SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. SMUD reports the Net Pension Liability (NPL), which is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the pension plan's fiduciary net position, in its Statements of Net Position. At December 31, 2020, the NPL was $469.8 million. SMUD elected to follow accounting for regulated operations under GASB SGAS No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,"*** (GASB No. 62) and as of December 31, 2020, the balance of the regulatory asset for pension amounted to $374.6 million. Amortization of the regulatory asset began in 2018 over a period of 25 years. In 2020, as part of a ten-year funding strategy for the unfunded liability, SMUD made an additional $99.0 million in supplemental contributions to the plan as part of this strategy.

SMUD provides other postemployment benefits (OPEB) to all employees who retire from SMUD and their dependents, in accordance with SMUD policy and MOUs. These benefits are funded through the PERS California Employer's Retiree Benefit Trust, an agent multiple-employer plan. In 2018, SMUD implemented SGAS No. 75 ***"Accounting and Financial Reporting for Postemployment Benefits Other than Pensions"*** (GASB No. 75). The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. SMUD is required to report the Net OPEB Liability (NOL) or Net OPEB Asset (NOA), which is the difference between the actuarial present value of projected OPEB benefit payments attributable to employees' past service and the OPEB plan's fiduciary net position, in its Statements of Net Position. At December 31, 2020, the NOA was $1.0 million. SMUD elected to follow accounting for regulated operations under GASB No. 62 and recorded a regulatory asset and as of December 31, 2020, the balance of the regulatory asset for OPEB amounted to $306.6 million. Amortization of the regulatory asset began in 2020 over a period of 25 years.

**Developments in the Energy Market**

New developments in the energy market at both the federal and state level kept SMUD on high alert as it continued to monitor and address the potential impacts on the organization. Legislation at the federal level include policies on cyber security, regulations related to transmission access, the North American Electric Reliability Corporation reliability standards, anti-market manipulation rules, advance refunding or refinancing municipal bonds and GHG emissions. Legislation at the state level includes bills that provide for GHG standards and greater investment in energy efficiency, mandate rooftop solar, renewable portfolio standards, wildfire mitigation and ongoing regulatory proceedings related to Sacramento - San Joaquin River Bay - Delta processes.

**Significant Accounting Policies**

In accordance with GASB No. 62, the Board has taken regulatory actions for ratemaking that result in the deferral of expense and revenue recognition. These actions result in regulatory assets and liabilities. SMUD has regulatory assets that cover costs related to decommissioning, derivative financial instruments, debt issuance costs, pension costs, and OPEB costs. As of December 31, 2020, total regulatory assets were $742.6 million. SMUD also has regulatory credits that cover costs related to contributions in aid of construction, the RSF and HRSF, EAPR reserves, SB-1, grant revenues, and Transmission Agency of Northern California operations costs. As of December 31, 2020, total regulatory credits were $516.2 million.

**Requests for Information**

For more information about SMUD, visit our website at www.smud.org or contact us at customerservices@smud.org

**FINANCIAL POSITION**

CONDENSED STATEMENTS OF NET POSITION

| | 2020 | December 31, 2019 | 2018 (restated)* |
|---|---|---|---|
| | | (millions of dollars) | |
| Assets | | | |
| Electric Utility Plant - net | $ 3,747 | $ 3,626 | $ 3,517 |
| Restricted and Designated Assets | 187 | 173 | 120 |
| Current Assets | 1,239 | 933 | 960 |
| Noncurrent Assets | 1,516 | 1,606 | 1,620 |
| Total Assets | 6,689 | 6,338 | 6,217 |
| Deferred Outflows of Resources | 271 | 238 | 229 |
| Total Assets and Deferred Outflows of Resources | $ 6,960 | $ 6,576 | $ 6,446 |
| Liabilities | | | |
| Long-Term Debt - net | $ 3,259 | $ 2,944 | $ 2,639 |
| Current Liabilities | 437 | 491 | 766 |
| Noncurrent Liabilities | 694 | 731 | 730 |
| Total Liabilities | 4,390 | 4,166 | 4,135 |
| Deferred Inflows of Resources | 613 | 606 | 586 |
| Net Position | 1,957 | 1,804 | 1,725 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 6,960 | $ 6,576 | $ 6,446 |

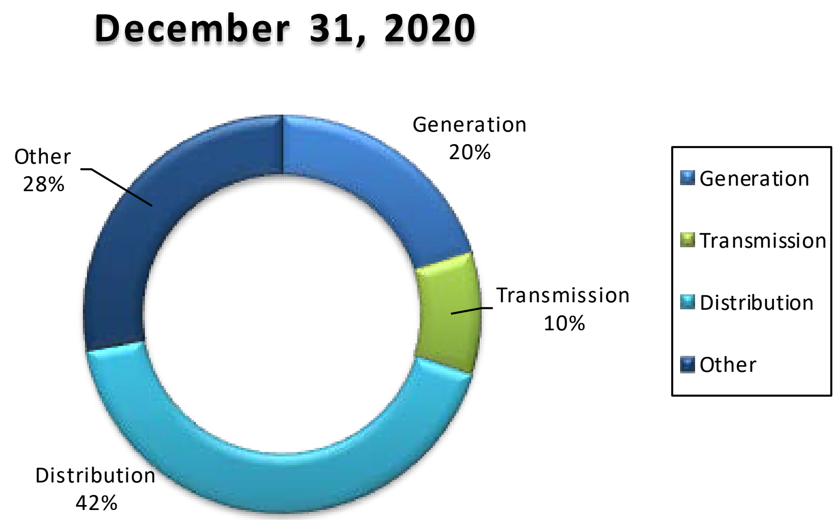
*See Note 3 of the financial statements for discussion on the restatement of the December 31, 2018 Statement of Net Position.

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**2020 Compared to 2019**

- As of December 31, 2020, SMUD has invested approximately $3,747.0 million in electric utility plant assets and construction work in progress (CWIP) net of accumulated depreciation. Electric Utility Plant - net makes up about 54 percent of SMUD's Total Assets and Deferred Outflows of Resources, which is similar to 2019. In 2020, SMUD capitalized approximately $201.0 million of additions to electric utility plant in the Statements of Net Position. The additions were primarily due to the completion of Slab Creek, distribution line work, purchases related to the replacement of bulk substations. These additions were offset by the retirement of distribution assets, fleet equipment and communication equipment.

The following charts show the breakdown of Electric Utility Plant - net by major plant category:




- SMUD's restricted and designated assets are comprised of debt service reserves, nuclear decommissioning trust funds, rate stabilization fund, and other third-party agreements or Board actions, less the current portion. These assets increased $14.1 million during 2020. The increase was due to transfers of $25.0 million to the RSF (including the HRSF), as a result of $35.0 million deferral of 2020 operating revenues for recognition in future years to offset one-time expenditures not identified in the annual budget, offset by HRSF transfer to revenue for below average precipitation, and funds used for low carbon and electric vehicle programs. In addition, there was a decrease of third-party agreements of $6.7 million and decrease of $4.3 million in revenue bond, debt service and construction reserves and the current portion.

- Total current assets increased $305.6 million in 2020. Unrestricted cash and cash equivalents and unrestricted investments increased $263.4 million primarily as a result of the issuance of $400.0 million of new debt, receivables from retail customers – net increased $23.5 million due to suspension of disconnections and collection activities amidst COVID-19 in March 2020, and inventory increased by $12.3 million.

- Total noncurrent assets decreased $89.7 million primarily due to decreases in unrestricted investments, regulatory costs for future recovery and prepaid gas.

- Total deferred outflows of resources increased by $32.7 million primarily due to an increase in deferred pension and OPEB outflows of $70.0 million offset by a decrease in accumulated decrease in fair value of hedging derivatives of 33.6 million.

**2019 compared to 2018**

- As of December 31, 2019, SMUD has invested approximately $3,625.9 million in electric utility plant assets and construction work in progress (CWIP) net of accumulated depreciation. Electric Utility Plant - net makes up about 55 percent of SMUD's Total Assets and Deferred Outflows of Resources, which is unchanged compared to 2018. In 2019, SMUD capitalized approximately $420.4 million of additions to electric utility plant in the Statements of Net Position. The additions were primarily due to the renovation of the Headquarters building, distribution line work, purchases related to the replacement of bulk substations, investments in software and hardware and major overhauls in the Joint

Power Authorities (JPAs). These additions were offset by the divestment of the Rosa gas reserves, retirement of distribution assets, fleet equipment and communication equipment.

- SMUD's restricted and designated assets increased $53.0 million during 2019. The increase was due to transfers of $47.0 million to the RSF (including the HRSF), as a result of above average precipitation, higher energy deliveries from WAPA and excess AB-32 auction and LCFS credit sales. In addition, there was an increase of third-party agreements of $16.4 million, offset by a decrease of $10.6 million in revenue bond, debt service and construction reserves and the current portion.

- Total current assets increased $55.9 million in 2019. Unrestricted cash and cash equivalents increased $44.3 million, regulatory costs to be recovered within one year increased by $12.8 million, unrestricted investments increased by 11.5 million, and prepayments and other increased by $7.7 million. These increases were offset by a decrease in prepaid gas of $22.2 million.

- Total noncurrent assets decreased $97.9 million primarily due to decreases in unrestricted investments, regulatory costs for future recovery and prepaid gas.

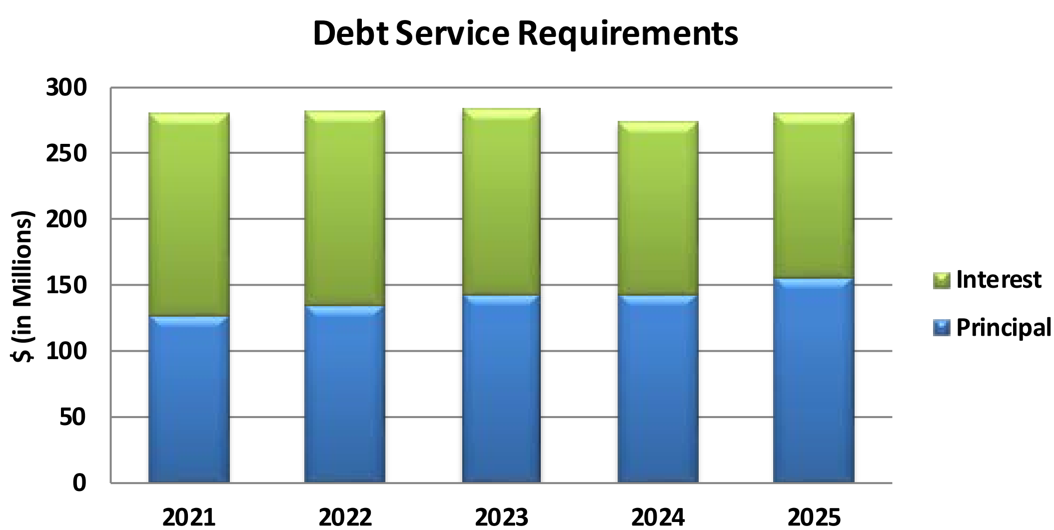
- Total deferred outflows of resources increased by $9.4 million due to an increase in deferred pension and OPEB outflows of $14.2 million offset by a decrease in unamortized bond losses of $4.2 million.

**<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>**

**2020 compared to 2019**

- In May 2020, SMUD issued $400.0 million of 2020 Series H Revenue Bonds. Proceeds from the 2020 Series H Bonds were used to pay off all the outstanding commercial paper notes and reimburse SMUD for 2018 and 2019 capital projects. The 2020 Series H Bonds have a fixed coupon rate of 4.0 percent to 5.0 percent and amortize from 2029 to 2050.

  The following table shows SMUD's future debt service requirements through 2025 as of December 31, 2020:



As of December 31, 2020, SMUD's bonds had an underlying rating of "AA" from Standard & Poor's, "AA" from Fitch, and "Aa3" from Moody's. Some of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

- Total current liabilities decreased $54.7 million during 2020. The decrease was primarily due to pay off of commercial paper notes of $50.0 million and decrease in hedging derivative instruments maturing within one year of $19.1 million. This decrease was offset by an increase in purchased power payable, interest payable and long-term debt due within one year of $18.5 million.

- Total noncurrent liabilities decreased $36.8 million during 2020. The decrease was mainly due to a $32.2 million decrease in the net OPEB liability and hedging derivative investments of $14.5 million, offset by an increase in net pension liability and accrued decommissioning of $8.8 million.

- Total deferred inflows of resources increased $6.6 million. The increase was primarily due to regulatory credits increased by $26.7 million and OPEB inflows increased by $16.0 million, offset by a decrease in deferred pension inflows of $31.8 million.

**2019 compared to 2018**

- In July 2019, SMUD issued $191.9 million of 2019 Series G Revenue Bonds, $100.0 million of 2019 Series A Subordinate Revenue Bonds, and $100.0 million of 2019 Series B Subordinate Revenue Bonds. The 2019 Series G Bonds have a fixed coupon rate of 2.375 percent to 5.0 percent and amortize from 2029 to 2041. The 2019 Series A has a fixed interest coupon rate of 5.0 percent, amortized from 2041 to 2049, with a mandatory remarketing purchase in April 2023. The 2019 Series B has a fixed coupon interest rate of 5.0 percent, amortized from 2041 to 2049, with a mandatory remarketing purchase in April 2025. Proceeds from 2019 Series G Bonds, the 2019 Series A Bonds and the 2019 Series B Bonds were used to refund outstanding commercial paper.

  In September 2019, CVFA defeased $5.4 million of 2009 Series Bonds maturing in July 2020, along with the accrued interest using CVFA's available funds. The corresponding amount was placed in an irrevocable trust which has a balance of $5.6 million at December 31, 2019. In addition, SCA defeased $12.9 million of 2009 Series Bonds maturing July 2020 and July 2021, along with the accrued interest using SCA's available funds and $7.9 million from SMUD. The corresponding amount was placed in an irrevocable trust which has a balance of $13.7 million as of December 31, 2019. The defeasances resulted in a current accounting loss of $0.8 million which is included in Interest on Debt in the Statements of Revenues, Expenses, and Changes in Net Position.

- Total current liabilities decreased $274.4 million during 2019. The decrease was mainly due to decreases in commercial paper, accounts payables, and long-term debt due within one year of $308.3 million, offset by increases in interest payable, and hedging derivative instruments maturing within one year of $26.3 million.

- Total noncurrent liabilities increased $1.0 million during 2020. The increase was mainly due to a $13.6 million increase in the net pension liability and a $10.1 million increase in the net OPEB liability, offset by a decrease in investment and hedging derivative investments of $19.4 million and a decrease in accrued decommissioning of $4.5 million.

- Total deferred inflows of resources increased $19.6 million. Regulatory credits increased by $46.8 million. This increase was offset by a decrease in deferred pension inflows of $16.8 million and OPEB inflows of $12.2 million.

## RESULTS OF OPERATIONS

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 (restated)* |
| | | (millions of dollars) | |
| Operating revenues | $ 1,588 | $ 1,559 | $ 1,595 |
| Operating expenses | (1,389) | (1,363) | (1,353) |
| Operating income | 199 | 196 | 242 |
| Other revenues/(expenses) | 63 | (19) | 57 |
| Interest charges | (109) | (98) | (90) |
| Change in net position | 153 | 79 | 209 |
| Net position - beginning of year | 1,804 | 1,725 | 1,516 |
| Net position - end of year | $ 1,957 | $ 1,804 | $ 1,725 |

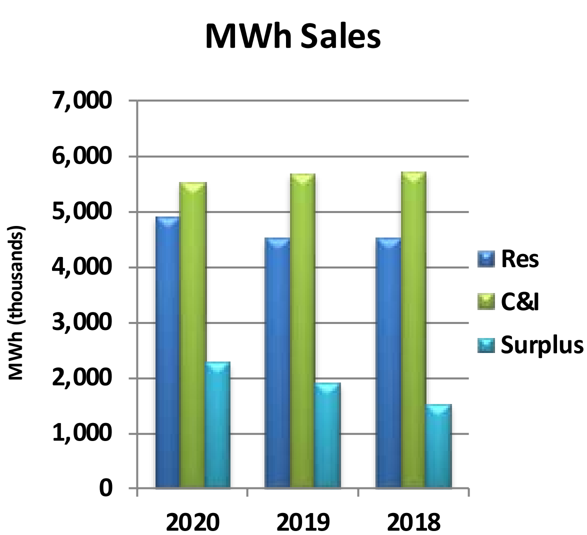
*See Note 3 of the financial statements for discussion on the restatement of the December 31, 2018 Statement of Revenue, Expenses and Changes in Net Position.

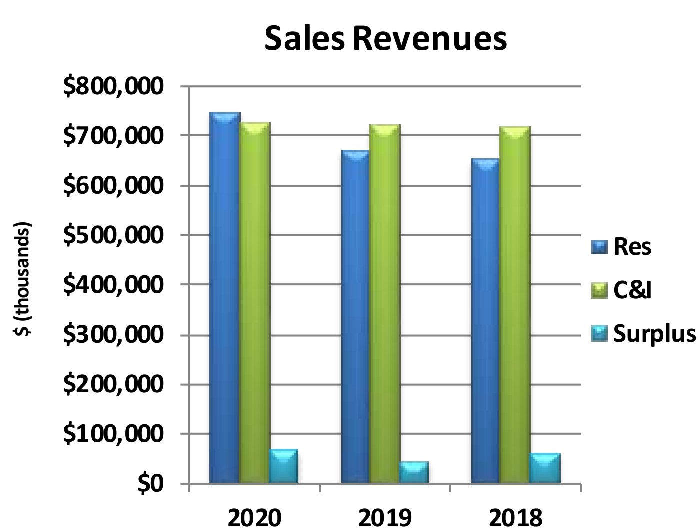
**2020 compared to 2019**

## OPERATING REVENUES

Total operating revenues were $1,588 million for 2020, an increase of $28.7 million or 1.8 percent over 2019 operating revenues. In 2020, the impacts of COVID-19 led to residential MWh sales increase of 9.2 percent and sales revenues increase of 11.9 percent compared to 2019, primarily due to increased remote work from home and the unseasonably hot summer. The commercial & industrial MWh sales decreased 2.9 percent and sales revenues increased 0.6 percent compared to 2019, primarily due to the California mandated shut down and limited re-openings of commercial businesses for majority of year.

The following charts show the megawatt hour (MWh) sales, and sales revenue for the past three years by surplus energy sales (Surplus), commercial, industrial, and other (C&I) and residential (Res) customers:



The net rate stabilization transfers (including the HRSF) increased by $21.9 million. In 2020, SMUD transferred $48.2 million to the RSF primarily due to a $35.0 million deferral of 2020 operating revenues for recognition in future years to offset one-time expenditures not identified in the annual budget and $9.8 million LCFS sales. SMUD also transferred $15.4 million from the RSF to be used for low carbon and electric vehicle programs and $7.7 million from the HRSF as a result of a below average precipitation.

Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2020, energy sales were higher by $22.3 million as compared to 2019 due to higher energy prices and energy sales. Surplus gas sales were lower than 2019 by $32.7 million due to lower gas prices and volume of gas sold.

**OPERATING EXPENSES**

Total operating expenses were $1,389 million for 2020, an increase of $25.6 million or 1.9 percent over 2019.

- Purchased power increased by $44.5 million or 14.6 percent due to higher energy purchases offset by lower prices.

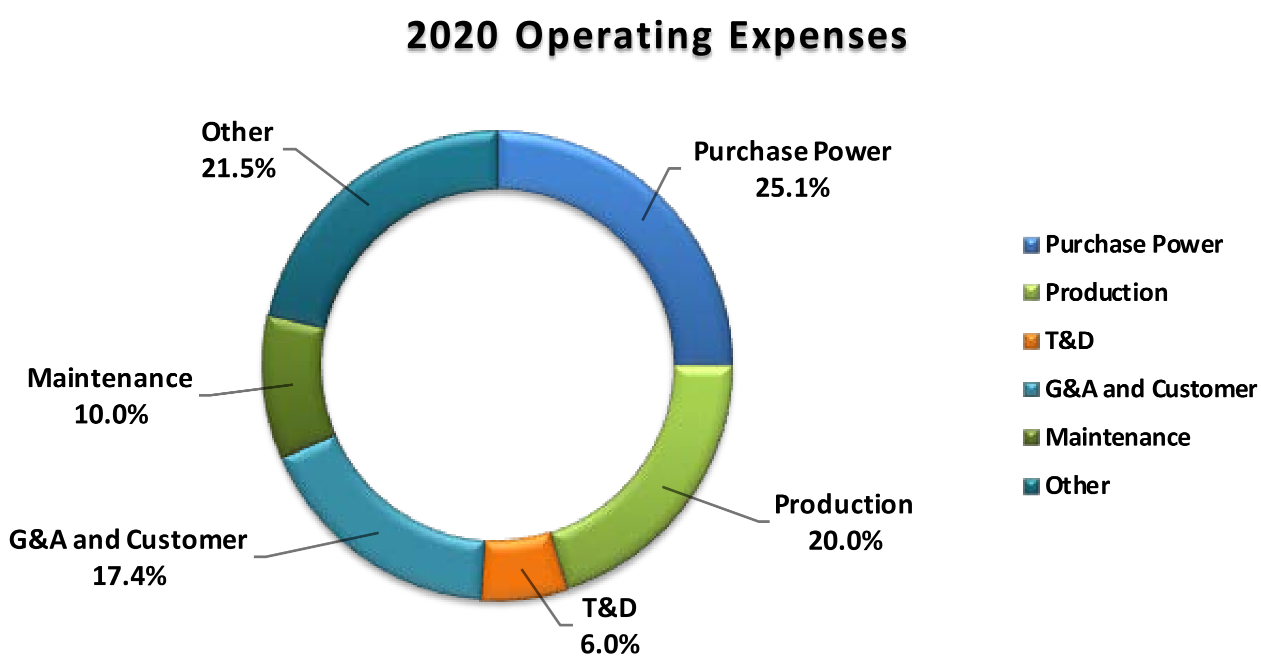
- Production expense decreased by $18.4 million or 6.2 percent due to reduction of hydro generation and fuel costs.

- General, administrative and customer decreased by $15.9 million or 6.2 percent due to reduction in administrative and labor costs related to employees working remotely and reduction in customer programs during COVID.

- Maintenance expense increased by $3.3 million or 2.4 percent primarily due to $19.3 million increase in outside service costs related to wild-fire tree trimming offset by $10.3 million decrease in thermal plant maintenance compared to 2019.

- Other expenses increased by $15.0 million or 5.3 percent primarily due to increase of depreciation expense of $17.0 million as a result of $402.4 million of additions to electric utility plant in 2019.

The following chart show the breakdown of operating expenses for 2020:



**OTHER REVENUES**

Total other revenues (net) were $63.0 million for 2020, an increase of $82.7 million over 2019. In 2020, SMUD received $10.9 million related to an early termination of a gas prepay contract and $5.5 million insurance proceeds on the 2017 winter storm claim. The remaining increase is primarily due to a $52.1 million loss on the divestment of SMUD's interest in the Rosa gas properties in 2019.

**2019 compared to 2018**

**RESULTS OF OPERATIONS**

- Total operating revenues decreased $36.2 million in 2019. Rate stabilization transfers decreased by $50.2 million. In 2019, SMUD transferred $28.6 million to the RSF as a result of higher energy deliveries from WAPA and excess proceeds from AB-32 auctions and LCFS sales. SMUD also transferred $18.4 million to the HRSF as a result of above average precipitation.

- In 2019, energy sales were lower by $15.1 million as compared to 2018 due to lower energy prices offset by higher energy sales. Surplus gas sales were higher than 2018 by $8.2 million due to higher gas prices and an increase in the volume of gas sold.

- Residential, commercial, and industrial revenues increased by $26.2 million compared to 2018 due to the rate increase that took place in 2019.

- Total operating expenses increased $10.0 million compared to 2018. Administrative, general and customer and maintenance expenses increased by $32.6 million. These expenses were offset by decreases of purchased power, production and transmission and distribution expenses of $24.1 million mainly due to lower fuel costs.

- Total other revenues were $77.0 million lower in 2019. The decrease in other revenue as compared to 2018 is due to the divestment of SMUD's interest in the Rosa gas properties resulting in a loss of $52.1 million. Additionally, in 2018 other revenue included a gain of $46.7 million from the repurchase of the Solano Wind Phase 3 plant. These decreases in other revenue were offset by lower arbitration payments of $17.0 million.

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## SACRAMENTO MUNICIPAL UTILITY DISTRICT
## STATEMENTS OF NET POSITION

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| **ASSETS** | | |
| **ELECTRIC UTILITY PLANT** | | |
| Plant in service | $ 6,425,366 | $ 6,227,374 |
| Less accumulated depreciation and depletion | (3,139,526) | (2,955,316) |
| Plant in service - net | 3,285,840 | 3,272,058 |
| Construction work in progress | 461,319 | 353,802 |
| Total electric utility plant - net | 3,747,159 | 3,625,860 |
| **RESTRICTED AND DESIGNATED ASSETS** | | |
| Revenue bond and debt service reserves | 121,845 | 116,527 |
| Nuclear decommissioning trust fund | 8,873 | 8,798 |
| Rate stabilization fund | 168,726 | 143,669 |
| Other funds | 23,246 | 29,953 |
| Less current portion | (135,550) | (125,870) |
| Total restricted and designated assets | 187,140 | 173,077 |
| **CURRENT ASSETS** | | |
| Unrestricted cash and cash equivalents | 680,618 | 255,578 |
| Unrestricted investments | 33,798 | 195,435 |
| Restricted and designated cash and cash equivalents | 44,014 | 41,717 |
| Restricted and designated investments | 91,536 | 84,153 |
| Receivables - net: | | |
| Retail customers | 175,777 | 152,264 |
| Wholesale and other | 38,863 | 44,271 |
| Regulatory costs to be recovered within one year | 38,162 | 37,622 |
| Investment derivative instruments maturing within one year | -0- | 488 |
| Hedging derivative instruments maturing within one year | 4,913 | 8,732 |
| Inventories | 84,037 | 71,719 |
| Prepaid gas to be delivered within one year | 23,261 | 20,866 |
| Prepayments and other | 23,915 | 20,453 |
| Total current assets | 1,238,894 | 933,298 |
| **NONCURRENT ASSETS** | | |
| Unrestricted investments | -0- | 43,962 |
| Regulatory costs for future recovery | 742,588 | 766,808 |
| Prepaid gas | 692,511 | 715,772 |
| Prepaid power and capacity | 588 | 795 |
| Investment derivative instruments | 33 | -0- |
| Hedging derivative instruments | 8,606 | 7,986 |
| Energy efficiency loans - net | 18,503 | 23,262 |
| Credit support collateral deposits | 5,650 | 4,400 |
| Due from affiliated entity | 28,370 | 28,858 |
| Prepayments and other | 19,038 | 13,703 |
| Total noncurrent assets | 1,515,887 | 1,605,546 |
| TOTAL ASSETS | 6,689,080 | 6,337,781 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Accumulated decrease in fair value of hedging derivative instruments | 51,580 | 85,194 |
| Deferred pension outflows | 176,340 | 105,868 |
| Deferred other postemployment benefits outflows | 26,136 | 26,658 |
| Deferred asset retirement obligations outflows | 1,734 | 1,956 |
| Unamortized bond losses | 15,216 | 18,802 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 271,006 | 238,478 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 6,960,086 | $ 6,576,259 |

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

## SACRAMENTO MUNICIPAL UTILITY DISTRICT
## STATEMENTS OF NET POSITION

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| **LIABILITIES** | | |
| **LONG-TERM DEBT - net** | $ 3,259,312 | $ 2,943,795 |
| **CURRENT LIABILITIES** | | |
| Commercial paper notes | -0- | 50,000 |
| Accounts payable | 101,396 | 103,829 |
| Purchased power payable | 33,335 | 26,997 |
| Credit support collateral obligation | 4,413 | 3,235 |
| Long-term debt due within one year | 127,390 | 118,305 |
| Accrued decommissioning | 6,751 | 5,649 |
| Interest payable | 52,940 | 49,832 |
| Accrued salaries and compensated absences | 44,703 | 45,403 |
| Investment derivative instruments maturing within one year | 1,401 | 2,235 |
| Hedging derivative instruments maturing within one year | 22,284 | 41,374 |
| Customer deposits and other | 41,887 | 44,379 |
| Total current liabilities | 436,500 | 491,238 |
| **NONCURRENT LIABILITIES** | | |
| Net pension liability | 469,820 | 467,647 |
| Net other postemployment benefits liability | -0- | 32,211 |
| Accrued decommissioning | 92,723 | 86,054 |
| Investment derivative instruments | 7,903 | 8,769 |
| Hedging derivative instruments | 29,296 | 43,820 |
| Self insurance and other | 94,238 | 92,304 |
| Total noncurrent liabilities | 693,980 | 730,805 |
| TOTAL LIABILITIES | 4,389,792 | 4,165,838 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Accumulated increase in fair value of hedging derivative instruments | 13,519 | 16,718 |
| Regulatory credits | 516,209 | 489,486 |
| Deferred pension inflows | 14,212 | 45,996 |
| Deferred other postemployment benefits inflows | 58,854 | 42,859 |
| Unamortized bond gains | 6,504 | 7,516 |
| Unearned revenue | 3,484 | 3,569 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 612,782 | 606,144 |
| **NET POSITION** | | |
| Net investment in capital assets | 1,112,982 | 1,284,694 |
| Restricted: | | |
| Revenue bond and debt service | 63,351 | 60,744 |
| Other funds | 18,833 | 26,828 |
| Unrestricted | 762,346 | 432,011 |
| TOTAL NET POSITION | 1,957,512 | 1,804,277 |
| **COMMITMENTS, CLAIMS AND CONTINGENCIES (Notes 17 and 18)** | | |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | $ 6,960,086 | $ 6,576,259 |

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

| | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| **OPERATING REVENUES** | | |
| Residential | $ 710,912 | $ 666,477 |
| Commercial and industrial | 712,495 | 714,001 |
| Street lighting and other | 38,493 | 43,321 |
| Wholesale | 135,522 | 145,915 |
| Senate Bill - 1 revenue deferral | 2,276 | 2,765 |
| AB-32 revenue | -0- | 26,936 |
| LCFS revenue | 9,762 | 3,825 |
| Public good deferral | 3,501 | 2,959 |
| Rate stabilization fund transfers | (25,056) | (46,975) |
| Total operating revenues | 1,587,905 | 1,559,224 |
| **OPERATING EXPENSES** | | |
| Operations: | | |
| Purchased power | 348,040 | 303,566 |
| Production | 278,236 | 296,612 |
| Transmission and distribution | 83,236 | 86,230 |
| Administrative, general and customer | 241,581 | 257,464 |
| Public good | 57,198 | 63,572 |
| Maintenance | 138,734 | 135,420 |
| Depreciation | 206,452 | 189,469 |
| Depletion | -0- | 4,103 |
| Regulatory amounts collected in rates | 34,915 | 26,389 |
| Total operating expenses | 1,388,392 | 1,362,825 |
| **OPERATING INCOME** | 199,513 | 196,399 |
| **NON-OPERATING REVENUES AND EXPENSES** | | |
| Other revenues and (expenses): | | |
| Interest income | 14,291 | 16,639 |
| Investment expense | (3,455) | (3,700) |
| Other income (expense) - net | 52,186 | (32,573) |
| Total other revenues and (expenses) | 63,022 | (19,634) |
| Interest charges: | | |
| Interest on debt | 109,300 | 104,960 |
| Allowance for funds used during construction | -0- | (7,110) |
| Total interest charges | 109,300 | 97,850 |
| Total non-operating revenues and (expenses) | (46,278) | (117,484) |
| **CHANGE IN NET POSITION** | 153,235 | 78,915 |
| NET POSITION - BEGINNING OF YEAR | 1,804,277 | 1,725,362 |
| NET POSITION - END OF YEAR | $ 1,957,512 | $ 1,804,277 |

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**
**STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, 2020 | 2019 |
|---|---|---|
| | (thousands of dollars) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 1,426,267 | $ 1,423,897 |
| Receipts from surplus power and gas sales | 134,080 | 153,216 |
| Other receipts | 23,660 | 32,305 |
| Payments to employees - payroll and other | (406,810) | (366,815) |
| Payments for wholesale power and gas purchases | (491,480) | (476,205) |
| Payments to vendors/others | (315,982) | (350,465) |
| Net cash provided by operating activities | 369,735 | 415,933 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Repayment of debt | (16,675) | (34,560) |
| Receipts from federal and state grants | 10,214 | 10,333 |
| Proceeds from insurance settlements | 5,500 | -0- |
| Interest on debt | (30,122) | (21,223) |
| Net cash used in noncapital financing activities | (31,083) | (45,450) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Construction expenditures | (357,897) | (330,412) |
| Proceeds from land sales | 479 | 878 |
| Payments for gas fields divestment | (232) | (8,521) |
| Contributions in aid of construction | 19,551 | 15,959 |
| Net proceeds from bond issues | 483,456 | 475,623 |
| Repayments and refundings of debt | (101,630) | (128,685) |
| Issuance of commercial paper | -0- | 161,250 |
| Repayments of commercial paper | (50,000) | (400,000) |
| Interest on debt | (113,864) | (99,822) |
| Net cash used in capital and related financing activities | (120,137) | (313,730) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sales and maturities of securities | 386,898 | 686,547 |
| Purchases of securities | (197,811) | (703,118) |
| Proceeds from termination of prepaid gas contracts | 10,915 | -0- |
| Interest and dividends received | 15,406 | 16,105 |
| Investment revenue/expenses - net | (3,420) | (3,682) |
| Net cash provided by (used in) investing activities | 211,988 | (4,148) |
| Net increase in cash and cash equivalents | 430,503 | 52,605 |
| Cash and cash equivalents at the beginning of the year | 308,108 | 255,503 |
| Cash and cash equivalents at the end of the year | $ 738,611 | $ 308,108 |
| Cash and cash equivalents included in: | | |
| Unrestricted cash and cash equivalents | $ 680,618 | $ 255,578 |
| Restricted and designated cash and cash equivalents | 44,014 | 41,717 |
| Restricted and designated assets (a component of the total of $187,140 and $173,077 at December 31, 2020 and 2019, respectively) | 13,979 | 10,813 |
| Cash and cash equivalents at the end of the year | $ 738,611 | $ 308,108 |

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT**
**SUPPLEMENTAL CASH FLOW INFORMATION**

A reconciliation of the statements of cash flows operating activities to operating income as follows:

| | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| Operating income | $ 199,513 | $ 196,399 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 206,452 | 189,469 |
| Depletion | -0- | 4,103 |
| Regulatory amortization | 34,915 | 26,389 |
| Other Amortizations | 24,307 | 31,110 |
| Revenue deferred to (recognized from) regulatory credits - net | 19,279 | 41,251 |
| Other (receipts) payments - net | (3,549) | (6,729) |
| Changes in operating assets, deferred outflows, liabilities and deferred inflows: | | |
| Receivables - retail customers, wholesale and other | (16,631) | 14,211 |
| Inventories, prepayments and other | (14,190) | (7,852) |
| Credit support collateral deposits | (1,250) | 1,500 |
| Deferred pension outflows | (70,472) | (2,837) |
| Deferred other postemployment benefits outflows | 522 | (11,328) |
| Payables and accruals | 40,322 | (51,429) |
| Credit support collateral obligation | 1,178 | 747 |
| Decommissioning | (4,814) | (5,179) |
| Net pension liability | 2,173 | 13,603 |
| Net other postemployment benefits liability | (32,211) | 10,145 |
| Deferred pension inflows | (31,784) | (16,770) |
| Deferred other postemployment benefits inflows | 15,995 | (12,165) |
| Deferred unearned revenue | (20) | 1,295 |
| Net cash provided by operating activities | $ 369,735 | $ 415,933 |

The supplemental disclosure of noncash financing and investing activities is as follows:

| | Year Ended December 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| Amortization of debt related (expenses) and premiums - net | $ 37,939 | $ 30,797 |
| (Loss) Gain on debt extinguishment and refundings | -0- | (731) |
| Unrealized holding gain (loss) | 1,768 | 4,165 |
| Change in valuation of derivative financial instruments | 31,661 | 8,824 |
| Amortization of revenue for assets contributed in aid of construction | 14,250 | 16,904 |
| Allowance for funds used during construction | -0- | 7,110 |
| Construction expenditures included in accounts payable | 39,196 | 81,902 |
| Losses on sale and asset retirements | (287) | (845) |
| Loss on gas fields divestment | -0- | (43,609) |
| Write-off capital projects and preliminary surveys | (1,329) | (13,614) |

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

# Sacramento Municipal Utility District
# Notes to Financial Statements
# As of and for the Years Ended December 31, 2020 and 2019

## NOTE 1. ORGANIZATION

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations. As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD is exempt from payment of federal and state income taxes and, under most circumstances, real and personal property taxes. SMUD is not exempt from real and personal property taxes on assets it holds outside of its service territory. In addition, SMUD is responsible for the payment of a portion of the property taxes associated with its real property in California that lies outside of its service area.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Method of Accounting.** SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to the accounting for contributions of utility property in aid of construction. SMUD's 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 the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity 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, and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**The Financial Reporting Entity.** These Financial Statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

**Component Units.** The component units include the Central Valley Financing Authority (CVFA), the Sacramento Cogeneration Authority (SCA), the Sacramento Municipal Utility District Financing Authority (SFA), the Sacramento Power Authority (SPA), the Northern California Gas Authority No. 1 (NCGA), and the Northern California Energy Authority (NCEA). The primary purpose of CVFA, SCA, SFA and SPA is to own and operate electric utility plants that supply power to SMUD. The primary purpose of NCGA is to prepay for natural gas to sell to SMUD. The primary purpose of NCEA is to prepay for commodities in the form of natural gas and electricity to sell to SMUD. SMUD's Board comprises the Commissions that govern these entities (see Note 6).

**Plant in Service.** Capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years. The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD 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. The costs of removal and the related salvage value, if any, are charged or credited as appropriate to Accumulated Depreciation. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The average annual composite depreciation rates for 2020 and 2019 were 3.3 percent and 3.1 percent, respectively. Depreciation is calculated using the following estimated lives:

| | |
|---|---|
| Generation | 8 to 80 years |
| Transmission and Distribution | 7 to 50 years |
| Gas Pipeline | 10 to 90 years |
| General | 5 to 90 years |

**Investment in Joint Powers Authority (JPA).** SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting and is reported as a component of Plant in Service. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Statements of Revenues, Expenses and Changes in Net Position (see Note 5).

SMUD's investment in the Balancing Authority of Northern California (BANC) is accounted for under the equity method of accounting. SMUD's share of the BANC operations and maintenance expense is included in Transmission and Distribution expense in the Statements of Revenues, Expenses and Changes in Net Position (see Note 5).

**Investment in Gas Properties.** In 2019, SMUD sold its approximate 21 percent non-operating ownership interest in the Rosa Unit gas properties in New Mexico, of which SMUD's portion of the extracted gas was transported to use in its component unit natural gas fired power plants. The loss on sale was $52.1 million and included as Other income (expense) – net in the Statements of Revenues, Expenses and Changes in Net Position.

**Restricted and Designated Assets.** Cash, cash equivalents, and investments, which are restricted by regulation or under terms of certain agreements for payments to third parties are included as restricted assets. Restricted assets include Revenue bond and debt service reserves, Nuclear decommissioning trust fund, and $22.6 million and $29.3 million of Other funds as of December 31, 2020 and 2019, respectively. Board actions limiting the use of such funds are included as designated assets. Designated assets include the Rate stabilization fund and $0.6 million of Other funds as of December 31, 2020 and 2019. When SMUD restricts or designates funds for a specific purpose, and restricted and designated and unrestricted resources are available for use, it is SMUD's policy to use restricted and designated resources first, then unrestricted resources as they are needed.

**Restricted Bond Funds.** SMUD's Indenture Agreements (Indenture) requires the maintenance of minimum levels of reserves for debt service on the 1997 Series K Bonds.

**Nuclear Decommissioning Trust Fund.** SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) through 2008 to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund.

**Asset Retirement Obligations (ARO).** SMUD implemented Statement of Governmental Accounting Standards (SGAS) No. 83, ***"Certain Asset Retirement Obligations"*** in 2019. SMUD records asset retirement obligations (ARO) for tangible capital assets when an obligation to decommission facilities is legally required. SMUD recognizes AROs for its Rancho Seco nuclear power plant and for the CVFA power plant facility (see Note 13). The Rancho Seco ARO is recorded as Accrued Decommissioning and the unfunded portion of the ARO is recorded as current and noncurrent Regulatory Costs for Future Recovery (see Note 8) in the Statements of Net Position. Other AROs are recorded as Accrued Decommissioning and a corresponding Deferred Asset Retirement Obligation Outflows in the Statements of Net Position.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. GASB No. 83 requires the measurement of the ARO to be based on the probability weighting of potential outcomes. Due to the low probability that these leases will be terminated, a liability has not been recorded.

**Cash and Cash Equivalents.** Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, deposits held at financial institutions, 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.

**Investments.** SMUD's investments are reported at fair value in accordance with SGAS No. 72, ***"Fair Value Measurement and Application"*** (see Note 12). Realized and unrealized gains and losses are included in Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position. Premiums and discounts on zero coupon bonds are amortized using the effective interest method. Premiums and discounts on other securities are amortized using the straight-line method, which approximates the effective interest method.

**Electric Operating Revenues.** Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2020 and 2019, unbilled revenues were $68.8 and $69.4 million, respectively.

**Purchased Power Expenses.** A portion of SMUD's power needs are provided through power purchase agreements (PPA). Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense in the Statements of Revenues, Expenses and Changes in Net Position in the period the power is received. The costs or credits, associated with energy swap agreements (gas and electric) or other arrangements that affect the net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

**Advanced Capacity Payments.** Some long-term agreements to purchase energy or capacity from other providers call for up-front payments. Such costs are generally recorded as an asset and amortized over the length of the contract in Operations - Production expense on the Statements of Revenues, Expenses and Changes in Net Position.

**Credit and Market Risk.** SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty risk policy which includes using the credit agency ratings of SMUD's counterparties and other credit services, credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and power purchase agreements. SMUD uses a combination of cash and securities to satisfy its collateral requirements to counterparties.

SMUD's component units, NCGA and NCEA, entered into guaranteed investment contracts and are exposed to credit risk related to nonperformance by its investment provider. For NCGA, the investment provider provides collateral if their credit ratings fall below agreed upon levels. SMUD holds deposits by counterparties and an investment provider and records the amounts as Credit Support Collateral Obligation in the Statements of Net Position.

Collateral deposits that SMUD has with counterparties are recorded as Credit Support Collateral Deposits in the Statements of Net Position.

**Accounts Receivable and Allowance for Doubtful Accounts.** Accounts Receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, energy efficiency loans, and other non-electric billings, based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. Due to COVID-19, SMUD suspended disconnections for non-payment beginning in March 2020 through April 2021. At December 31, 2020, SMUD estimated its uncollectible retail customer accounts at $45.0 million based on non-payment behaviors by aging category. SMUD records bad debts for its estimated uncollectible accounts related to electric service as a reduction to the related operating revenues in the Statements of Revenues, Expenses and Changes in Net Position. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans and other non-electric billings in Administrative, General and Customer expense in the Statements of Revenues, Expenses and Changes in Net Position.

The summarized activity of the changes in the allowance for doubtful accounts during 2020 and 2019 is presented below:

| | Balance at beginning of Year | Additions | (Write-offs) and Recoveries | Balance at end of Year |
|---|---|---|---|---|
| | | (thousands of dollars) | | |
| Other Non-Electric: | | | | |
| December 31, 2020 | $ 2,790 | $ 802 | $ 37 | $ 3,629 |
| December 31, 2019 | $ 1,509 | $ 2,188 | $ (907) | $ 2,790 |
| Retail Customers: | | | | |
| December 31, 2020 | $ 3,044 | $ 43,966 | $ (2,010) | $ 45,000 |
| December 31, 2019 | $ 6,005 | $ 3,137 | $ (6,098) | $ 3,044 |
| Energy Efficiency Loans: | | | | |
| December 31, 2020 | $ 680 | $ (194) | $ 183 | $ 669 |
| December 31, 2019 | $ 637 | $ (483) | $ 526 | $ 680 |

**Regulatory Deferrals.** The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with SGAS Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants Pronouncements,"*** which requires that the effects of the ratemaking process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from or refunded to customers. SMUD records various regulatory assets and credits to reflect ratemaking actions of the Board (see Note 8).

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

**Compensated Absences.** SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. SMUD does not record sick leave as a liability until it is taken by the employee, since there are no cash payments made for sick leave when employees terminate or retire. Compensated absences are recorded as Accrued Salaries and Compensated Absences in the Statements of Net Position. At December 31, 2020 and 2019, the total estimated liability for vacation and other compensated absences was $37.7 million and $31.3 million, respectively.

**Public Good.** Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies, and research and development.

**Gains/Losses on Bond Refundings.** Gains and losses resulting from bond refundings are included as a component of Deferred Inflows of Resources or Deferred Outflows of Resources in the Statements of Net Position and amortized as a component of Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position over the shorter of the life of the refunded debt or the new debt using the effective interest method.

**Gains/Losses on Bond Defeasances or Extinguishments.** Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position.

**Allowance for Funds Used During Construction (AFUDC).** SMUD capitalizes, as an additional cost of Construction Work In Progress (CWIP), AFUDC, which represents the cost of borrowed funds used for such purposes. The amount capitalized is determined by a formula prescribed by FERC. The AFUDC rate for 2019 was 2.4 percent of eligible CWIP. In 2020, SMUD implemented GASB 89 ***"Accounting for Interest Cost Incurred before the End of a Construction Period"*** and has discontinued including the cost of borrowed funds as an additional cost of CWIP (see Note 3).

**Derivative Financial Instruments.** SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain power purchase agreements and option agreements) at fair value in its Statements of Net Position. SMUD does not enter into agreements for speculative purposes. Fair value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current in the Statements of Net Position (see Note 9).

**Interest Rate Swap Agreements.** SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt (see Notes 9 and 10).

**Gas and Electricity Price Swap and Option Agreements.** SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its natural gas-fueled power plants and for energy prices on purchased power for SMUD's retail load (see Note 9).

**Precipitation Hedge Agreements.** SMUD enters into non-exchange traded precipitation hedge agreements to hedge the cost of replacement power caused by low precipitation years (Precipitation Agreements). SMUD records the intrinsic value of the Precipitation Agreements as Prepayments and Other under Current Assets in the Statements of Net Position. Settlement of the Precipitation Agreements is not performed until the end of the period covered (water year ended September 30). The intrinsic value of a Precipitation Agreement is the difference between the expected results from a monthly allocation of the cumulative rainfall amounts, in an average rainfall year, and the actual rainfall during the same period.

**Insurance Programs.** SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and short-term and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding and includes an amount for claim events incurred but not reported based upon SMUD's experience (see Note 16).

**Pollution Remediation.** SGAS No. 49, ***"Accounting and Financial Reporting for Pollution Remediation Obligations,"*** (GASB No. 49) requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. SMUD recorded a pollution remediation obligation for its North City substation, which was built on a former landfill, for the former Community Linen Rental Services Property, and obligations for several land sites, including one where it will be building a substation (see Note 18). At December 31, 2020 and 2019, the total pollution remediation liability was $19.3 million and $17.8 million, respectively, and recorded as either Current Liabilities, Customer Deposits and Other or Noncurrent Liabilities, Self Insurance and Other in the Statements of Net Position. Costs were estimated using the expected cash flow technique prescribed under GASB No. 49, including only amounts that are reasonably estimable.

**Hydro License.** SMUD owns and operates the Upper American River Hydroelectric Project (UARP). The original license to construct and operate the UARP was issued in 1957 by FERC. Effective July 1, 2014, SMUD received a 50-year hydro license. As part of the hydro licensing process, SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. At December 31, 2020 and 2019, the liability for these contract payments was $64.8 million and $63.4 million, respectively, and recorded as either Current Liabilities, Customer Deposits and Other or Noncurrent Liabilities, Self Insurance and Other in the Statements of Net Position (see Note 17).

**Assembly Bill 32.** California Assembly Bill (AB) 32 was an effort by the State of California to set a greenhouse gas (GHG) emissions reduction goal into law, and initially was set through 2020. In 2015, the state established a 2030 goal for GHG emissions at 40 percent below 1990 levels, and in July of 2017 AB-398 was approved by the Governor. Central to these initiatives is the Cap and Trade program, which covers major sources of GHG emissions in the State including power plants. AB-398 extended Cap and Trade through 2030. The Cap and Trade program includes an enforceable emissions cap that will decline over time. The State distributes allowances, which are tradable permits, equal to the emissions allowed under the cap. Sources under the cap are required to surrender allowances and offsets equal to their emissions at the end of each compliance period. SMUD is subject to AB-32 and has participated in California Air Resources Board (CARB) administered quarterly auctions in the past. In a normal water year, SMUD expects its free allocation of allowances from the CARB to cover its compliance costs associated with electricity delivered to its retail customers. SMUD expects to recover compliance costs associated with wholesale power sales costs through its wholesale power sales revenues. SMUD continues to monitor new legislation and proposed programs that could impact AB-32 and its subsequent extensions.

In addition, Low Carbon Fuel Standards (LCFS) was enacted through AB-32. The CARB is responsible for the adoption and implementation of LCFS and has established a program for LCFS credits. The LCFS program is designed to reduce greenhouse gas emissions associated with the lifecycle of transportation fuels used in California. SMUD participates in the program and receives LCFS credits from CARB. The LCFS credits are sold to parties that have a compliance obligation. CARB requires that LCFS credit sales proceeds be spent in a way to benefit current or future Electric Vehicle drivers in California, for both commercial and residential vehicles.

**Net Pension Liability (NPL).** The NPL is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the pension plan's fiduciary net position (see Note 14).

**Net Other Postemployment Benefit (OPEB) Asset (NOA) or Liability (NOL).** SMUD implemented SGAS No. 75, ***"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"*** (GASB No. 75) in 2018. The NOA or NOL is the difference between the actuarial present value of projected OPEB benefit payments attributable to employee's past service and the OPEB plan's fiduciary net position. At December 31, 2020, SMUD's NOA is $0.8 million and is recorded in Prepayments and other under Noncurrent Assets on the Statements of Net Position. At December 31, 2019, SMUD's NOL is $32.2 million and is recorded under Noncurrent Liabilities on the Statements of Net Position (see Note 15).

**Net Position.** SMUD 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 inflows and 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 investment in capital assets, above), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation or by the Board. These restricted assets are reduced by liabilities and deferred inflows of resources related to those assets.
- 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."

**Contributions in Aid of Construction (CIAC).** SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position. Contributions of capital are valued at acquisition value. For ratemaking purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities.

**Revenues and Expenses.** SMUD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SMUD's principal ongoing operations. The principal operating revenues of SMUD are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as Non-Operating Revenues and Expenses in the Statements of Revenues, Expenses and Changes in Net Position.

**Grants.** SMUD receives grant proceeds from federal and state assisted programs for its projects which include, but are not limited to, advanced and renewable technologies, electric transportation, and energy efficiency. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of natural disasters, such as storm or fire damages. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. SMUD considers the possibility of any material disallowances to be remote. SMUD records grant proceeds related to capital projects as a Regulatory Credit (see Note 8).

SMUD has taxable Build America Bonds in which it receives an interest subsidy from the federal government equal to 35 percent of the interest paid (see Note 10). SMUD received reduced subsidy payments in 2020 and 2019 due to budget sequestration by the federal government. SMUD recognized $9.3 million and $9.2 million in revenues in 2020 and 2019, respectively for its Build America Bonds, as a component of Other income (expense) - net, in the Statements of Revenues, Expenses and Changes in Net Position.

**Customer Sales and Excise Taxes.** SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position.

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

**Reclassifications.** Certain amounts in the 2019 Financial Statements have been reclassified in order to conform to the 2020 presentation.

**Recent Accounting Pronouncements, adopted.** In January 2020, GASB issued SGAS No. 92, ***"Omnibus 2020"*** (GASB No. 92). This statement addresses a variety of topics and includes specific provisions to clarify issues related to leases, intra-entity transfers, pension and postemployment benefits, asset retirement obligations, risk pools, fair value measurements, and derivative instruments. This statement is effective for SMUD in 2020 or 2022 depending on the topic. SMUD has assessed the note disclosure impact of adopting the derivative instruments topic of this statement and has updated the terminology used to refer to derivative or derivatives to derivative instrument or derivative instruments, respectively (see Note 9). No other topics in this statement apply to SMUD.

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 SMUD in 2020. SMUD has postponed 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 SMUD in 2022. SMUD 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 SMUD in 2022. SMUD 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 SMUD in 2023. SMUD 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 SMUD in 2023. SMUD is currently assessing the financial statement impact of adopting this statement.

In June 2020, GASB issued SGAS No. 97, ***"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans"*** (GASB No. 97). The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. This statement is effective for SMUD in 2022. SMUD is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

## NOTE 3. ACCOUNTING CHANGE

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. SMUD has assessed the financial statement impact of adopting the new statement and its impact is not material. Although GASB No. 95 postponed this statement for one year to 2021, SMUD had already implemented this statement before GASB No. 95 was issued.

Beginning January 1, 2020, SMUD recognizes interest costs incurred before the end of a construction period as an expense in the period in which the costs are incurred and no longer includes these interest costs as part of the historical cost of a capital asset. This standard is to be applied prospectively, so the interest costs already included in construction work in progress (CWIP) on December 31, 2019 will still be included as part of the historical cost of the capital asset.

## NOTE 4. ELECTRIC UTILITY PLANT

The summarized activity of SMUD's Electric Utility Plant during 2020 is presented below:

| | Balance January 1, 2020 | Additions | Transfers and Disposals | Balance December 31, 2020 |
|---|---|---|---|---|
| | | (thousands of dollars) | | |
| Nondepreciable Electric Utility Plant: | | | | |
| Land and land rights | $ 142,291 | $ 17,471 | $ (247) | $ 159,515 |
| CWIP | 353,802 | 318,354 | (210,837) | 461,319 |
| Total nondepreciable electric utility plant | 496,093 | 335,825 | (211,084) | 620,834 |
| Depreciable Electric Utility Plant: | | | | |
| Generation | 1,670,224 | 43,017 | (2,821) | 1,710,420 |
| Transmission | 390,296 | 21,255 | (984) | 410,567 |
| Distribution | 2,427,408 | 76,335 | (5,217) | 2,498,526 |
| Investment in JPAs | 22,844 | 7,168 | -0- | 30,012 |
| Intangibles | 495,651 | 21,764 | -0- | 517,415 |
| General | 1,078,660 | 31,463 | (11,212) | 1,098,911 |
| | 6,085,083 | 201,002 | (20,234) | 6,265,851 |
| Less: accumulated depreciation and depletion | (2,948,350) | (204,088) | 20,191 | (3,132,247) |
| Less: accumulated amortization on JPAs | (6,966) | (313) | -0- | (7,279) |
| | (2,955,316) | (204,401) | 20,191 | (3,139,526) |
| Total depreciable plant | 3,129,767 | (3,399) | (43) | 3,126,325 |
| Total Electric Utility Plant - net | $ 3,625,860 | $ 332,426 | $ (211,127) | $ 3,747,159 |

The summarized activity of SMUD's Electric Utility Plant during 2019 is presented below:

| | Balance January 1, 2019 | Additions | Transfers and Disposals | Balance December 31, 2019 |
|---|---|---|---|---|
| | (thousands of dollars) | | | |
| Nondepreciable Electric Utility Plant: | | | | |
| Land and land rights | $ 139,625 | $ 3,418 | $ (752) | $ 142,291 |
| CWIP | 428,249 | 342,545 | (416,992) | 353,802 |
| Total nondepreciable electric utility plant | 567,874 | 345,963 | (417,744) | 496,093 |
| Depreciable Electric Utility Plant: | | | | |
| Generation | 1,632,081 | 38,956 | (813) | 1,670,224 |
| Transmission | 336,407 | 54,637 | (748) | 390,296 |
| Distribution | 2,337,484 | 96,264 | (6,340) | 2,427,408 |
| Investment in gas properties | 206,624 | 36 | (206,660) | -0- |
| Investment in JPAs | 19,012 | 3,832 | -0- | 22,844 |
| Intangibles | 426,267 | 69,836 | (452) | 495,651 |
| General | 929,701 | 156,812 | (7,853) | 1,078,660 |
| | 5,887,576 | 420,373 | (222,866) | 6,085,083 |
| Less: accumulated depreciation and depletion | (2,932,724) | (192,524) | 176,898 | (2,948,350) |
| Less: accumulated amortization on JPAs | (6,653) | (313) | -0- | (6,966) |
| | (2,939,377) | (192,837) | 176,898 | (2,955,316) |
| Total depreciable plant | 2,948,199 | 227,536 | (45,968) | 3,129,767 |
| Total Electric Utility Plant - net | $ 3,516,073 | $ 573,499 | $ (463,712) | $ 3,625,860 |

**NOTE 5. INVESTMENT IN JOINT POWERS AUTHORITY**

**TANC.** SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 39 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 536 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric Company's (PG&E) system between PG&E's Tesla and Midway substations (SOT). The total entitlement shares for the COTP and SOT described above include the long-term agreements listed below.

In 2009, SMUD entered into a 15-year long-term layoff agreement with TANC and certain members, expiring January 31, 2024. This agreement provides for the assignment of all rights and obligations of the City of Palo Alto and the City of Roseville related to their COTP and SOT entitlements. This agreement increased SMUD's COTP entitlement by 36 MW and SOT entitlement by 2 MW. On July 1, 2014, an amendment returned to the City of Roseville all rights and obligations related to the COTP entitlements, which decreased SMUD's COTP entitlement by 13 MW.

Effective July 1, 2014, SMUD entered into a 25-year long-term layoff agreement with TANC and certain members that provides for the assignment of all rights and obligations of Northern California Power Agency and partial rights and obligations of the City of Santa Clara related to their COTP entitlements. This agreement increased SMUD's COTP entitlements by 130 MW.

The long-term debt of TANC, which totals $172.0 million (unaudited) at December 31, 2020, is collateralized by a pledge and assignment of net revenues of TANC supported by take or pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation. SMUD recorded transmission expenses related to TANC of $17.5 million and $17.9 million in 2020 and 2019, respectively.

Summary financial information for TANC is presented below:

| | December 31, | |
|---|---|---|
| | 2020 (Unaudited) | 2019 (Unaudited) |
| | (thousands of dollars) | |
| Total Assets | $ 356,807 | $ 345,739 |
| Total Deferred Outflows of Resources | 731 | 1,240 |
| Total Assets and Deferred Outflows of Resources | $ 357,538 | $ 346,979 |
| Total Liabilities | $ 305,096 | $ 312,470 |
| Total Net Position | 52,442 | 34,509 |
| Total Liabilities and Net Position | $ 357,538 | $ 346,979 |
| Changes in Net Position for the Six Months Ended December 31 | $ (564) | $ (413) |

Copies of the TANC annual financial reports may be obtained from SMUD at P.O. Box 15830, Sacramento, California 95852 or online at www.tanc.us.

**BANC.** SMUD, City of Redding, City of Roseville, Modesto Irrigation District (MID), City of Shasta Lake, and Trinity Public Utilities District are members of BANC, a JPA formed in 2009. In 2011, operational control of Balancing Authority Area (BAA) operations was transferred from SMUD to BANC. BANC performs FERC approved BAA reliability functions that are managed by North American Electric Reliability Corporation (NERC), nationally, and by Western Electricity Coordinating Council functions in the west. SMUD recorded expenses related to BANC of $1.7 million in 2020 and $2.1 million in 2019.

Summary financial information for BANC is presented below:

| | December 31, | |
|---|---|---|
| | 2020 (Audited) | 2019 (Audited) |
| | (thousands of dollars) | |
| Total Assets | $ 8,125 | $ 6,184 |
| Total Liabilities | $ 8,125 | $ 6,184 |
| Total Net Position | -0- | -0- |
| Total Liabilities and Net Position | $ 8,125 | $ 6,184 |
| Changes in Net Position for the Year Ended December 31 | $ -0- | $ -0- |

Copies of the BANC annual financial reports may be obtained from SMUD at P.O. Box 15830, Sacramento, California 95852.

## NOTE 6. COMPONENT UNITS

**CVFA Carson Cogeneration Project.** CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District. CVFA operates the Carson Project, a 65 MW (net) natural gas-fired cogeneration facility and a 42 MW (net) natural gas-fired simple cycle peaking plant.

**SCA Procter & Gamble Cogeneration Project.** SCA is a JPA formed by SMUD and the SFA. SCA operates the Procter & Gamble Project, a 136 MW (net) natural gas-fired cogeneration facility and a 50 MW (net) natural gas-fired simple cycle peaking plant.

**SFA Cosumnes Power Plant Project.** SFA is a JPA formed by SMUD and MID. SFA operates the Cosumnes Power Plant Project, a 602 MW (net) natural gas-fired, combined cycle facility. The revenue stream to pay the SFA bonds' debt service is provided by a "take-or-pay" power purchase agreement between SMUD and SFA.

**SPA Campbell Soup Cogeneration Project.** SPA is a JPA formed by SMUD and the SFA. SPA operates the Campbell Soup Project, a 160 MW (net) natural gas-fired cogeneration facility, and the McClellan Project, a 72 MW (net) natural gas-fired simple cycle peaking plant.

**NCGA.** NCGA is a JPA formed by SMUD and the SFA. NCGA has a prepaid gas contract with Morgan Stanley Capital Group (MSCG) expiring in 2027, which is financed primarily by NCGA revenue bonds. SMUD has contracted with NCGA to purchase all the gas delivered by MSCG to NCGA, based on market prices. NCGA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCGA can terminate the prepaid gas contract under certain circumstances, including a failure by MSCG to meet its gas delivery obligation to NCGA or a drop in MSCG's credit rating below a specified level. If this occurs, MSCG will be required to make a termination payment to NCGA based on the unamortized prepayment proceeds received by MSCG.

**NCEA.** NCEA is a JPA formed by SMUD and the SFA. NCEA has a prepaid natural gas and electricity (commodity) contract with J. Aron & Company LLC (J. Aron) expiring in 2049, which is financed primarily by NCEA revenue bonds. SMUD has contracted with NCEA to purchase all the commodity delivered by J. Aron to NCEA, based on market prices. NCEA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCEA can terminate the prepaid commodity contract under certain circumstances, including a failure by J. Aron to meet its commodity delivery obligation to NCEA. If this occurs, J. Aron will be required to make a termination payment to NCEA based on the unamortized prepayment proceeds received by J. Aron.

The summarized activity of SMUD's component units for 2020 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2020
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Electric Utility Plant - net | $ 31,264 | $ 48,502 | $ 207,058 | $ 48,351 | $ -0- | $ -0- |
| Restricted Assets | -0- | -0- | -0- | -0- | -0- | 90 |
| Current Assets | 12,373 | 31,823 | 60,107 | 21,285 | 37,271 | 27,857 |
| Noncurrent Assets | 2 | 1 | 892 | 1 | 160,648 | 532,525 |
| Total Assets | 43,639 | 80,326 | 268,057 | 69,637 | 197,919 | 560,472 |
| Deferred Outflows of Resources | 1,733 | -0- | 1,829 | -0- | -0- | -0- |
| Total Assets and Deferred Outflows of Resources | $ 45,372 | $ 80,326 | $ 269,886 | $ 69,637 | $ 197,919 | $ 560,472 |
| Liabilities | | | | | | |
| Long-Term Debt - net | $ -0- | $ -0- | $ 113,152 | $ -0- | $ 163,485 | $ 556,794 |
| Current Liabilities | 3,441 | 5,515 | 36,819 | 5,190 | 24,288 | 10,876 |
| Noncurrent Liabilities | 8,633 | -0- | -0- | -0- | -0- | 121 |
| Total Liabilities | 12,074 | 5,515 | 149,971 | 5,190 | 187,773 | 567,791 |
| Net Position | 33,298 | 74,811 | 119,915 | 64,447 | 10,146 | (7,319) |
| Total Liabilities and Net Position | $ 45,372 | $ 80,326 | $ 269,886 | $ 69,637 | $ 197,919 | $ 560,472 |

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
December 31, 2020
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Operating Revenues | $ 16,599 | $ 35,932 | $ 141,874 | $ 26,818 | $ 25,935 | $ 20,053 |
| Operating Expenses | 22,073 | 39,624 | 137,415 | 32,545 | 17,810 | 3,366 |
| Operating Income (Loss) | (5,474) | (3,692) | 4,459 | (5,727) | 8,125 | 16,687 |
| Non-Operating Revenues and Expenses | | | | | | |
| Other Revenues | 48 | 205 | 179 | 113 | 533 | -0- |
| Interest Charges and Other | -0- | -0- | (3,670) | -0- | (8,205) | (16,197) |
| Change in Net Position Before Distributions and Contributions | (5,426) | (3,487) | 968 | (5,614) | 453 | 490 |
| Distribution to Member | -0- | -0- | -0- | -0- | (507) | (1,090) |
| Member Contributions and Adjustments | -0- | -0- | -0- | -0- | 86 | 127 |
| Change in Net Position | (5,426) | (3,487) | 968 | (5,614) | 32 | (473) |
| Net Position – Beginning of Year | 38,724 | 78,298 | 118,947 | 70,061 | 10,114 | (6,846) |
| Net Position – End of Year | $ 33,298 | $ 74,811 | $ 119,915 | $ 64,447 | $ 10,146 | $ (7,319) |

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2020
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Net Cash Provided by Operating Activities | $ 1,232 | $ 4,462 | $ 19,673 | $ 1,929 | $ 26,597 | $ 20,053 |
| Net Cash Used in Noncapital Financing Activities | -0- | -0- | -0- | -0- | (25,550) | (22,843) |
| Net Cash Used in Capital Financing Activities | (500) | (54) | (16,683) | (748) | -0- | -0- |
| Net Cash Provided by Investing Activities | 46 | 242 | 226 | 138 | 450 | 2,714 |
| Net Increase in Cash and Cash Equivalents | 778 | 4,650 | 3,216 | 1,319 | 1,497 | (76) |
| Cash and Cash Equivalents at the Beginning of the Year | 4,311 | 16,003 | 20,650 | 9,586 | 13,315 | 10,953 |
| Cash and Cash Equivalents at the End of the Year | $ 5,089 | $ 20,653 | $ 23,866 | $ 10,905 | $ 14,812 | $ 10,877 |

The summarized activity of SMUD's component units for 2019 is presented below:

CONDENSED STATEMENTS OF NET POSITION
December 31, 2019
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Electric Utility Plant - net | $ 37,248 | $ 56,309 | $ 220,676 | $ 55,074 | $ -0- | $ -0- |
| Restricted Assets | -0- | -0- | -0- | -0- | -0- | 2,840 |
| Current Assets | 11,418 | 26,939 | 54,906 | 20,487 | 33,422 | 27,096 |
| Noncurrent Assets | 2 | 2 | 998 | 2 | 180,564 | 535,991 |
| Total Assets | 48,668 | 83,250 | 276,580 | 75,563 | 213,986 | 565,927 |
| Deferred Outflows of Resources | 1,955 | -0- | 2,195 | -0- | -0- | -0- |
| Total Assets and Deferred Outflows of Resources | $ 50,623 | $ 83,250 | $ 278,775 | $ 75,563 | $ 213,986 | $ 565,927 |
| Liabilities | | | | | | |
| Long-Term Debt - net | $ -0- | $ -0- | $ 126,571 | $ -0- | $ 181,935 | $ 561,820 |
| Current Liabilities | 3,370 | 4,952 | 33,257 | 5,502 | 21,937 | 10,876 |
| Noncurrent Liabilities | 8,529 | -0- | -0- | -0- | -0- | 77 |
| Total Liabilities | 11,899 | 4,952 | 159,828 | 5,502 | 203,872 | 572,773 |
| Net Position | 38,724 | 78,298 | 118,947 | 70,061 | 10,114 | (6,846) |
| Total Liabilities and Net Position | $ 50,623 | $ 83,250 | $ 278,775 | $ 75,563 | $ 213,986 | $ 565,927 |

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
December 31, 2019
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Operating Revenues | $ 23,858 | $ 36,208 | $ 157,200 | $ 27,732 | $ 33,472 | $ 16,438 |
| Operating Expenses | 26,046 | 33,947 | 120,562 | 31,106 | 25,133 | 2,682 |
| Operating Income (Loss) | (2,188) | 2,261 | 36,638 | (3,374) | 8,339 | 13,756 |
| Non-Operating Revenues and Expenses | | | | | | |
| Other Revenues | 114 | 363 | 376 | 142 | 850 | -0- |
| Interest Charges and Other | (534) | (1,211) | (3,962) | -0- | (9,280) | (16,091) |
| Change in Net Position Before Distributions and Contributions | (2,608) | 1,413 | 33,052 | (3,232) | (91) | (2,335) |
| Distribution to Member | -0- | -0- | -0- | -0- | (953) | -0- |
| Member Contributions and Adjustments | -0- | 7,902 | -0- | -0- | 80 | 88 |
| Change in Net Position | (2,608) | 9,315 | 33,052 | (3,232) | (964) | (2,247) |
| Net Position – Beginning of Year | 41,332 | 68,983 | 85,895 | 73,293 | 11,078 | (4,599) |
| Net Position – End of Year | $ 38,724 | $ 78,298 | $ 118,947 | $ 70,061 | $ 10,114 | $ (6,846) |

CONDENSED STATEMENTS OF CASH FLOWS
December 31, 2019
(thousands of dollars)

| | CVFA | SCA | SFA | SPA | NCGA | NCEA |
|---|---|---|---|---|---|---|
| Net Cash Provided by Operating Activities | $ 6,382 | $ 10,855 | $ 42,686 | $ 3,295 | $ 35,948 | $ 13,135 |
| Net Cash Provided by (Used in) Noncapital Financing Activities | -0- | 7,902 | -0- | -0- | (45,135) | (11,601) |
| Net Cash Used in Capital Financing Activities | (11,345) | (20,698) | (46,462) | (2,774) | -0- | -0- |
| Net Cash Provided by Investing Activities | 135 | 351 | 389 | 134 | 787 | 8,656 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (4,828) | (1,590) | (3,387) | 655 | (8,400) | 10,190 |
| Cash and Cash Equivalents at the Beginning of the Year | 9,139 | 17,593 | 24,037 | 8,931 | 21,715 | 763 |
| Cash and Cash Equivalents at the End of the Year | $ 4,311 | $ 16,003 | $ 20,650 | $ 9,586 | $ 13,315 | $ 10,953 |

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of CVFA's, SCA's, SFA's, SPA's, NCGA's and NCEA's annual financial reports may be obtained from their Executive Office at P.O. Box 15830, Sacramento, California 95852 or online at www.smud.org.

## NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS

**Cash Equivalents and Investments.** SMUD's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow SMUD's 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. SMUD's investment policy 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 this risk, SMUD 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, with the exception of the Guaranteed Investment Contracts (GICs) held by NCEA. NCEA GICs are rated at the credit rating of the commodity supplier, or, if not rated, the guarantor of the commodity supplier which is currently Goldman Sachs rated as "BBB+".

**Custodial Credit Risk.** This is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, SMUD's deposits and investments may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit or investment policy for custodial credit risk.

As of December 31, 2020 and 2019, $12.2 million and $5.5 million in deposits were uninsured, respectively. The bank balance is also, per a depository pledge agreement between SMUD and SMUD'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. SMUD had money market funds of $128.4 million and $103.4 million which were uninsured at December 31, 2020 and 2019, respectively. SMUD's investments and money market funds are held in SMUD's name.

**Concentration of Credit Risk.** This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements and federal agency securities.

The following are the concentrations of risk greater than five percent in either year:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Investment Type: | | |
| Federal Home Loan Banks | 17% | 27% |
| Freddie Mac | 7% | 12% |
| Commercial Paper – Toyota Motor Credit Corp | N/A | 10% |
| Municipal Bond – CA Department of Water Resources | 10% | 6% |
| Municipal Bond – State of Florida | 9% | N/A |
| Municipal Bond – State of California | 4% | 6% |
| Corporate Note – Tennessee Valley Authority | 7% | 5% |
| Corporate Note – Wells Fargo Bank | 7% | 5% |
| Corporate Note – Microsoft Corporation | 9% | 3% |
| Corporate Note – Apple Inc | 11% | 9% |

**Interest Rate Risk.** This is the risk of loss due to the fair value of an investment declining due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. SMUD is exposed to interest rate risk on its interest rate swaps (see Note 9).

The following schedules indicate the credit and interest rate risk at December 31, 2020 and 2019. The credit ratings listed are from Standard & Poor's (S&P) or Moody's. (N/A is defined as not applicable to the rating disclosure requirements.)

At December 31, 2020, SMUD's cash, cash equivalents, and investments consist of the following:

| | | Remaining Maturities (in years) | | | |
|---|---|---|---|---|---|
| Description | Credit Rating | Less Than 1 | 1-5 | More Than 5 | Total Fair Value |
| | | (thousands of dollars) | | | |
| Cash and Cash Equivalents: | | | | | |
| Cash | N/A | $ 8,607 | $ -0- | $ -0- | $ 8,607 |
| LAIF | Not Rated | 512,682 | -0- | -0- | 512,682 |
| Money Market Funds | AAAm | 128,406 | -0- | -0- | 128,406 |
| Deposit at Notice | N/A | 80,062 | -0- | -0- | 80,062 |
| Commercial Paper | A-1+/A-1 | 8,854 | -0- | -0- | 8,854 |
| Total cash and cash equivalents | | 738,611 | -0- | -0- | 738,611 |
| Investments: | | | | | |
| Federal Farm Credit Bank | AA+ | 15,188 | -0- | -0- | 15,188 |
| Federal Home Loan Bank | AA+ | 49,986 | -0- | -0- | 49,986 |
| Freddie Mac | AA+ | -0- | 20,462 | -0- | 20,462 |
| U.S. Treasury Obligations | AAA | 20,248 | -0- | -0- | 20,248 |
| Corporate Notes | AAA/AA+/A+/A-/A | 113,980 | 4,035 | -0- | 118,015 |
| Municipal Bonds | AAA/AA+/AA- | -0- | 63,647 | -0- | 63,647 |
| Guaranteed Investment Contracts | BBB+ | 10,859 | 90 | -0- | 10,949 |
| Total investments | | 210,261 | 88,234 | -0- | 298,495 |
| Total cash, cash equivalents, and investments | | $ 948,872 | $ 88,234 | $ -0- | $ 1,037,106 |

At December 31, 2019, SMUD's cash, cash equivalents, and investments consist of the following:

| Description | Credit Rating | Remaining Maturities (in years) Less Than 1 | 1-5 | More Than 5 | Total Fair Value |
|---|---|---|---|---|---|
| | | (thousands of dollars) | | | |
| Cash and Cash Equivalents: | | | | | |
| Cash | N/A | $ 1,093 | $ -0- | $ -0- | $ 1,093 |
| LAIF | Not Rated | 104,742 | -0- | -0- | 104,742 |
| Money Market Funds | AAAm | 103,367 | -0- | -0- | 103,367 |
| Deposit at Notice | N/A | 51,432 | -0- | -0- | 51,432 |
| Commercial Paper | A-1+/A-1 | 47,474 | -0- | -0- | 47,474 |
| Total cash and cash equivalents | | 308,108 | -0- | -0- | 308,108 |
| Investments: | | | | | |
| Fannie Mae | AA+ | 3,030 | -0- | -0- | 3,030 |
| Federal Farm Credit Bank | AA+ | -0- | 15,001 | -0- | 15,001 |
| Federal Home Loan Bank | AA+ | 111,844 | -0- | -0- | 111,844 |
| Freddie Mac | AA+ | 27,984 | 20,308 | -0- | 48,292 |
| U.S. Treasury Obligations | AAA | 105,116 | 20,167 | -0- | 125,283 |
| Corporate Notes | AAA/AA+/AA-/A+/A | 6,302 | 114,897 | -0- | 121,199 |
| Municipal Bonds | AA/AA- | 15,063 | 33,013 | -0- | 48,076 |
| Guaranteed Investment Contracts | BBB+ | 10,249 | 2,840 | -0- | 13,089 |
| Total investments | | 279,588 | 206,226 | -0- | 485,814 |
| Total cash, cash equivalents, and investments | | $ 587,696 | $ 206,226 | $ -0- | $ 793,922 |

SMUD's cash, cash equivalents, and investments are classified in the Statements of Net Position as follows:

| | December 31, 2020 | 2019 |
|---|---|---|
| | (thousands of dollars) | |
| Cash, Cash Equivalents, and Investments: | | |
| Revenue bond reserve and debt service funds: | | |
| Revenue bond reserve fund | $ 3,813 | $ 4,748 |
| Debt service fund | 80,022 | 73,250 |
| Component unit bond reserve and debt service funds | 38,010 | 38,529 |
| Total revenue bond reserve and debt service funds | 121,845 | 116,527 |
| Nuclear decommissioning trust fund | 8,873 | 8,798 |
| Rate stabilization fund | 168,726 | 143,669 |
| Component unit other restricted funds | 7,413 | 8,707 |
| Escrow fund | 15,179 | 20,592 |
| Other restricted funds | 654 | 654 |
| Unrestricted funds | 714,416 | 494,975 |
| Total cash, cash equivalents, and investments | $ 1,037,106 | $ 793,922 |

**NOTE 8. REGULATORY DEFERRALS**

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for ratemaking purposes and their treatment under generally accepted accounting principles for non-regulated entities (see Note

2). These actions result in regulatory assets and deferred inflow of resources, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

**Regulatory Assets (Costs)**

**Decommissioning.** SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability for the Rancho Seco nuclear power plant is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs have been collected in rates since 2009.

**Derivative Financial Instruments.** SMUD's regulatory costs and/or credits relating to investment derivative instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Investment derivative instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or deferred inflow of resource is utilized (see Note 9).

**Debt Issuance Costs.** SMUD established a regulatory asset for costs incurred in connection with the issuance of debt obligations, principally underwriter fees and legal costs. The regulatory asset is amortized through 2020 for the portion related to SMUD's debt issuance costs and over the life of the bonds for the portion related to the component units' debt issuance costs. Debt issuance costs after December 31, 2013 are expensed.

**Pension.** SMUD established a regulatory asset for pension costs related to the implementation of GASB No. 68 which requires SMUD to record a net pension liability. The regulatory asset is being amortized over a period of 25 years starting in 2018.

**OPEB.** SMUD established a regulatory asset for OPEB costs related to the implementation of GASB No. 75 which requires SMUD to record a net OPEB liability. The regulatory asset will be amortized over a period of 25 years starting in 2020. SMUD's total regulatory costs for future recovery are presented below:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (thousands of dollars) | |
| Regulatory Costs: | | |
| Decommissioning | $ 88,652 | $ 81,076 |
| Derivative financial instruments | 9,270 | 10,517 |
| Debt issuance costs | 1,673 | 1,882 |
| Pension | 374,599 | 391,626 |
| OPEB | 306,556 | 319,329 |
| Total regulatory costs | 780,750 | 804,430 |
| Less: regulatory costs to be recovered within one year | (38,162) | (37,622) |
| Total regulatory costs for future recovery - net | $ 742,588 | $ 766,808 |

**Regulatory Credits**

**CIAC.** In 2020 and 2019, SMUD added CIAC totaling $25.1 million and $18.8 million, respectively, to Regulatory Credits in the Statements of Net Position and recorded $13.3 million and $12.8 million of amortization, respectively, to Other income (expense) - net in the Statements of Revenues, Expenses and Changes in Net Position. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized into rates over the depreciable lives of the related assets in order to offset the earnings effect of these non-exchange transactions.

**Rate Stabilization.** SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) transfers on an event driven basis.

In 2020 and 2019, $1.6 million and $10.7 million, respectively, was transferred from revenue to the RSF as a result of higher than budgeted energy deliveries from the Western Area Power Administration.

SMUD participates in the carbon allowance auctions under AB-32, the Global Warming Solutions Act (see Note 2). The Board authorized deferral of AB-32 auction proceeds to match the revenue recognition with the related expenses. The difference between the auction proceeds received and the funds spent on AB-32 programs are deferred into future years. In 2020, the Board authorized transferring the difference out of the RSF and $4.1 million was transferred from the RSF to revenue. In 2019, the Board authorized transferring the difference into the RSF and $15.6 million was transferred from revenue to the RSF.

SMUD sells LCFS credits under AB-32, the Global Warming Solutions Act (see Note 2). In 2019, the Board authorized deferral of LCFS credit sales to match the revenue recognition with the related expenses. The difference between the LCFS credit sales and the funds spent on LCFS programs are deferred into future years. In 2020 and 2019, the Board authorized transferring the difference into the RSF and $0.3 million and $2.3 million, respectively, was transferred from revenue to the RSF.

In 2020, the Board authorized SMUD to transfer $35.0 million from revenue to the RSF to offset future one-time specific expenses which may have a significant financial impact on SMUD. This will provide reserves to cover large contingencies while limiting or leveling out the impact of cost increases to ratepayers.

**Hydro Rate Stabilization.** The Hydro Rate Stabilization Fund (HRSF) was established through the Hydro Generation Adjustment (HGA) mechanism, which helps manage volatility in energy costs. The HGA mechanism applies a formula based on precipitation and wholesale electricity prices to calculate needed withdrawals from or deposits to the HRSF. The maximum balance of the HRSF is 6 percent of the budgeted retail revenue and the maximum annual transfer in or out of the HRSF is 4 percent of budgeted retail revenue. If the HRSF is depleted, SMUD will apply a hydro rate surcharge to customers' bills up to 4 percent. When the HRSF reaches the 6 percent cap, the Board may authorize a hydro rebate to customers or direct the funds for another purpose. In 2020, $7.7 million was transferred from the HRSF to revenue as a result of low precipitation. In 2019, $18.4 million was transferred from revenue to the HRSF as a result of high precipitation.

**Energy Assistance Program Rate (EAPR).** In 2016, the Board authorized SMUD to transfer $10.0 million of revenue to a regulatory credit related to EAPR. This regulatory credit is intended to offset future expenditures for energy efficiency programs for EAPR customers from the period 2018-2020. In 2020 and 2019, $3.5 million and $3.0 million was spent on energy efficiency programs for EAPR customers, respectively.

**Senate Bill 1.** SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008 in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be recognized or deferred into future years. SMUD has spent less than it collected in SB-1 revenues and has recorded a regulatory credit. Collection of the solar surcharge ended in December 2017 when total collections reached $130.0 million. In 2020 and 2019, $2.3 million and $2.8 million was spent for SB-1 programs, respectively.

**Grant Revenues.** In 2009, SMUD was awarded several large grants under the American Recovery and Reinvestment Act, which provided significant reimbursements for capital expenditures. In 2010, the Board authorized the deferral of grant income for capital expenditures as regulatory liabilities. Thus, this regulatory credit was deferred to match the depreciable lives of the related capital assets in order to offset the earnings effect of these non-exchange transactions.

**TANC Operations Costs.** SMUD's cash payments to TANC exceeded TANC's accrual-based costs and SMUD has recorded a regulatory credit.

SMUD's total regulatory credits for future revenue recognition are presented below:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (thousands of dollars) | |
| Regulatory Credits: | | |
| CIAC | $278,791 | $ 267,041 |
| Rate stabilization | 94,006 | 61,231 |
| Hydro rate stabilization | 74,720 | 82,438 |
| EAPR | -0- | 3,501 |
| Senate Bill 1 | 4,254 | 6,529 |
| Grant revenues | 36,068 | 39,888 |
| TANC operations costs | 28,370 | 28,858 |
| Total regulatory credits | $ 516,209 | $ 489,486 |

**NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS**

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk. SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with ongoing operations. SMUD has established policies set by an executive committee for the use of derivative financial instruments for trading purposes. These contracts are evaluated pursuant to SGAS No. 53, ***"Accounting and Financial Reporting for Derivative Instruments,"*** (GASB No. 53) to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures.

SMUD applies hedge accounting for derivative instruments that are deemed effective hedges. Under hedge accounting, the increase or (decrease) in the fair value of a hedge is reported as a Deferred Inflow or Deferred Outflow in the Statements of Net Position. Accumulated gains and losses from derivative instruments that do not meet the effectiveness tests are deferred for ratemaking purposes as regulatory assets on the Statements of Net Position (see Note 8).

During 2020 and 2019, SMUD executed numerous new gas and power related purchase agreements, some of which are recorded as hedging or investment derivative instruments and are therefore included in the following table. All hedging or investment derivative instruments are recorded at fair value in the Statements of Net Position.

For electricity and gas derivative instruments, fair values are estimated by comparing contract prices to forward market prices quoted by an independent external pricing service. When external quoted market prices are not available for derivative instrument contracts, SMUD uses an internally developed valuation model utilizing short term observable inputs. For interest rate derivative instruments, SMUD calculates the fair value by discounting the expected cash flows at their corresponding zero coupon rate.

The following is a summary of the fair value, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2020 (amounts in thousands; gains shown as positive amounts, losses as negative):

| | 2020 Changes in Fair Value | | Fair Value at December 31, 2020 | | |
|---|---|---|---|---|---|
| | Current Amount | Noncurrent Amount | Current Amount | Noncurrent Amount | Notional |
| Cash Flow Hedges: | | | | | |
| (thousands of dollars) | | | | | |
| (thousands of Dekatherms (Dth)) | | | | | |
| Asset: Investment Derivative Instruments | | | | | |
| Gas – Commodity | $ (69) | $ 33 | $ -0- | $ 33 | 305 Dth |
| Gas – Storage | (141) | -0- | -0- | -0- | |
| Gas – Transportation | (278) | -0- | -0- | -0- | |
| Total Investment Derivative Instruments | $ (488) | $ 33 | $ -0- | $ 33 | |
| Asset: Hedging Derivative Instruments | | | | | |
| Gas – Commodity | $ (189) | $ 2,311 | $ 1,329 | $ 2,325 | 39,730 Dth |
| Gas – Storage | (90) | -0- | 301 | -0- | 900 Dth |
| Gas – Transportation | (3,836) | -0- | 1,490 | -0- | 11,958 Dth |
| Interest Rate | 295 | (1,692) | 1,793 | 6,281 | $280,320 |
| Total Hedging Derivative Instruments | $ (3,820) | $ 619 | $ 4,913 | $ 8,606 | |
| Liability: Investment Derivative Instruments | | | | | |
| Gas – Commodity | $ 1,164 | $ 1,402 | $ 9 | $ 263 | 1,675 Dth |
| Gas – Storage | 191 | -0- | -0- | -0- | |
| Gas – Transportation | 93 | -0- | -0- | -0- | |
| Interest Rate | (614) | (536) | 1,392 | 7,640 | $80,100 |
| Total Investment Derivative Instruments | $ 834 | $ 866 | $ 1,401 | $ 7,903 | |
| Liability: Hedging Derivative Instruments | | | | | |
| Gas – Commodity | $ 20,193 | $ 23,002 | $ 20,666 | $ 18,698 | 47,778 Dth |
| Gas – Storage | (583) | -0- | 1,097 | -0- | 1,210 Dth |
| Gas – Transportation | -0- | -0- | -0- | -0- | |
| Interest Rate | (521) | (8,478) | 521 | 10,598 | $284,815 |
| Total Hedging Derivative Instruments | $ 19,089 | $ 14,524 | $ 22,284 | $ 29,296 | |

The following is a summary of the fair value, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2019 (amounts in thousands; gains shown as positive amounts, losses as negative):

| | 2019 Changes in Fair Value | | Fair Value at December 31, 2019 | | |
|---|---|---|---|---|---|
| | Current Amount | Noncurrent Amount | Current Amount | Noncurrent Amount | Notional |
| Cash Flow Hedges: | | | | | |
| (thousands of dollars) | | | | | |
| (thousands of Dekatherms (Dth)) | | | | | |
| Asset: Investment Derivative Instruments | | | | | |
| Gas – Commodity | $ 49 | $ -0- | $ 69 | $ -0- | 150 Dth |
| Gas – Storage | 141 | -0- | 141 | -0- | 295 Dth |
| Gas – Transportation | 278 | -0- | 278 | -0- | 310 Dth |
| Total Investment Derivative Instruments | $ 468 | $ -0- | $ 488 | $ -0- | |
| Asset: Hedging Derivative Instruments | | | | | |
| Gas – Commodity | $ 1,055 | $ 13 | $ 1,517 | $ 13 | 2,835 Dth |
| Gas – Storage | 154 | -0- | 391 | -0- | 687 Dth |
| Gas – Transportation | 2,729 | -0- | 5,326 | -0- | 14,320 Dth |
| Interest Rate | 270 | (2,507) | 1,498 | 7,973 | $215,500 |
| Total Hedging Derivative Instruments | $ 4,208 | $ (2,494) | $ 8,732 | $ 7,986 | |
| Liability: Investment Derivative Instruments | | | | | |
| Gas – Commodity | $ 195 | $ 6,938 | $ 1,173 | $ 1,665 | 2,433 Dth |
| Gas – Storage | (191) | -0- | 191 | -0- | 295 Dth |
| Gas – Transportation | (93) | -0- | 93 | -0- | 310 Dth |
| Interest Rate | (403) | (379) | 778 | 7,104 | $85,625 |
| Total Investment Derivative Instruments | $ (492) | $ 6,559 | $ 2,235 | $ 8,769 | |
| Liability: Hedging Derivative Instruments | | | | | |
| Gas – Basis | $ 3,651 | $ -0- | $ -0- | $ -0- | |
| Gas – Commodity | (15,857) | 14,984 | 40,859 | 41,700 | 61,957 Dth |
| Gas – Storage | (124) | -0- | 515 | -0- | 688 Dth |
| Gas – Transportation | 41 | -0- | -0- | -0- | |
| Interest Rate | -0- | (2,120) | -0- | 2,120 | $157,785 |
| Total Hedging Derivative Instruments | $ (12,289) | $ 12,864 | $ 41,374 | $ 43,820 | |

**Objectives and Terms of Hedging Derivative Instruments.** The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2020 are summarized in the table below. The table is aggregated by the trading strategy. Credit ratings of SMUD's counterparties can be found in the table under Credit Risk. Details of SMUD's interest rate derivative instruments can be found in Note 10.

| | Notional Amount Dth | Beginning Date | Ending Date | Minimum Price/Dth | Maximum Price/Dth |
|---|---|---|---|---|---|
| Gas – Commodity | 89,565 | 01/01/08 | 12/31/24 | $ .89 | $ 7.17 |
| Gas – Storage | 2,110 | 01/01/21 | 03/31/21 | .26 | 3.13 |
| Gas – Transportation | 11,958 | 01/01/21 | 12/31/21 | (0.82) | .43 |

The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2019 are summarized in the table below. The table is aggregated by the trading strategy.

| | Notional Amount Dth | Beginning Date | Ending Date | Minimum Price/Dth | Maximum Price/Dth |
|---|---|---|---|---|---|
| Gas – Commodity | 67,375 | 01/01/08 | 12/31/22 | $ .43 | $ 7.17 |
| Gas – Storage | 1,965 | 01/01/20 | 10/31/20 | .24 | 3.02 |
| Gas – Transportation | 14,940 | 01/01/20 | 12/31/20 | (1.51) | .69 |

SMUD hedges its interest rate exposure with swaps. One swap is used to convert some of the interest expense associated with fixed rate bonds to a variable rate interest expense. SMUD has four forward starting swaps that are designed to synthetically fix the interest expense associated with refunding bonds that are expected to be issued to refund the 2011 Series X, 2012 Series Y, 2013 Series A and 2013 Series B bonds in 2021, 2022 and 2023, respectively (see Note 10). SMUD also has a swap that is designed to fix the interest expense associated with commercial paper (see Note 11).

SMUD hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit rating. SMUD maintains a risk management program to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the program, authorized SMUD employees assemble a portfolio of swaps, futures, and forward contracts over time with the goal of making SMUD's purchased power and fuel budget more predictable.

The hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on long-term debt, and forward purchases of gas and electricity to meet load.

**Derivative Instruments Not Designated as Hedging Derivative Instruments**

**Gas and Electric Contracts.** SMUD utilizes certain gas swap and electric swap agreements under GASB No. 53 not designated as hedging derivative instruments to mitigate exposure to changes in the market price of natural gas and electricity. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in the Statements of Net Position in either Current or Noncurrent Assets, Investment Derivative Instruments if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Statements of Net Position. The actual settlement payable is recorded in Accounts Payable in the Statements of Net Position, and the actual settlement receivable is recorded in Receivables - net: Wholesale and Other in the Statements of Net Position. The payments and receipts of the actual settlement are recorded as Investment Expense in the Statements of Revenues, Expenses and Changes in Net Position.

**Interest Rate Contracts.** SMUD utilizes certain interest rate swap agreements not designated as hedging derivative instruments under GASB No. 53 to mitigate exposure to fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in the Statements of Net

Position in either Current or Noncurrent Assets, Investment Derivative Instruments if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Deferred Outflows or Inflows of Resources in the Statements of Net Position. The interest receivable is recorded in Receivables - net: Wholesale and Other in the Statements of Net Position and the accrued interest is recorded in Interest Payable in the Statements of Net Position. The payments or receipts of the actual settlement are recorded as Investment Expense in the Statements of Revenues, Expenses and Changes in Net Position.

The Board has deferred recognition of the effects of reporting the fair value of Investment Derivative Instruments for ratemaking purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Fair values may have changed significantly since December 31, 2020.

**Basis Risk.** This is the risk that arises when a hedged item and a derivative instrument that is attempting to hedge that item are based on different indices. SMUD is exposed to basis risk when it hedges its natural gas purchases, which are priced at various locations, and with NYMEX futures contracts, which settle based on the price at Henry Hub, Louisiana. SMUD enters into basis swaps to hedge against this risk.

**Termination Risk.** This is the risk that a derivative instrument will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, credit events upon merger, and other events. One aspect of termination risk is that SMUD would lose the hedging benefit of a derivative instrument that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark to market value of the derivative instrument was a liability to SMUD, SMUD could be required to pay that amount to the counterparty. Termination risk is associated with all of SMUD's derivative instruments up to the fair value amounts.

**Counterparty Credit Risk.** This is the risk of loss resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. SMUD can be exposed to significant counterparty credit risk on all derivative instruments. SMUD seeks to minimize credit risk by transacting with creditworthy counterparties. SMUD has established and maintained strict counterparty credit guidelines. SMUD continuously monitors counterparty credit risk and utilizes numerous counterparties to diversify the exposure to potential defaults. Under certain conditions as outlined in SMUD's credit risk management policy, SMUD may require additional credit support under its trading agreements.

Some of SMUD's derivative instrument master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD's credit rating was to be downgraded, there could be a step-down in SMUD's unsecured credit thresholds, and SMUD's counterparties would require additional collateral. If SMUD's credit rating was to decrease below investment grade, SMUD's unsecured credit thresholds would be reduced to zero, and counterparties to the derivative instruments would demand ongoing full collateralization on derivative instruments in net out of the money positions (see Note 2).

The counterparties' credit ratings at December 31, 2020 and 2019 are shown in the table below. The credit ratings listed are from S&P or Moody's.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Counterparty Gas Contracts: | | |
| Bank of Montreal | A+ | A+ |
| Barclays Bank PLC | A | A |
| Citigroup Inc. | BBB+ | BBB+ |
| EDF Trading Group | Baa2 | Baa2 |
| J.P. Morgan Ventures Energy Corp. | A- | A- |
| Merrill Lynch | A2 | A3 |
| Mitsui Bussan | A | N/A |
| Morgan Stanley Capital Group, Inc. | A+ | BBB+ |
| Nextera | A- | N/A |
| Royal Bank of Canada | AA- | N/A |
| Shell Trading Market Risk | A+ | A |
| Interest Rate Contracts: | | |
| Barclays Bank PLC | A | A |
| Goldman Sachs Capital Markets, L.P. (J. Aron) | BBB+ | BBB+ |
| Morgan Stanley Capital Services, Inc. | A+ | A+ |

**NOTE 10. LONG-TERM DEBT**

SMUD's total long-term debt is presented below:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| Electric revenue bonds, 2.0%-6.32%, 2021-2050 | $ 2,085,120 | $ 1,778,040 |
| Subordinated electric revenue bonds, 5.0%, 2021-2049 | 200,000 | 200,000 |
| Total electric revenue bonds | 2,285,120 | 1,978,040 |
| Component unit project revenue bonds, 5.0%, 2021-2030 | 112,085 | 120,795 |
| Gas and Commodity supply revenue bonds, index rates and 4.0%-5.0%, 2021-2049 | 721,550 | 738,225 |
| Total long-term debt outstanding | 3,118,755 | 2,837,060 |
| Bond premiums - net | 267,947 | 225,040 |
| Total long-term debt | 3,386,702 | 3,062,100 |
| Less: amounts due within one year | (127,390) | (118,305) |
| Total long-term debt - net | $ 3,259,312 | $ 2,943,795 |

The summarized activity of SMUD's long-term debt during 2020 is presented below:

| | | January 1, 2020 | | Additions | | Defeasance Payments or Amortization | | December 31, 2020 | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (thousands of dollars) | | | | |
| Electric revenue bonds | $ | 1,778,040 | $ | 400,000 | $ | (92,920) | $ | 2,085,120 | $ | 98,040 |
| Subordinate electric revenue bonds | | 200,000 | | -0- | | -0- | | 200,000 | | -0- |
| Component unit project revenue bonds | | 120,795 | | -0- | | (8,710) | | 112,085 | | 10,900 |
| Gas and Commodity supply revenue bonds | | 738,225 | | -0- | | (16,675) | | 721,550 | | 18,450 |
| Total | | 2,837,060 | | 400,000 | | (118,305) | | 3,118,755 | $ | 127,390 |
| Unamortized premiums - net | | 225,040 | | 83,457 | | (40,550) | | 267,947 | | |
| Total long-term debt | $ | 3,062,100 | $ | 483,457 | $ | (158,855) | $ | 3,386,702 | | |

The summarized activity of SMUD's long-term debt during 2019 is presented below:

| | | January 1, 2019 | | Additions | | Defeasance Payments or Amortization | | December 31, 2019 | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (thousands of dollars) | | | | |
| Electric revenue bonds | $ | 1,673,590 | $ | 191,875 | $ | (87,425) | $ | 1,778,040 | $ | 92,920 |
| Subordinate electric revenue bonds | | -0- | | 200,000 | | -0- | | 200,000 | | -0- |
| Component unit project revenue bonds | | 162,055 | | -0- | | (41,260) | | 120,795 | | 8,710 |
| Gas and Commodity supply revenue bonds | | 772,785 | | -0- | | (34,560) | | 738,225 | | 16,675 |
| Total | | 2,608,430 | | 391,875 | | (163,245) | | 2,837,060 | $ | 118,305 |
| Unamortized premiums - net | | 175,187 | | 83,748 | | (33,895) | | 225,040 | | |
| Total long-term debt | $ | 2,783,617 | $ | 475,623 | $ | (197,140) | $ | 3,062,100 | | |

At December 31, 2020 scheduled annual principal maturities and interest are as follows:

| | | Principal | | Interest | | Total |
|---|---|---|---|---|---|---|
| | | | | (thousands of dollars) | | |
| 2021 | $ | 127,390 | $ | 152,881 | $ | 280,271 |
| 2022 | | 135,115 | | 146,723 | | 281,838 |
| 2023 | | 143,515 | | 140,929 | | 284,444 |
| 2024 | | 143,310 | | 130,519 | | 273,829 |
| 2025 | | 155,900 | | 124,813 | | 280,713 |
| 2026 – 2030 (combined) | | 677,550 | | 498,136 | | 1,175,686 |
| 2031 – 2035 (combined) | | 559,375 | | 342,033 | | 901,408 |
| 2036 – 2040 (combined) | | 466,645 | | 198,044 | | 664,689 |
| 2041 – 2045 (combined) | | 379,530 | | 107,541 | | 487,071 |
| 2046 – 2050 (combined) | | 330,425 | | 36,830 | | 367,255 |
| Total requirements | $ | 3,118,755 | $ | 1,878,449 | $ | 4,997,204 |

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 70.0 percent of 1 month London Interbank Offered Rate (LIBOR) plus a fixed fee. The LIBOR rate is based on the rate in effect at December 31, 2020 for the issues. The 2019 Series A and 2019 Series B Put Bonds assume a 3.0 percent fixed rate coupon after mandatory remarketing. The 2018 NCEA Put Bonds assume a 4.0 percent fixed rate coupon after mandatory remarketing. Principal in the preceding table includes known principal payments and the amortization schedule for mandatory remarketing bonds.

The following bonds have been issued and are outstanding at December 31, 2020:

| Date | Issue | Final Maturity | Interest Rate | Original Amount | Outstanding Amount |
|---|---|---|---|---|---|
| | | | | (thousands of dollars) | |
| **Electric Revenue Bonds** | | | | | |
| 06/15/1997 | 1997 Series K Bonds | 07/01/2024 | 5.25% - 5.9% | $ 131,030 | $ 72,620 |
| 05/15/2009 | 2009 Series V Bonds | 05/15/2036 | 6.322% | 200,000 | 200,000 |
| 07/29/2010 | 2010 Series W Bonds | 05/15/2036 | 6.156% | 250,000 | 250,000 |
| 10/04/2011 | 2011 Series X Bonds | 08/15/2028 | 1.5% - 5.0% | 325,550 | 156,770 |
| 05/31/2012 | 2012 Series Y Bonds | 08/15/2033 | 3.0% - 5.0% | 196,945 | 169,530 |
| 05/21/2013 | 2013 Series A Bonds | 08/15/2041 | 3.75% - 5.0% | 132,020 | 132,020 |
| 05/21/2013 | 2013 Series B Bonds | 08/15/2033 | 3.0% - 5.0% | 118,615 | 84,905 |
| 07/14/2016 | 2016 Series D Bonds | 08/15/2028 | 2.0% - 5.0% | 149,890 | 133,360 |
| 12/14/2017 | 2017 Series E Bonds | 08/15/2028 | 5.0% | 202,500 | 152,560 |
| 07/12/2018 | 2018 Series F Bonds | 08/15/2028 | 5.0% | 165,515 | 141,480 |
| 07/25/2019 | 2019 Series G Bonds | 08/15/2041 | 2.375% - 5.0% | 191,875 | 191,875 |
| 05/07/2020 | 2020 Series H Bonds | 08/15/2050 | 4.0% - 5.0% | 400,000 | 400,000 |
| **Subordinated Electric Revenue Bonds** | | | | | |
| 07/25/2019 | 2019 Series A Bonds | 08/15/2049 | 5.0% | 100,000 | 100,000 |
| 07/25/2019 | 2019 Series B Bonds | 08/15/2049 | 5.0% | 100,000 | 100,000 |
| **JPA Revenue Bonds** | | | | | |
| 06/03/2015 | 2015 SFA Bonds | 07/01/2030 | 2.0% - 5.0% | 193,335 | 112,085 |
| 05/31/2007 | 2007B NCGA#1 Bonds | 07/01/2027 | Index Rate | 668,470 | 181,935 |
| 12/19/2018 | 2018 NCEA Bonds | 07/01/2049 | 4.0% - 5.0% | 539,615 | 539,615 |

**2020 Bond Issuances.** In May 2020, SMUD issued $400.0 million of 2020 Series H Revenue Bonds. The 2020 Series H Bonds have a fixed coupon rate of 4.0 percent to 5.0 percent and amortize from 2029 to 2050. Proceeds from the 2020 Series H Bonds were used to refund all outstanding commercial paper and reimburse SMUD for capital projects in 2018, 2019 and through February 2020.

**2019 Bond Issuances.** In July 2019, SMUD issued $191.9 million of 2019 Series G Revenue Bonds, $100.0 million of 2019 Series A Subordinated Revenue Bonds, and $100.0 million of 2019 Series B Subordinated Revenue Bonds. The 2019 Series G Bonds have a fixed coupon rate of 2.375 percent to 5.0 percent and amortize from 2029 to 2041. The 2019 Series A Bonds have a fixed interest coupon rate of 5.0 percent, amortized from 2041 to 2049, with a mandatory remarketing purchase in April 2023. The 2019 Series B Bonds have a fixed coupon interest rate of 5.0 percent, amortized from 2041 to 2049, with a mandatory remarketing purchase in April 2025. Proceeds from 2019 Series G Bonds, the 2019 Series A Bonds and the 2019 Series B Bonds were used to refund outstanding commercial paper.

**Component Unit Bond Defeasances.** In September 2019, CVFA defeased $5.4 million of 2009 Series Bonds maturing on July 2020, along with the accrued interest using CVFA's available funds. The corresponding amount was placed in an irrevocable trust which had a balance of $5.6 million at December 31, 2019. In addition, SCA defeased $12.9 million of 2009 Series Bonds maturing July 2020 and July 2021, along with the accrued interest using SCA's available funds and $7.9 million from SMUD. 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 defeasances resulted in an accounting loss of $0.8 million which is included in Interest on Debt in the Statements of Revenues, Expenses and Changes in Net Position.

**Terms of Debt Indentures.** Debt indentures contain a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

**Interest Rate Swap Agreements.** A summary of SMUD's six interest rate swap agreements as of December 31, 2020 are as follows. The credit ratings listed are from S&P.

| Notional Amount (thousands) | SMUD Pays | Fixed Rate | Floating Rate | Termination Date | Counterparty Credit Rating |
|---|---|---|---|---|---|
| $ 72,620 | Variable | 5.166% | SIFMA | 07/01/24 | BBB+ |
| 80,100 | Fixed | 2.894% | 63% of 1 M LIBOR | 08/15/28 | A+ |
| 127,030 | Fixed | 1.099% | 67% of 1M LIBOR | 08/15/28 | BBB+ |
| 157,785 | Fixed | 1.607% | SIFMA | 08/15/33 | A+ |
| 132,020 | Fixed | 0.7179% | 70% of 1M LIBOR | 08/15/41 | A |
| 75,680 | Fixed | 0.5543% | 70% of 1M LIBOR | 08/15/33 | A |

A summary of SMUD's four interest rate swap agreements as of December 31, 2019 are as follows:

| Notional Amount (thousands) | SMUD Pays | Fixed Rate | Floating Rate | Termination Date | Counterparty Credit Rating |
|---|---|---|---|---|---|
| $ 88,470 | Variable | 5.166% | SIFMA | 07/01/24 | BBB+ |
| 85,625 | Fixed | 2.894% | 63% of 1M LIBOR | 08/15/28 | A+ |
| 127,030 | Fixed | 1.099% | 67% of 1M LIBOR | 08/15/28 | BBB+ |
| 157,785 | Fixed | 1.607% | SIFMA | 08/15/33 | A+ |

At December 31, 2020 and 2019, SMUD had a fixed-to-variable interest rate swap agreement with a notional amount of $72.6 million and $88.5 million, respectively, which is equivalent to the principal amount of SMUD's 1997 Series K Electric Revenue Bonds. Under this swap agreement, SMUD pays a variable rate equivalent to the Securities Industry and Financial Markets Association (SIFMA) Index (.09 percent and 1.61 percent at December 31, 2020 and 2019, respectively) and receives fixed rate payments of 5.166 percent as of December 31, 2020 and 2019. In connection with the swap agreement, SMUD has a put option agreement, also with a notional amount of $72.6 million and $88.5 million as of December 31, 2020 and 2019, respectively, which gives the counterparty the right to sell to SMUD, at par, either the 1997 Series K Bonds, or a portfolio of securities sufficient to defease the 1997 Series K Bonds. SMUD receives fixed rate payments of 0.01 percent and 0.162 percent as of December 31, 2020 and 2019, respectively, in connection with the put option agreement. The exercise of the option terminates the swap at no cost to SMUD. The term of both the swap and the put is equal to the maturity of the 1997 Series K Bonds.

At December 31, 2020 and 2019, SMUD had one variable-to-fixed interest rate swap agreement with a notional amount of $80.1 million and $85.6 million, respectively. This swap was originally entered into for the purpose of fixing the effective interest rate associated with certain of its subordinated bonds that were refunded during 2008. The notional value of the swap is amortized over the life of the swap agreement. SMUD can terminate the swap agreement at any time, with payment or receipt of the fair market value of the swap as of the date of termination. The obligations of SMUD under the swap agreement are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

Additionally, in June 2020, SMUD executed a variable-to-fixed interest rate swap agreement with Barclays Bank PLC with a notional amount of $132.0 million for the purpose of fixing the effective interest rate associated with the potential refunding of the 2013 Series A Bonds. The Barclays 2013 Series A swap becomes effective in July 2023. Also, in June 2020, SMUD executed a variable-to-fixed interest rate swap agreement with Barclays Bank PLC with a notional amount of $75.7 million for the purpose of fixing the effective interest rate associated with the potential refunding of the 2013 Series B Bonds. The Barclays 2013 Series B swap becomes effective in July 2023. The notional values of the two swaps are amortized over the life of their respective swap agreements. SMUD can terminate both swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

In December 2019, SMUD executed a variable-to-fixed interest rate swap agreement with J. Aron with a notional amount of $127.0 million for the purpose of fixing the effective interest rate associated with the potential refunding of the 2011 Series X Bonds. The J. Aron swap becomes effective in July 2021. Also, in December 2019, SMUD executed a variable-to-fixed interest rate swap agreement with Morgan Stanley Capital Services with a notional amount of $157.8 million for the purpose of fixing the effective interest rate associated with the potential refunding of the 2012 Series Y Bonds. The Morgan Stanley Capital Services swap becomes effective in July 2022. The notional values of the two swaps are amortized over the life of their respective swap agreements. SMUD can terminate both swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. Additionally, on August 15, 2026 and for the remaining life of the Morgan Stanley Capital Services swap associated with 2012 Series Y Bonds, the swap can be terminated at no cost to SMUD. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

**Component Unit Interest Rate Swap Agreements.** NCGA had one interest rate swap agreement as of December 31, 2020, which is summarized as follows. The credit ratings listed are from S&P.

| Notional Amount (thousands) | NCGA Pays | Fixed Rate | Floating Rate | Termination Date | Credit Support Provider Credit Rating |
|---|---|---|---|---|---|
| $ 181,935 | Fixed | 4.304% | 67% of LIBOR + .72% | 07/01/27 | A+ |

NCGA had one interest rate swap agreement as of December 31, 2019, which are summarized as follows:

| Notional Amount (thousands) | NCGA Pays | Fixed Rate | Floating Rate | Termination Date | Credit Support Provider Credit Rating |
|---|---|---|---|---|---|
| $ 198,610 | Fixed | 4.304% | 67% of LIBOR + .72% | 07/01/27 | A+ |

At December 31, 2020 and 2019, NCGA had a variable-to-fixed interest rate swap agreement with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month LIBOR (0.23 percent and 1.91 percent at December 31, 2020 and 2019, respectively) plus an interest rate spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2020 and 2019 was $181.9 million and $198.6 million, respectively, and was equivalent to the outstanding principal balance on the NCGA Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swap would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swap would have no value to either party.

**Subordinated Electric Revenue Bonds.** Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

**Component Unit Bonds.** The component units of SMUD have each issued bonds to finance their respective projects. The revenue stream to pay SFA bonds' debt service is provided by a "take-or-pay" power purchase agreement, and is therefore not dependent on the successful operation of the project. SMUD guarantees to make payments sufficient to pay principal and interest and all other payments required to be made under SFA's indenture of trust. SFA is not required to repay SMUD for any amounts paid under this guarantee. The revenue stream to pay NCGA and NCEA bonds' debt service is provided by "take-and-pay" purchase agreements. Therefore, principal and interest associated with these bonds are paid solely from the revenues and receipts collected in connection with the operation of the project. Most operating revenues earned by NCGA and NCEA are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability for NCGA and NCEA to service debt is dependent on various parties (particularly MSCG, as gas supplier for NCGA and J. Aron, as commodity supplier for NCEA) meeting their contractual obligations.

**Callable Bonds.** SMUD has $488.8 million of Electric Revenue Bonds that are currently callable, all of which are fixed rate Build America Bonds debt. SMUD also has $492.5 million of bonds that become callable from 2021 through 2026, and these bonds can be called until maturity. SMUD also has a four month call period on the 2019 Series A and 2019 Series B Bonds in advance of their mandatory remarketing purchase date in 2023 and 2025, respectively.

**Collateral.** The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

**Covenants.** SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues, component unit net project revenues, and net gas supply prepayment revenues to repay, in electric revenue, component unit project revenue, and gas supply prepayment revenue bonds issued from 1997 through 2020. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and the prepayments of a twenty-year supply of natural gas and a thirty-year supply of commodity. The bonds are payable solely from the net revenues generated by SMUD's electrical sales, component unit project revenues, and gas supply prepayment revenues and are payable through 2050 at December 31, 2020.

GASB Statement No. 48, ***"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,"*** disclosures for pledged revenues are as follows:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (thousands of dollars) | |
| Pledged future revenues | $ 3,118,755 | $ 2,837,060 |
| Principal and interest payments for the year ended | $ 262,291 | $ 265,930 |
| Total net revenues for the year ended | $ 632,572 | $ 586,514 |
| Total remaining principal and interest to be paid | $ 4,997,204 | $ 4,469,891 |
| Annual principal and interest payments as a percent of net revenues for the year ended | 41% | 45% |

## NOTE 11. COMMERCIAL PAPER NOTES

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. In February 2019, SMUD expanded its commercial paper program from $288.8 million to $400.0 million. At December 31, 2020, there were no Notes outstanding. At December 31, 2019, Notes outstanding totaled $50.0 million. The average interest rate for the Notes outstanding at December 31, 2019 was 1.02 percent and the average term was 90 days. SMUD's commercial paper program is backed by $409.9 million in letter of credit agreements (LOCs) with three separate banks. The LOCs are calculated as the sum of the maximum principal amount of the Notes plus interest thereon at a maximum rate of ten percent per annum for a period of 90 days calculated on the basis of a year of 365 days and the actual number of days elapsed. There have not been any term advances under the LOCs. The LOCs contain a provision that in an event of default, the outstanding amounts may become immediately due.

The summarized activity of SMUD's Notes during 2020 and 2019 is presented below:

| | Balance at Beginning of Year | Additions | Reductions | Balance at End of Year |
|---|---|---|---|---|
| | (thousands of dollars) | | | |
| December 31, 2020 | $ 50,000 | $ -0- | $ (50,000) | $ -0- |
| December 31, 2019 | $ 288,750 | $ 161,250 | $ (400,000) | $ 50,000 |

**NOTE 12. FAIR VALUE MEASUREMENT**

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). SMUD 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 SMUD'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 as follows:

- 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.
- U.S. Government Agency Obligations – uses a market based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.
- U.S. Treasury Obligations – uses a market approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.
- Corporate Notes – uses a market based approach. Evaluations are based on various market and industry inputs.
- Municipal Bonds – uses a market approach based on institutional bond quotes. Evaluations are based on various market and industry inputs.
- Investment Derivative Instruments:
  - Interest rate swap agreements – uses the present value technique. The fair value of the interest rate swap agreements are calculated by discounting the expected cash flows. The cash flows and discount rates are estimated based on a 1-month LIBOR forward curve from Bloomberg, and assuming SIFMA is equal to 70.0 percent of 1-month LIBOR.

- Gas related agreements – uses the market approach based on monthly quoted prices from an independent external pricing service. The fair values for natural gas and electricity derivative financial instruments are calculated based on prevailing market quotes in active markets (i.e. Henry Hub and So Cal) where identical contracts are available.

The following tables identify the level within the fair value hierarchy that SMUD's financial assets and liabilities were 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. SMUD'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 | At fair value as of December 31, 2020 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | (thousands of dollars) | | |
| Investments, including cash and cash equivalents: | | | |
| LAIF | $ -0- | $ 512,682 | $ 512,682 |
| U.S. Government Agency Obligations | -0- | 85,636 | 85,636 |
| U.S. Treasury Obligations | 20,248 | -0- | 20,248 |
| Corporate Notes | -0- | 118,015 | 118,015 |
| Municipal Bonds | -0- | 63,647 | 63,647 |
| Total Investments, including cash and cash equivalents | $ 20,248 | $ 779,980 | $ 800,228 |
| Investment Derivative Instrument Assets: | | | |
| Gas related agreements | $ 33 | $ -0- | $ 33 |
| Total Investment Derivative Instrument Assets | $ 33 | $ -0- | $ 33 |
| Hedging Derivative Instrument Assets: | | | |
| Gas related agreements | $ 5,445 | $ -0- | $ 5,445 |
| Interest rate swap agreements | -0- | 8,074 | 8,074 |
| Total Hedging Derivative Instrument Assets | $ 5,445 | $ 8,074 | $ 13,519 |
| Investment Derivative Instrument Liabilities: | | | |
| Gas related agreements | $ 272 | $ -0- | $ 272 |
| Interest rate swap agreements | -0- | 9,032 | 9,032 |
| Total Investment Derivative Instrument Liabilities | $ 272 | $ 9,032 | $ 9,304 |
| Hedging Derivative Instrument Liabilities: | | | |
| Gas related agreements | $ 40,461 | $ -0- | $ 40,461 |
| Interest rate swap agreements | -0- | 11,119 | 11,119 |
| Total Hedging Derivative Instrument Liabilities | $ 40,461 | $ 11,119 | $ 51,580 |

| Recurring Fair Value Measures | At fair value as of December 31, 2019 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | (thousands of dollars) | | |
| Investments, including cash and cash equivalents: | | | |
| LAIF | $ -0- | $ 104,742 | $ 104,742 |
| U.S. Government Agency Obligations | -0- | 178,167 | 178,167 |
| U.S. Treasury Obligations | 125,283 | -0- | 125,283 |
| Corporate Notes | -0- | 121,199 | 121,199 |
| Municipal Bonds | -0- | 48,076 | 48,076 |
| Total Investments, including cash and cash equivalents | $ 125,283 | $ 452,184 | $ 577,467 |
| Investment Derivative Instrument Assets: | | | |
| Gas related agreements | $ 488 | $ -0- | $ 488 |
| Total Investment Derivative Instrument Assets | $ 488 | $ -0- | $ 488 |
| Hedging Derivative Instrument Assets: | | | |
| Gas related agreements | $ 7,247 | $ -0- | $ 7,247 |
| Interest rate swap agreements | -0- | 9,471 | 9,471 |
| Total Hedging Derivative Instrument Assets | $ 7,247 | $ 9,471 | $ 16,718 |
| Investment Derivative Instrument Liabilities: | | | |
| Gas related agreements | $ 3,122 | $ -0- | $ 3,122 |
| Interest rate swap agreements | -0- | 7,882 | 7,882 |
| Total Investment Derivative Instrument Liabilities | $ 3,122 | $ 7,882 | $ 11,004 |
| Hedging Derivative Instrument Liabilities: | | | |
| Gas related agreements | $ 83,074 | $ -0- | $ 83,074 |
| Interest rate swap agreements | -0- | 2,120 | 2,120 |
| Total Hedging Derivative Instrument Liabilities | $ 83,074 | $ 2,120 | $ 85,194 |

## NOTE 13. ACCRUED DECOMMISSIONING LIABILITY

**Asset Retirement Obligations (ARO).** SMUD implemented GASB No. 83 in 2019. SMUD recognizes AROs for its Rancho Seco nuclear power plant facility and the CVFA power plant facility. This statement requires measurement of the ARO be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should be determined using all available evidence and requires probability weighting of potential outcomes when sufficient evidence is available. This statement also requires the current value be adjusted for the effects of the general inflation or deflation and an evaluation of relevant factors that may significantly change the estimated asset retirement outlays at least annually.

**Rancho Seco Nuclear Power Plant.** With the completion of nuclear decommissioning of the former 913 MW nuclear power plant, and the subsequent termination of the 10 Code of Federal Regulations (CFR) 50 license by the Nuclear Regulatory Commission (NRC) effective August 31, 2018, all remaining Rancho Seco decommissioning liability relates to the Independent Spent Fuel Storage Installation (ISFSI) licensed under 10 CFR Part 72. Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual radioactivity to a level that permits termination of the NRC licenses and release of the property for unrestricted use. Final decommissioning of the ISFSI will occur after the spent nuclear fuel (SNF) and Greater Than Class C (GTCC) radioactive waste are removed from the site and SMUD demonstrates that the site is suitable for release in accordance with release criteria specified in 10 CFR 20, Subpart E and an approved License Termination Plan.

The Department of Energy (DOE), under the Nuclear Waste Policy Act (NWPA) of 1982 as amended, is responsible for permanent disposal of spent nuclear fuel and GTCC radioactive waste, which are currently stored in the Part 72 licensed ISFSI. SMUD has a contract with the DOE for the removal and disposal of SNF and GTCC waste. All SMUD's SNF and GTCC waste are currently stored in sealed canisters in the ISFSI. However, the date when DOE will remove the fuel and GTCC waste is uncertain. In 2010, the DOE formally withdrew the application for licensing of Yucca Mountain as a high-level waste repository. While the court- ordered reinstatement of NRC license review activities of Yucca Mountain have yielded generally positive results, Yucca Mountain remains speculative as a disposal option for SMUD's used nuclear fuel. The DOE also announced in January 2010 the creation of a Blue-Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel. The Commission provided a final report on alternatives in January 2012. The DOE evaluated the recommendations and published the report "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in January 2013.

The next phase of the process will be for Congress and the President of the United States to consider the recommendations and enact legislation to implement the recommendations. At this time, two license applications have been submitted to the NRC for the construction and operation of Consolidated Interim Storage Facility(s) that would store SNF and GTCC waste on an interim basis. These applications are currently under review by the NRC. Should the NRC license one or both facilities, Congress will have to modify the NWPA to allow for its use. In May 2018, the U.S. House of Representatives passed H.R. 3053 – the Nuclear Waste Policy Amendments Act, which was co-sponsored by Representative Doris Matsui and 109 other members of Congress. This bill includes a provision to allow a Consolidated Interim Storage Facility to store fuel from permanently shut down sites like Rancho Seco. The U.S. Senate did not act on the bill. Until legislation is passed which includes a significant step towards removal of the used nuclear fuel at the Rancho Seco facility, SMUD is committed to the safe and secure storage of its SNF and GTCC waste under its Part 72 license until DOE fulfills its obligation to dispose of this material in accordance with NWPA. In support of this commitment, SMUD submitted its ISFSI license renewal application to the NRC in March of 2018. The NRC issued Renewed Licensee No. SNM-2510 on March 9, 2020. This renewed license authorizes the continued storage of SMUD's SNF and GTCC until June 30, 2060.

The Rancho Seco decommissioning liability is based on an internal study of the remaining decommissioning costs, which consist of: 1) annual spent fuel management costs, 2) transportation of the canisters in the ISFSI and 3) termination of the Part 72 license. The largest part of the decommissioning estimate is the annual spent fuel management costs; next year's annual budget is used for the estimate. The other costs were estimated based on prior experience and studies and prepared by management representatives of the nuclear power plant. The costs in the estimate were in 2019 dollars. An employment cost index was used to adjust the other costs portion of the obligation for inflation in 2020. Probability weighting was assigned for two scenarios: 1) spent nuclear fuel will be removed from the site by 2028 and 2) spent nuclear fuel will be removed from the site by 2035. SMUD uses its Trust Fund (see Note 2) to demonstrate financial assurance to the NRC that there are enough funds to complete the termination of the Part 72 license; the balance of the Trust Fund at December 31, 2020 is $8.9 million.

**CVFA Power Plant.** CVFA's ground lease agreement with the Sacramento Regional County Sanitation District requires CVFA to restore the premises to its original condition upon termination of the contract. A new study to determine the current value of the asset retirement obligation was conducted by an external contractor who specializes in decommissioning studies. The expected costs and scope of work were based on the most recent cost estimate and assumes a contractor will be responsible for the work and that decommissioning would take place between 2025 and 2027. The estimated costs were in 2018 dollars. The result of this study was used to determine the new balance of the ARO and the deferred outflows at January 1, 2018, in order to account for the 2018 activity. CVFA used the annual All Urban Consumer Price Index to adjust this obligation for inflation in 2020. The remaining useful life of the Agency's assets is five years at December 31, 2020.

The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures for Rancho Seco in the next year, as set forth in the annual budget.

At December 31, 2020 and 2019, SMUD's Accrued Decommissioning balance in the Statements of Net Position was $99.5 million and $91.7 million, respectively.

## NOTE 14. PENSION PLANS

**Summary of Significant Accounting Policies.** For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (PERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Plan Description and Benefits Provided.** SMUD participates in PERS, an agent multiple-employer public employee defined benefit pension plan (PERS Plan). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age, and final compensation. A full description of the pension plan regarding number of employees covered, benefit provision, assumptions (for funding, but not accounting purposes), and membership information are included in the annual actuarial valuation reports as of June 30, 2019 and June 30, 2018.

During 2019, SMUD also provided a supplemental benefit in lieu of PERS' Single Highest Year (SHY) for certain represented employees hired before January 1, 2013. For these employees, if the present value of pension allowance under the PERS Plan with the employer paid member contributions (EPMC) benefit enhancement program is less than the present value of what the employee would have received under the PERS Plan benefit with SHY earnings but no EPMC, SMUD pays a lump sum equivalent to the difference. There are no assets accumulated in a trust for SHY. At December 31, 2020 SMUD no longer had an obligation to provide the supplemental benefit in lieu of PERS' SHY.

GASB No. 68 and GASB No. 73 require that the reported results must pertain to liability and asset information within certain defined timeframes. The following timeframes are used for the year ended:

| **PERS Plan** | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Valuation date | June 30, 2019 | June 30, 2018 |
| Measurement date | June 30, 2020 | June 30, 2019 |

| **SHY** | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Valuation date and Measurement date | N/A | June 30, 2019 |

**Employees Covered by Benefit Terms.** The following employees were covered by the benefit terms for the year ended:

| **PERS Plan** | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Inactive employees or beneficiaries currently receiving benefit payments | 3,003 | 2,936 |
| Inactive employees entitled to but not yet receiving benefit payments | 979 | 946 |
| Active employees | 2,265 | 2,260 |
| Total employees covered by benefit terms | 6,247 | 6,142 |

| SHY | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Inactive employees or beneficiaries currently receiving benefit payments | -0- | -0- |
| Inactive employees entitled to but not yet receiving benefit payments | -0- | -0- |
| Active employees | -0- | 215 |
| Total employees covered by benefit terms | -0- | 215 |

**Contributions.** Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through PERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the PERS fiscal years ended June 30, 2020 and 2019, the average active employee contribution rate is 6.6 percent and 6.7 percent of annual pay, respectively. For the PERS fiscal year ended June 30, 2020, the employer's contribution rate is 8.7 percent of annual payroll plus $31.1 million for the unfunded accrued liability contribution. For the PERS fiscal year ended June 30, 2019, the employer's contribution rate is 8.2 percent of annual payroll plus $29.4 million for the unfunded accrued liability contribution. Employer contribution rates may change if plan contracts are amended. For the fiscal years ended June 30, 2020 and 2019, SMUD made contributions recognized by the PERS Plan in the amount of $98.3 million and $69.1 million, respectively.

**Net Pension Liability (NPL).** SMUD's NPL at December 31, 2020 and 2019 was measured at June 30, 2020 and 2019, respectively. The total pension liability used to calculate the NPL was determined by actuarial valuations as of June 30, 2019 and 2018 rolled forward using generally accepted actuarial procedures to the June 30, 2020 and 2019 measurement dates for the PERS Plan and actuarial valuations as of June 30, 2019 for SHY.

**Actuarial Methods and Assumptions.** The actuarial methods and assumptions used for the December 31, 2020 and December 31, 2019 total pension liabilities are as follows for the PERS Plan:

| | |
|---|---|
| Actuarial Cost Method | Entry age normal |
| Discount Rate | 7.15% |
| Inflation | 2.5% |
| Salary Increases | Varies by entry age and service |
| Mortality Rate Table | The mortality table used was developed based on PERS' specific data. The probabilities of mortality are based on the 2017 PERS' Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using the Society of Actuaries Scale 90% of scale MP-2016. |
| Post Retirement Benefit Increase | For 2020 and 2019, the lesser of contract COLA or 2.5% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.5% thereafter |

The actuarial methods and assumptions used for the December 31, 2019 total pension liabilities are as follows for SHY:

| | |
|---|---|
| Actuarial Cost Method | Entry age normal |
| Discount Rate | Bond Buyer 20 Index - 3.50% (2019) |
| Inflation | 2.5% (2019) |
| Salary Increases | Aggregate – 2.75% (2019); merit - PERS 1997-2015 Experience Study |
| Mortality, Retirement, Disability, Termination | PERS 1997-2015 Experience Study |
| Mortality Improvement | Mortality projected 15 years with 90% of Scale MP-2016 |

**Discount Rates.** For the PERS Plan, the discount rate used to measure the total pension liability for the years ended December 31, 2020 and 2019 was 7.15 percent for both years. For the year ended December 31, 2020, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the PERS Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

The expected real rates of return by asset class used for December 31, 2020 are as follows:

| Asset Class | Current Target Allocation | Real Return Years 1-10 | Real Return Years 11+ |
|---|---|---|---|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Global Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Assets | 0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Estate | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0% | (0.92%) |

The expected real rates of return by asset class used for December 31, 2019 are as follows:

| Asset Class | Current Target Allocation | Real Return Years 1-10 | Real Return Years 11+ |
|---|---|---|---|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Global Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Assets | 0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Estate | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0% | (0.92%) |

**Changes in the NPL.** The following table shows the changes in NPL recognized over the year ended December 31, 2020:

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Balances at January 1, 2020 | $ 2,332,097 | $ 1,864,450 | $ 467,647 |
| Changes recognized for the measurement period: | | | |
| Service cost | 38,901 | -0- | 38,901 |
| Interest | 164,044 | -0- | 164,044 |
| Changes in assumptions | -0- | -0- | -0- |
| Differences between expected and actual experience | 9,981 | -0- | 9,981 |
| Contributions - employer | -0- | 98,344 | (98,344) |
| Contributions - employee | -0- | 18,095 | (18,095) |
| Net investment income | -0- | 92,534 | (92,534) |
| Benefit payments | (125,581) | (125,581) | -0- |
| Administrative expense | -0- | (2,628) | 2,628 |
| Other – GASB 73 pension liability write off | (4,408) | -0- | (4,408) |
| Net changes | 82,937 | 80,764 | 2,173 |
| Balances at December 31, 2020 | $ 2,415,034 | $ 1,945,214 | $ 469,820 |

The following table shows the changes in NPL recognized over the year ended December 31, 2019:

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Balances at January 1, 2019 | $ 2,234,911 | $ 1,780,867 | $ 454,044 |
| Changes recognized for the measurement period: | | | |
| Service cost | 38,264 | -0- | 38,264 |
| Interest | 158,160 | -0- | 158,160 |
| Changes in assumptions | (194) | -0- | (194) |
| Differences between expected and actual experience | 18,561 | -0- | 18,561 |
| Contributions - employer | -0- | 69,119 | (69,119) |
| Contributions - employee | -0- | 17,411 | (17,411) |
| Net investment income | -0- | 115,867 | (115,867) |
| Benefit payments | (117,605) | (117,548) | (57) |
| Administrative expense | -0- | (1,270) | 1,270 |
| Other | -0- | 4 | (4) |
| Net changes | 97,186 | 83,583 | 13,603 |
| Balances at December 31, 2019 | $ 2,332,097 | $ 1,864,450 | $ 467,647 |

**Sensitivity of the NPL to Changes in the Discount Rate.** The following presents the NPL of the Plan as of the measurement date, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

| **PERS Plan** | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Plan's NPL, December 31, 2020 | $ 777,072 | $ 469,820 | $ 214,331 |
| Plan's NPL, December 31, 2019 | 761,785 | 463,239 | 215,186 |

| **SHY** | 1% Decrease (2.50%) | Current Discount Rate (3.50%) | 1% Increase (4.50%) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Plan's NPL, December 31, 2019 | $ 5,375 | $ 4,408 | $ 3,642 |

**Pension Plan Fiduciary Net Position.** Detailed information about the PERS Plan's fiduciary net position is available in the separately issued PERS Plan financial statements. This report, the audited financial statements, and other reports can be obtained at the PERS' website at www.calpers.ca.gov.

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the years ended December 31, 2020 and 2019, SMUD recognized pension expense of $79.7 million and $91.8 million, respectively.

At December 31, 2020 and 2019, SMUD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| | (thousands of dollars) | |
| Deferred outflows of resources: | | |
| Changes of assumptions | $ -0- | $ 23,961 |
| Differences between expected and actual experience | 17,222 | 14,788 |
| Differences between projected and actual earnings on pension plan investments | 16,985 | -0- |
| Employer's contributions to the Plan subsequent to the measurement of total pension liability | 142,133 | 67,119 |
| Total deferred outflows of resources | $ 176,340 | $ 105,868 |
| Deferred inflows of resources: | | |
| Changes of assumptions | $ 14,212 | $ 30,825 |
| Differences between expected and actual experience | -0- | 7,239 |
| Differences between projected and actual earnings on pension plan investments | -0- | 7,932 |
| Total deferred inflows of resources | $ 14,212 | $ 45,996 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | |
|---|---|
| 2021 | $ (13,622) |
| 2022 | 13,040 |
| 2023 | 12,545 |
| 2024 | 8,032 |
| 2025 | -0- |
| Thereafter | -0- |

**Other Plans.** SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) (401(k) Plan) and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the fiduciary duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD also matches non-represented employee contributions to the 401(k) Plan up to a set amount. SMUD made contributions into the 401(k) Plan of $5.8 million in 2020 and $5.4 million in 2019. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into both Plans totaling $28.8 million in 2020 and $24.8 million in 2019.

## NOTE 15. OTHER POSTEMPLOYMENT BENEFITS

**Summary of Significant Accounting Policies.** For purposes of measuring the net OPEB asset or liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the California Employers' Retiree Benefit Trust (CERBT). For this purpose, SMUD recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Plan Description and Benefits Provided.** SMUD is a member of CERBT. The CERBT Fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund OPEB for retirees and their beneficiaries. CERBT is an agent multiple-employer defined benefit OPEB plan (OPEB Plan) administered by PERS. The OPEB Plan provides medical, dental and long-term disability benefits for retirees and their beneficiaries, in accordance with SMUD policy and negotiated agreements with employee representation groups. The benefit, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. Any changes to these benefits would be approved by SMUD's Board and unions.

**Employees Covered by Benefit Terms.** The following employees were covered by the benefit terms:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Inactive employees or beneficiaries currently receiving benefit payments | 2,286 | 2,244 |
| Inactive employees entitled to but not yet receiving benefit payments | 46 | 44 |
| Active employees | 2,136 | 2,186 |
| Total employees covered by benefit terms | 4,468 | 4,474 |

**Contributions.** OPEB contributions are elective and not required. In December 2018, SMUD split its CERBT assets across two asset strategies to better align trust assets with liabilities (Strategy 1 for active employees and retirements after June 30, 2018 and Strategy 3 for retirements before July 1, 2018). SMUD contributes the normal cost to the CERBT, but annually receives reimbursement for cash benefit payments from the CERBT. SMUD may also elect to put additional contributions into the OPEB Plan. For the OPEB Plan's fiscal years ended June 30, 2020 and 2019, SMUD made contributions recognized by the OPEB Plan in the amounts of $13.3 million and $14.0 million, respectively.

**Net OPEB Asset (NOA) or Liability (NOL).** SMUD's NOA at December 31, 2020 and NOL at December 31, 2019 was measured as of June 30, 2020 and 2019, respectively, and the total OPEB liability used to calculate the NOA and NOL was determined by actuarial valuations as of those dates.

**Actuarial Methods and Assumptions.** The actuarial methods and assumptions used for the December 31, 2020 and December 31, 2019 total OPEB liabilities are as follows:

| | |
|---|---|
| Discount Rate | 6.37% (2020). Blended discount rate based on projected benefit streams expected to be paid from each Strategy. 6.40% (2019) |
| Inflation | 2.75% |
| Salary Increases | Aggregate - 3.0%; merit - PERS 1997-2015 Experience Study |
| Mortality, Retirement, Disability, Termination | PERS 1997-2015 Experience Study |
| Mortality Improvement | Mortality projected fully generational with Scale MP-19 (2020), MP-18 (2019) |
| Healthcare Cost Trend Rates | Non-medicare: 7.0% for 2022, decreasing to an ultimate rate of 4.0% in 2076 (2020); 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 (2019)<br>Kaiser Medicare: 5.0% for 2022, decreasing to an ultimate rate of 4.0% in 2076 (2020)<br>Medicare: 6.1% for 2022, decreasing to an ultimate rate of 4.0% in 2076 (2020); 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076 (2019) |

**Discount Rates.** For the OPEB Plan, the discount rate used to measure the total OPEB liability was 6.37 percent and 6.40 percent for the years ended December 31, 2020 and 2019, respectively. This rate is a blended discount rate based on projected benefit streams expected to be paid from Strategies 1 and 3. The projection of cash flows used to determine the discount rate assumed that SMUD contributes the full normal cost to the trust and only takes reimbursement from the trust of the cash benefit payments. Because the implied subsidy benefit payments have a larger present value than the payments toward the unfunded accrued liability, there should be sufficient plan assets to pay all benefits from the trust. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. The long-term expected rate of return of 6.75 percent for Strategy 1 and 5.50 percent for Strategy 3 was applied to all periods of projected benefit payments to determine the total OPEB liability for the years ended December 31, 2020 and 2019.

The expected real rates of return by asset class used and presented as geometric means for December 31, 2020 are as follows:

| Asset Class | Target Allocation CERBT Strategy 1 | Expected Real Rate of Return |
|---|---|---|
| Global Equity | 59% | 4.82% |
| Fixed Income | 25% | 1.47% |
| TIPS | 5% | 1.29% |
| Commodities | 3% | 0.84% |
| REITS | 8% | 3.76% |

| Asset Class | Target Allocation CERBT Strategy 3 | Expected Real Rate of Return |
|---|---|---|
| Global Equity | 22% | 4.82% |
| Fixed Income | 49% | 1.47% |
| TIPS | 16% | 1.29% |
| Commodities | 5% | 0.84% |
| REITS | 8% | 3.76% |

The expected real rates of return by asset class used and presented as geometric means for December 31, 2019 are as follows:

| Asset Class | Target Allocation CERBT Strategy 1 | Expected Real Rate of Return |
|---|---|---|
| Global Equity | 59% | 4.82% |
| Fixed Income | 25% | 1.47% |
| TIPS | 5% | 1.29% |
| Commodities | 3% | 0.84% |
| REITS | 8% | 3.76% |

| Asset Class | Target Allocation CERBT Strategy 3 | Expected Real Rate of Return |
|---|---|---|
| Global Equity | 22% | 4.82% |
| Fixed Income | 49% | 1.47% |
| TIPS | 16% | 1.29% |
| Commodities | 5% | 0.84% |
| REITS | 8% | 3.76% |

**Changes in the NOA/NOL.** The following table shows the changes in NOA/NOL recognized over the year ended December 31, 2020:

| | Total OPEB Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net OPEB (Asset) Liability (a) – (b) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Balances at January 1, 2020 | $ 419,483 | $ 387,272 | $ 32,211 |
| Changes recognized for the measurement period: | | | |
| Service cost | 8,903 | -0- | 8,903 |
| Interest | 26,653 | -0- | 26,653 |
| Changes in assumptions | (11,453) | -0- | (11,453) |
| Differences between expected and actual experience | (23,529) | -0- | (23,529) |
| Contributions - employer | -0- | 13,299 | (13,299) |
| Net investment income | -0- | 20,447 | (20,447) |
| Benefit payments | (23,848) | (23,848) | -0- |
| Administrative expense | -0- | (191) | 191 |
| Net changes | (23,274) | 9,707 | (32,981) |
| Balances at December 31, 2020 | $ 396,209 | $ 396,979 | $ (770) |

The following table shows the changes in NPL recognized over the year ended December 31, 2019:

| | Total OPEB Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net OPEB Liability (a) – (b) |
|---|---|---|---|
| | | (thousands of dollars) | |
| Balances at January 1, 2019 | $ 399,845 | $ 377,779 | $ 22,066 |
| Changes recognized for the measurement period: | | | |
| Service cost | 8,946 | -0- | 8,946 |
| Interest | 26,766 | -0- | 26,766 |
| Changes in assumptions | 15,332 | -0- | 15,332 |
| Differences between expected and actual experience | (6,885) | -0- | (6,885) |
| Contributions - employer | -0- | 13,963 | (13,963) |
| Net investment income | -0- | 20,132 | (20,132) |
| Benefit payments | (24,521) | (24,521) | -0- |
| Administrative expense | -0- | (81) | 81 |
| Net changes | 19,638 | 9,493 | 10,145 |
| Balances at December 31, 2019 | $ 419,483 | $ 387,272 | $ 32,211 |

**Sensitivity of the NOA/NOL to Changes in the Discount Rate.** The following presents the NOA/NOL of SMUD as of the measurement date, calculated using the current discount rate, as well as what the NOA/NOL would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

| | 1% Decrease (5.37%) | Current Discount Rate (6.37%) | 1% Increase (7.37%) |
|---|---|---|---|
| | | (thousands of dollars) | |
| NOL/(NOA), December 31, 2020 | $ 48,397 | $ (770) | $ (41,660) |

| | 1% Decrease (5.40%) | Current Discount Rate (6.40%) | 1% Increase (7.40%) |
|---|---|---|---|
| | | (thousands of dollars) | |
| NOL/(NOA), December 31, 2019 | $ 85,866 | $ 32,211 | $ (12,249) |

**Sensitivity of the NOA/NOL to Changes in the Healthcare Cost Trend Rates.** The following presents the NOA/NOL of SMUD as of the measurement date, calculated using the current healthcare cost trend rate, as well as what the NOA/NOL would be if it were calculated using a healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current healthcare trend rate (see assumptions above for healthcare trend rate):

| | 1% Decrease | Current Healthcare Trend Rate | 1% Increase |
|---|---|---|---|
| | | (thousands of dollars) | |
| NOL/(NOA), December 31, 2020 | $ (45,574) | $ (770) | $ 54,091 |
| NOL/(NOA), December 31, 2019 | $ (16,289) | $ 32,211 | $ 91,772 |

**OPEB Plan Fiduciary Net Position.** Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan's report. This report can be obtained at the PERS' website at www.calpers.ca.gov.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.** For the years ended December 31, 2020 and 2019, SMUD recognized OPEB expense of ($3.2) million and ($0.2) million, respectively.

At December 31, 2020 and 2019, SMUD reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (thousands of dollars) | |
| Deferred outflows of resources: | | |
| Changes of assumptions | $ 11,448 | $ 14,644 |
| Differences between projected and actual earnings on OPEB plan investments | 2,741 | -0- |
| Employer's contributions to the OPEB Plan subsequent to the measurement of total OPEB liability | 11,947 | 12,014 |
| Total deferred outflows of resources | $ 26,136 | $ 26,658 |
| Deferred inflows of resources: | | |
| Changes of assumptions | $ 9,479 | $ -0- |
| Differences between expected and actual experience | 49,375 | 42,593 |
| Differences between projected and actual earnings on OPEB plan investments | -0- | 266 |
| Total deferred inflows of resources | $ 58,854 | $ 42,859 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | | |
|---|---|---|
| Year ended December 31: | | |
| 2021 | $ | (15,828) |
| 2022 | | (14,669) |
| 2023 | | (5,141) |
| 2024 | | (4,202) |
| 2025 | | (4,825) |
| Thereafter | | -0- |

**NOTE 16. INSURANCE PROGRAMS AND CLAIMS**

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, cyber activities, natural disasters, employee injuries and illnesses, and others. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, which range from $5.0 thousand to $2.5 million per claim. General liability limits are $140.0 million, excess of a $5.0 million self-insured retention. As of December 31, 2020, wildfire liability limits are $250.0 million ($173.0 million commercial insurance plus $77.0 million self-insured retention). As of December 31, 2019, SMUD had $186.5 million commercial coverage plus $63.5 million self-insured retention within a $250.0 million total program value (i.e. this year's program has the same commercial coverage protection but a higher self-insured portion due to the continuing decrease in commercial capacity within the wildfire market). SMUD's property insurance coverage is based on the replacement value of the asset. There have been no significant reductions in insurance coverage, and in some cases, certain coverages increased. In 2020, 2019 and 2018, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance and Other in the Statements of Net Position.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2020, 2019 and 2018 is presented below:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| | | (thousands of dollars) | |
| Workers' compensation claims | $ 9,166 | $ 10,005 | $ 10,993 |
| General and auto claims | 3,766 | 3,867 | 3,523 |
| Short and long-term disability claims | 92 | 201 | 153 |
| Claims liability | $ 13,024 | $ 14,073 | $ 14,669 |

Changes in SMUD's total claims liability during 2020, 2019 and 2018 are presented below:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| | | (thousands of dollars) | |
| Claims liability, beginning of year | $ 14,073 | $ 14,669 | $ 11,877 |
| Add: provision for claims, current year | 1,419 | 1,789 | 2,601 |
| (Decrease) increase in provision for claims in prior years | (8) | 11,434 | 10,450 |
| Less: payments on claims attributable to current and prior years | (2,460) | (13,819) | (10,259) |
| Claims liability, end of year | $ 13,024 | $ 14,073 | $ 14,669 |

## NOTE 17. COMMITMENTS

**Electric Power and Gas Supply Purchase Agreements.** SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants.

At December 31, 2020, the approximate minimum obligations for the "take-or-pay" contracts over the next five years are as follows:

| | Electric | Gas |
|---|---|---|
| | (thousands of dollars) | |
| 2021 | $ 99,746 | $ 7,841 |
| 2022 | 99,917 | 7,395 |
| 2023 | 98,651 | 7,336 |
| 2024 | 33,039 | 6,592 |
| 2025 | 12,188 | 6,666 |

At December 31, 2020, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

| | Electric | Gas |
|---|---|---|
| | (thousands of dollars) | |
| 2021 | $ 216,060 | $ 131,197 |
| 2022 | 198,545 | 110,329 |
| 2023 | 194,677 | 115,194 |
| 2024 | 157,778 | 90,224 |
| 2025 | 156,955 | 66,848 |

**Contractual Commitments beyond 2025 - Electricity.** Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2050 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take-or-pay contracts ranges between $12.2 million in 2026 and $0.3 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between $146.1 million in 2026 and $9.9 million in 2050. SMUD's largest purchase power source (in volume) is the Calpine Sutter contract, where SMUD has contracted ownership of 258 MW's of thermal generation capacity. The Calpine Sutter contract expires on December 31, 2023.

**Contractual Commitments beyond 2025 - Gas.** Several of SMUD's natural gas supply, gas transportation and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2049 and provide for transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take-or-pay contracts ranges between $6.7 million in 2026 and $3.4 million in 2049. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, ranges between $21.4 million in 2026 and $5.4 million in 2049.

**Gas Price Swap Agreements.** SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 99,702,500 Dths for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from $2.22 to $7.17 per Dth. The swap agreements expire periodically from January 2021 through December 2024.

**Gas Transport Capacity Agreements.** SMUD has numerous long-term natural gas transport capacity agreements with Canadian and U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in Alberta to the California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 58,300 Dth per day (Dth/d) of natural gas pipeline capacity from the North, including the Canadian Basins through 2021 and 41,200 Dth/d from the Southwest or Rocky Mountain Basins through at least 2021.

**Gas Storage Agreements.** SMUD also has an agreement for the storage of up to 2.0 million Dth of natural gas at regional facilities through March 2022, dropping to 1.0 million Dth through March 2023.

**Hydro License Agreements.** SMUD has a hydro license for a term of 50 years effective July 1, 2014 (see Note 2). SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. Each contract is adjusted annually by an inflation index. The present value of the sum of the annual payments is $64.8 million at December 31, 2020.

**Construction Contracts.** SMUD has entered into various construction contracts for the construction of a new substation and improvements to the White Rock Powerhouse in the UARP. As of December 31, 2020, the not-to-exceed price for these contracts totaled $90.8 million. The remaining contract obligations for these contracts as of December 31, 2020 was $30.7 million.

## NOTE 18. CLAIMS AND CONTINGENCIES

**FERC Administrative Proceedings.** SMUD is involved in a number of FERC administrative proceedings related to the operation of wholesale energy markets, regional transmission planning, gas transportation, and the development of NERC reliability standards. While these proceedings are complex and numerous, they generally fall into the following categories: (i) filings initiated by the California Independent System Operator Corporation (CAISO) (or other market participants) to adopt/modify the CAISO Tariff and/or establish market design and behavior rules; (ii) filings initiated by existing transmission owners (i.e. PG&E and the other Investor Owned Utilities) to pass through costs to their existing wholesale transmission customers; (iii) filings initiated by FERC on market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants; (iv) filings initiated by transmission owners under their transmission owner tariffs for the purpose of establishing a regional transmission planning process; (v) filings initiated by providers of firm gas transportation services under the Natural Gas Act; and (vi) filings initiated by NERC to develop reliability standards applicable to owners, users, and operators of the bulk electric system. In addition, SMUD is an active participant in other FERC administrative proceedings, including those related to reliability and cybersecurity standards, variable resource integration, and transmission planning and cost allocation. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Construction Matters.** SMUD contracts with various firms to design and construct facilities for SMUD. Currently, SMUD is party to various claims, legal actions and complaints relating to such construction projects. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Environmental Matters.** SMUD was one of many potentially responsible parties that had been named in a number of actions relating to environmental claims and/or complaints. SMUD has resolved these environmental claims and/or complaints and entered into settlement agreements and/or consent orders. These settlement agreements and consent orders have statutory reopener provisions which allow regulatory agencies to seek additional funds for environmental remediation under certain limited circumstances. While SMUD believes it is unlikely that any of the prior settlements or consent orders will be reopened, the possibility exists. If any of the settlements or consent orders were to be reopened, SMUD management does not believe that the outcome will have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**North City Environmental Remediation.** In 1950, SMUD purchased property (North City Site) from the City of Sacramento and the Western Railroad Company. Portions of the North City Site prior to the sale had been operated as a municipal landfill by the City of Sacramento and some of the property continued to be so after the sale. SMUD currently operates a bulk substation on the North City Site and plans to decommission the facility in the next few years. SMUD intends to assure compliance with State standards at closed landfill sites and is in the process of determining the appropriate remediation for the North City Site. In 2009, SMUD established a regulatory asset to defer recognition of the expense related to the investigation, design and remediation necessary for the North City Site, and recorded a liability for the full $12.0 million estimated for the project. In 2012, the regulatory asset was fully amortized. As the owner of the North City Site, SMUD will play the principal role in the remediation selection and activities. SMUD has estimated the total exposure for closing the site at as high as $12.0 million based on initial tests and studies of the site and approved and implemented cap designs for nearby former landfill areas. Costs could exceed that amount based on the need to design around transmission-related infrastructure improvements. SMUD's management does not, however, believe this will occur. Even if remediation costs associated with the North City Site were to increase, SMUD management believes that any increased costs will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Patua Acquisition Company, LLC.** On April 16, 2010, SMUD entered into a 23-year PPA with Patua Project, LLC. The fifth amendment to the PPA was signed on November 30, 2016, with the new project owner, Patua Acquisition Company, LLC (Patua). The PPA requires Patua to provide a warranty for the annual amount of energy and green attributes produced and delivered to SMUD, referred to as the Annual Delivery Warranty Amount (ADWA). If Patua fails to meet the ADWA for two consecutive years, it triggers SMUD's right to reduce the Guaranteed Capacity and Transmission Capacity Requirement as defined in the PPA.

On February 16, 2017, SMUD sent Patua a Notice of Failure to Meet Annual Performance Guarantee or the ADWA, Reduction of Phase 1 Guaranteed Capacity Resizing, and Reduction of Transmission Capacity Requirement pursuant to the terms of the PPA. Patua disagreed with the reductions and on June 9, 2017, after meetings with SMUD staff, sent a letter requesting a meeting with a senior officer to work towards a resolution in accordance with the dispute resolution provisions of the PPA. A meeting of the senior officers occurred. Staff continued to work through the issue with Patua to resolve the matter. On January 19, 2021, Patua provided SMUD a written confirmation that it considers the dispute to be resolved and releases and waives any claims against SMUD related to the 2017 ADWA and associated reduction in Guaranteed Capacity and Transmission Capacity. SMUD management does not believe that this outcome will have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Other Matters.** Currently, SMUD is party to various claims, legal actions and complaints relating to its operations, including but not limited to: property damage and personal injury, contract disputes, torts, and employment matters. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

## NOTE 19. SUBSEQUENT EVENTS

SMUD evaluated subsequent events through February 19, 2021, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

**Required Supplementary Information – Unaudited**
**For the Years Ended December 31, 2020 and 2019**

## Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period - PERS Plan

| | December 31, 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| | (thousands of dollars) | | | | | | |
| Total pension liability: | | | | | | | |
| Service cost | $ 38,901 | $ 38,061 | $ 36,029 | $ 35,040 | $ 29,044 | $ 27,991 | $ 28,170 |
| Interest | 164,044 | 157,976 | 151,354 | 150,119 | 147,497 | 142,468 | 137,546 |
| Changes of assumptions | -0- | -0- | (61,585) | 123,043 | -0- | (34,228) | -0- |
| Differences between expected and actual experience | 9,981 | 18,877 | 1,293 | (29,276) | (8,357) | (10,613) | -0- |
| Benefit payments, including refunds of employee contributions | (125,581) | (117,548) | (111,763) | (104,428) | (99,155) | (94,636) | (90,175) |
| Net change in total pension liability | 87,345 | 97,366 | 15,328 | 174,498 | 69,029 | 30,982 | 75,541 |
| Total pension liability, beginning of year | 2,327,689 | 2,230,323 | 2,214,995 | 2,040,497 | 1,971,468 | 1,940,486 | 1,864,945 |
| Total pension liability, end of year (a) | $ 2,415,034 | $ 2,327,689 | $ 2,230,323 | $ 2,214,995 | $ 2,040,497 | $ 1,971,468 | $ 1,940,486 |
| Plan fiduciary net position: | | | | | | | |
| Contributions - employer | $ 98,344 | $ 69,119 | $ 90,141 | $ 32,389 | $ 27,645 | $ 22,499 | $ 21,511 |
| Contributions - employee | 18,095 | 17,411 | 16,832 | 15,845 | 15,271 | 14,503 | 15,346 |
| Net investment income | 92,534 | 115,867 | 138,739 | 171,596 | 8,316 | 35,797 | 245,659 |
| Benefit payments, including refunds of employee contributions | (125,581) | (117,548) | (111,763) | (104,428) | (99,155) | (94,636) | (90,175) |
| Administrative expense | (2,628) | (1,270) | (7,474) | (2,275) | (969) | (1,795) | (2,028) |
| Other | -0- | 4 | (4) | -0- | 34 | (25) | -0- |
| Net change in plan fiduciary net position | 80,764 | 83,583 | 126,471 | 113,127 | (48,858) | (23,657) | 190,313 |
| Plan fiduciary net position, beginning of year | 1,864,450 | 1,780,867 | 1,654,396 | 1,541,269 | 1,590,127 | 1,613,784 | 1,423,471 |
| Plan fiduciary net position, end of year (b) | $ 1,945,214 | $ 1,864,450 | $ 1,780,867 | $ 1,654,396 | $ 1,541,269 | $ 1,590,127 | $ 1,613,784 |
| Net pension liability, ending (a) - (b) | $ 469,820 | $ 463,239 | $ 449,456 | $ 560,599 | $ 499,228 | $ 381,341 | $ 326,702 |
| Plan fiduciary net position as a percentage of the total pension liability | 80.5% | 80.1% | 79.8% | 74.7% | 75.5% | 80.7% | 83.2% |
| Covered payroll | $ 254,756 | $ 247,759 | $ 235,902 | $ 223,685 | $ 207,119 | $ 197,481 | $ 191,439 |
| Net pension liability as a percentage of covered payroll | 184.4% | 187.0% | 190.5% | 250.6% | 241.0% | 193.1% | 170.7% |

**PERS Plan.** The schedule of changes in NPL and related ratios is presented above for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

**Notes to Schedule:**

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2019 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit.

Changes in Assumptions: No changes in 2020. In 2018, demographic assumptions and inflation rate were changed in accordance to the PERS Experience and Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

## Schedule of Changes in Net Pension Liability and Related Ratios
## During the Measurement Period - SHY

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (thousands of dollars) | | | | |
| Total pension liability: | | | | | |
| Service cost | $ -0- | $ 203 | $ 216 | $ 300 | $ 218 |
| Interest | -0- | 184 | 194 | 193 | 195 |
| Changes of assumptions | -0- | (194) | (76) | (827) | 1,118 |
| Differences between expected and actual experience | -0- | (316) | (947) | (914) | -0- |
| Benefit payments | -0- | (57) | -0- | -0- | -0- |
| Other - Write off Pension Liability | (4,408) | -0- | -0- | -0- | -0- |
| Net change in total pension liability | (4,408) | (180) | (613) | (1,248) | 1,531 |
| Total pension liability, beginning of year | 4,408 | 4,588 | 5,201 | 6,449 | 4,918 |
| Total pension liability, end of year | $ - | $ 4,408 | $ 4,588 | $ 5,201 | $ 6,449 |
| Covered payroll | N/A | $ 18,695 | $ 20,466 | $ 21,743 | $ 21,748 |
| Net pension liability as a percentage of covered payroll | N/A | 23.6% | 22.4% | 23.9% | 29.7% |

**SHY.** The schedule of changes in NPL and related ratios is presented above for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

**Notes to Schedule:**

Benefit changes: There are no longer any benefits to active members.

Changes in Assumptions: In 2019, the discount rate was updated based on the municipal bond rate as of the measurement date and was updated from 3.87 percent to 3.5 percent. Inflation was updated from 2.75 percent to 2.50 percent and the aggregate salary increase was updated from 3.00 percent to 2.75 percent. In 2018, the discount rate was updated from 3.58 percent to 3.87 percent. Demographic assumptions were updated to the PERS 1997-2015 experience study. In 2017, the discount rate was updated from 2.85 percent to 3.58 percent.

## Schedule of Plan Contributions for Pension – PERS Plan

| | December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (thousands of dollars) | | | | | | |
| Actuarially determined contribution | $ 52,276 | $ 49,119 | $ 40,142 | $ 32,389 | $ 27,645 | $ 22,499 | $ 21,511 |
| Contributions in relation to the actuarially determined contribution | (98,344) | (69,119) | (90,142) | (32,389) | (27,645) | (22,499) | (21,511) |
| Contribution excess | $ (46,068) | $ (20,000) | $ (50,000) | 0- | 0- | 0- | 0- |
| Covered payroll | $ 254,756 | $ 247,759 | $ 235,902 | $ 223,685 | $ 207,119 | $ 197,481 | $ 191,439 |
| Contributions as a percentage of covered | 38.6% | 27.9% | 38.2% | 14.5% | 13.4% | 11.4% | 11.2% |

**PERS Plan.** The schedule of pension contributions is presented above for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended December 31, 2020 was derived from the June 30, 2017 funding valuation report.

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method/period | For details, see June 30, 2017 Funding Valuation Report |
| Asset valuation method | Fair value of assets. For details, see June 30, 2017 Funding Valuation Report |
| Inflation | 2.625% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 2.875% |
| Investment rate of return | 7.25% Net of pension plan investment and administrative expenses; includes inflation |
| Retirement age | The probabilities of retirement are based on the 2017 PERS Experience Study for the period from 1997 to 2015 |
| Mortality | The probabilities of mortality are based on the 2017 PERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using Scale BB published by the Society of Actuaries. |

In 2019, the investment rate of return was 7.375%. Prior to 2020, the probabilities of mortality are based on the 2014 PERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. Prior to 2017, the retirement age and mortality assumptions were based on the 2010 PERS Experience Study for the period from 1997 to 2007. In addition, the mortality assumption for pre-retirement and post-retirement rates included 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

## Schedule of Changes in Net OPEB Asset or Liability and Related Ratios During the Measurement Period

| | December 31, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 |
| | (thousands of dollars) | | | |
| Total OPEB liability: | | | | |
| Service cost | $ 8,903 | $ 8,946 | $ 9,263 | $ 8,993 |
| Interest on total OPEB liability | 26,653 | 26,766 | 29,656 | 28,676 |
| Changes of assumptions | (11,453) | 15,332 | 3,105 | -0- |
| Differences between expected and actual experience | (23,529) | (6,885) | (59,921) | -0- |
| Benefit payments, including refunds of employee contributions | (23,848) | (24,521) | (24,672) | (22,192) |
| Net change in total OPEB liability | (23,274) | 19,638 | (42,569) | 15,477 |
| Total OPEB liability, beginning of year | 419,483 | 399,845 | 442,414 | 426,937 |
| Total OPEB liability, end of year (a) | $ 396,209 | $ 419,483 | $ 399,845 | $ 442,414 |
| Plan fiduciary net position: | | | | |
| Contributions - employer | $ 13,299 | $ 13,963 | $ 34,243 | $ 114,573 |
| Net investment income | 20,447 | 20,132 | 27,295 | 24,104 |
| Benefit payments, including refunds of employee contributions | (23,848) | (24,521) | (24,672) | (22,192) |
| Administrative expense | (191) | (81) | (635) | (123) |
| Net change in plan fiduciary net position | 9,707 | 9,493 | 36,231 | 116,362 |
| Plan fiduciary net position, beginning of year | 387,272 | 377,779 | 341,548 | 225,186 |
| Plan fiduciary net position, end of year (b) | $ 396,979 | $ 387,272 | $ 377,779 | $ 341,548 |
| Net OPEB liability/(asset), ending (a) - (b) | $ (770) | $ 32,211 | $ 22,066 | $ 100,866 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 100.2% | 92.3% | 94.5% | 77.2% |
| Covered payroll | $ 287,001 | $ 282,993 | $ 269,753 | $ 252,211 |
| Net OPEB liability/(asset) as a percentage of covered payrol | -0.3% | 11.4% | 8.2% | 40.0% |

**OPEB.** The schedule of changes in NOA/NOL and related ratios is presented above for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

**Notes to Schedule**
Benefit Changes: There were no changes to benefits.

Changes in Assumptions: In 2020, the discount rate reflected the split of assets between Strategy 1 and Strategy 3, the mortality improvement scale was updated to Scale MP-2019, and the Kaiser Medicare trend rates were updated. In 2019, the discount rate was updated to reflect the split of assets between Strategy 1 and Strategy 3, and the mortality improvement scale was updated to Scale MP-2018.

## Schedule of Plan Contributions for OPEB

**OPEB Plan.** The schedule of OPEB contributions is presented below for the years for which SMUD has available data. SMUD will add to this schedule each year and when it reaches 10 years it will contain the last 10 years data which will then be updated each year going forward.

| | December 31, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 |
| | (thousands of dollars) | | | |
| Actuarially determined contribution | $ 12,201 | $ 10,710 | $ 15,366 | $ 16,472 |
| Contributions in relation to the actuarially determined contribution | (13,233) | (13,155) | (35,128) | (116,181) |
| Contribution excess | $ (1,032) | $ (2,445) | $ (19,762) | $ (99,709) |
| Covered payroll | $ 289,552 | $ 286,835 | $ 277,193 | $ 260,210 |
| Contributions as a percentage of covered payroll | 4.6% | 4.6% | 12.7% | 44.6% |

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended December 31, 2020 were derived from the June 30, 2019 funding valuation report.

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent of pay |
| Amortization period | 26-year fixed period for 2020 |
| Asset valuation method | Market value of assets |
| Discount rate | 6.75% for all actives and retirements after 6/30/2018, 5.50% for all retirements before 6/30/2018 |
| Inflation | 2.75% |
| Medical trend | Non-Medicare: 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076<br>Medicare: 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076 |
| Mortality | PERS 1997-2015 experience study |
| Mortality improvement | Post-retirement mortality projected fully generational with Scale MP-18 |

In 2020, the amortization period was for a 26-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-18. In 2019, the amortization period was for a 27-year fixed period. Mortality assumption used PERS 1997-2015 experience study. The mortality improvement projected fully generational with Scale MP-17. In 2018, the amortization period was for a 28-year fixed period. Mortality assumption used PERS 1997-2011 experience study. The mortality improvement projected fully generational with Scale MP-16. In 2017, the amortization period was for a 29-year fixed period. The inflation rate was 3.0% and the discount rate was 7.25%. The mortality projected fully generational with Scale MP-14, modified to converge in 2022.

# Central Valley
# Financing Authority

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

**CENTRAL VALLEY FINANCING AUTHORITY**
**TABLE OF CONTENTS**
**As of and for the Years Ended December 31, 2020 and 2019**

# Independent Auditors' Report

To the Board of Directors of
Central Valley Financing Authority

We have audited the accompanying financial statements of Central Valley 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 Central Valley 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 Central Valley 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 Central Valley 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 Central Valley 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

**CENTRAL VALLEY 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 Central Valley Financing Authority (Agency) consists of management's discussion and analysis and the financial statements, including notes to 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 (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.

## 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 Sacramento Regional County Sanitation District (SRCSD) (collectively, Members). The Agency was formed for the purpose of owning and operating the Carson Cogeneration Project (Project) and related facilities for electric power generation. The Project, which began commercial operation in 1995, is comprised of a 65 megawatt (MW) natural gas-fired combined cycle plant and a 42 MW natural gas-fired simple cycle peaking 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, 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 and one non-voting member from SRCSD. 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**

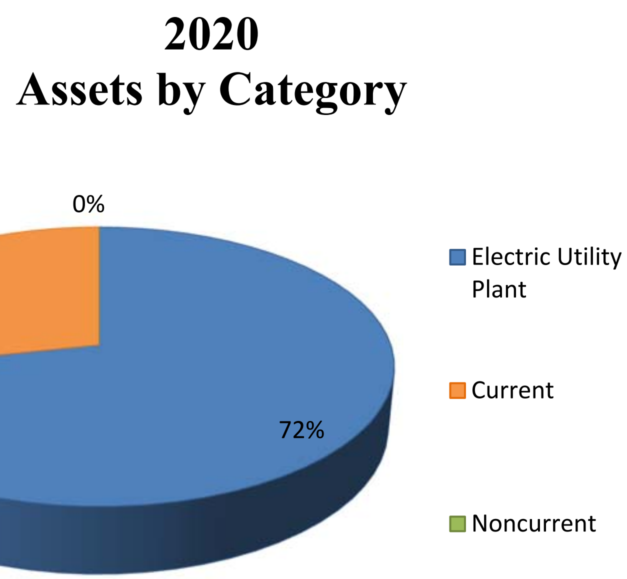
In 2020, the Agency's operator, Ethos Energy Power Plant Services, LLC, continued implementation of a normal six-week cycle of gas turbine water washes and inspections as part of standard maintenance protocols. These outages and inspections have been an integral part of the Agency's successful performance, which for 2020 included an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 94.62 percent, an IEEE Reliability rating of 99.73 percent and a successful call-up ratio for the simple cycle unit of 98.58 percent with all 45 call-up attempts being successful.

## FINANCIAL POSITION

**Statements of Net Position Summary**
(Dollars in thousands)

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 (restated) | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Assets | | | | | | | |
| Electric utility plant - net | $ 31,264 | $ 37,248 | $ 43,740 | $ (5,984) | -16.1% | $ (6,492) | -14.8% |
| Current assets | 12,373 | 11,418 | 19,596 | 955 | 8.4% | (8,178) | -41.7% |
| Noncurrent assets | 2 | 2 | 19 | -0- | 0.0% | (17) | -89.5% |
| Total assets | 43,639 | 48,668 | 63,355 | (5,029) | -10.3% | (14,687) | -23.2% |
| Deferred outflows of resources | 1,733 | 1,955 | 2,236 | (222) | -11.4% | (281) | -12.6% |
| Total assets and deferred outflows of resources | $ 45,372 | $ 50,623 | $ 65,591 | $ (5,251) | -10.4% | $ (14,968) | -22.8% |
| Liabilities | | | | | | | |
| Long-term debt - net | $ -0- | $ -0- | $ 5,515 | $ -0- | 0.0% | $ (5,515) | -100.0% |
| Current liabilities | 3,441 | 3,370 | 10,365 | 71 | 2.1% | (6,995) | -67.5% |
| Noncurrent liabilities | 8,633 | 8,529 | 8,379 | 104 | 1.2% | 150 | 1.8% |
| Total liabilities | 12,074 | 11,899 | 24,259 | 175 | 1.5% | (12,360) | -51.0% |
| Net position | | | | | | | |
| Net investment in capital assets | 31,264 | 37,248 | 33,191 | (5,984) | -16.1% | 4,057 | 12.2% |
| Restricted | -0- | -0- | 2,582 | -0- | 0.0% | (2,582) | -100.0% |
| Unrestricted | 2,034 | 1,476 | 5,559 | 558 | 37.8% | (4,083) | -73.4% |
| Total net position | 33,298 | 38,724 | 41,332 | (5,426) | -14.0% | (2,608) | -6.3% |
| Total liabilities and net position | $ 45,372 | $ 50,623 | $ 65,591 | $ (5,251) | -10.4% | $ (14,968) | -22.8% |

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 $31.3 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2020. The Electric Utility Plant - net decreased is primarily due to $6.5 million depreciation expense for the year. Electric Utility Plant assets make up about 72 percent of the Agency's assets.

- Current Assets increased primarily due to higher Unrestricted cash as a part of normal operations and Receivables from SMUD for the Gas sales to Member, capital, and other costs, partially offset by lower fuel portion of the PPA billings in November and December 2020.

**LIABILITIES & NET POSITION**

- Noncurrent Liabilities increased due to the Asset Retirement Obligation adjustment for inflation.

**2019 Compared to 2018**

**ASSETS & DEFERRED OUTFLOWS OF RESOURCES**

- The Agency's main asset is its investment in the Project, which comprises $37.2 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2019. The Electric Utility Plant - net decreased due to $6.5 million depreciation expense for the year.

- Current Assets decreased primarily due to lower Restricted cash due to the defeasance of the 2009 Series Bonds, Unrestricted cash as a part of normal operations and Receivable from SMUD for the debt service payments, overhaul costs, Gas sales to Member, and fuel portion of the PPA billings in November and December 2019.

## LIABILITIES & NET POSITION

- Long-Term Debt – net decreased due to defeasance of the 2009 Series Bonds.

- Current Liabilities decreased primarily due to lower Long-term debt due within one year due to defeasance of the 2009 Series Bonds and accounts payable for operator reimbursables, overhaul costs and digester gas.

## RESULTS OF OPERATIONS

**Summary of Revenues, Expenses and Changes in Net Position**

(Dollars in thousands)

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 (restated) | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Operating revenues | $ 16,599 | $ 23,858 | $ 27,276 | $ (7,259) | -30.4% | $ (3,418) | -12.5% |
| Operating expenses | (22,073) | (26,046) | (27,265) | 3,973 | 15.3% | 1,219 | 4.5% |
| Operating income (loss) | (5,474) | (2,188) | 11 | (3,286) | 150.2% | (2,199) | -19990.9% |
| Interest income | 47 | 114 | 115 | (67) | -58.8% | (1) | -0.9% |
| Interest on debt | -0- | (534) | (690) | 534 | 100.0% | 156 | 22.6% |
| Other income | 1 | -0- | 1,224 | 1 | 100.0% | (1,224) | -100.0% |
| Change in net position | (5,426) | (2,608) | 660 | (2,818) | 108.1% | (3,268) | -495.2% |
| Net position - beginning of year | 38,724 | 41,332 | 40,672 | (2,608) | -6.3% | 660 | 1.6% |
| Net position - end of year | $ 33,298 | $ 38,724 | $ 41,332 | $ (5,426) | -14.0% | $ (2,608) | -6.3% |

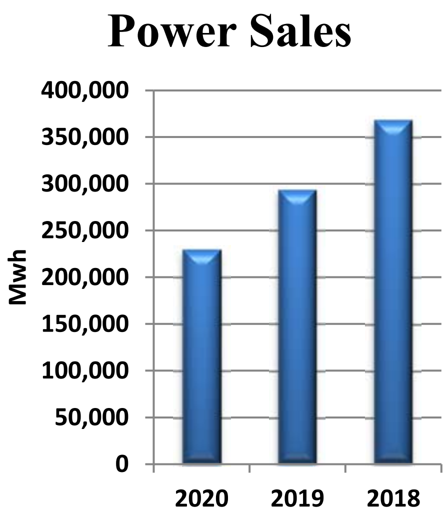
**2020 Compared to 2019**

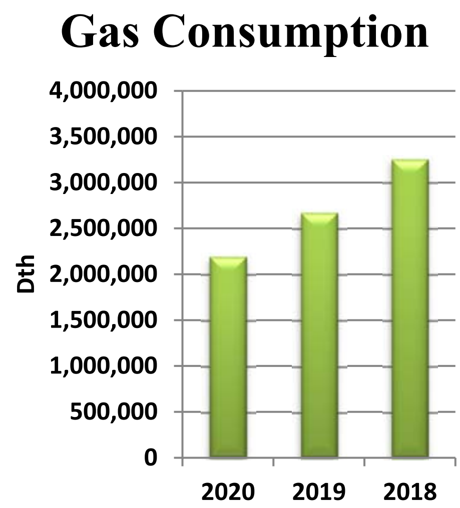
## OPERATING REVENUES

Operating Revenues decreased primarily due to lower financial payments due to the defeasance of the Agency bonds in 2019 and lower Power sales to Member. The Agency's power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency's actual cost of operations. In 2020, less revenue was needed due to lower overhaul costs, financial payments, and other operator costs, partially offset by the higher capital and fuel costs. There was no debt service cost as a result of the defeasance of the Agency bonds in 2019.

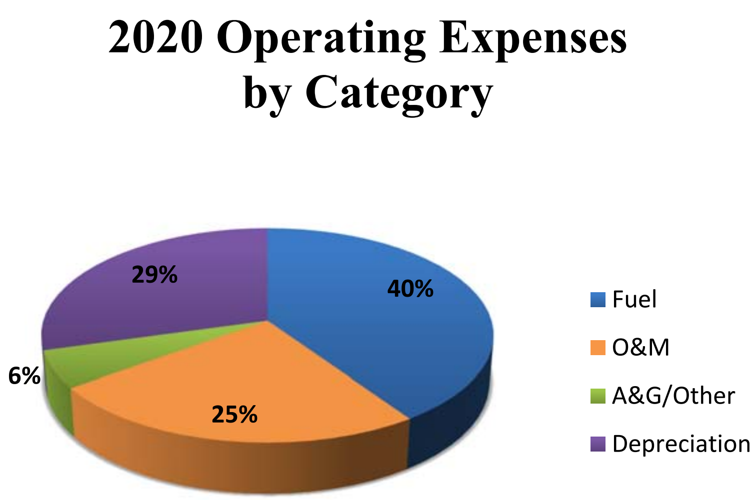
The Agency saw a decrease in power sales and gas consumption as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction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

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




**OPERATING EXPENSES**



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

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 (restated) | 2020 vs. 2019 | | 2019 vs. 2018 | |
| **Operating Expenses** | | | | | | | |
| Fuel | $ 8,930 | $ 8,161 | $ 13,222 | $ 769 | 9.4% | $ (5,061) | -38.3% |
| Operations and Maintenance | 5,414 | 10,160 | 6,281 | (4,746) | -46.7% | 3,879 | 61.8% |
| Administrative & general and Other | 1,245 | 1,243 | 1,301 | 2 | 0.2% | (58) | -4.5% |
| Depreciation | 6,484 | 6,482 | 6,461 | 2 | 0.0% | 21 | 0.3% |
| Total operating expenses | $ 22,073 | $ 26,046 | $ 27,265 | $ (3,973) | -15.3% | $ (1,219) | -4.5% |

- Fuel expense increased due to higher fuel cost of $1.7 million and digester gas of $0.5 million, partially offset by lower fuel volume of $1.4 million.

- Operations and Maintenance decreased primarily due to lower overhaul costs for combustion turbine overhaul completed in 2019.

## 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 and Gas sales to Member as a result of lower fuel costs, debt service payments, operator and capital costs, partially offset by the higher overhaul costs. Lower Gas sales to Member was due to lower supply of digester gas from SRCSD.

- Fuel expense decreased due to lower fuel cost of $2.6 million, fuel volume of $2.0 million and digester gas of $0.5 million.

- Operations and Maintenance increased due to higher overhaul costs for combustion turbine.

- Other income decreased due to the 2018 Gas Turbine Generator insurance claim.

**Requests for Information**

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

**CENTRAL VALLEY FINANCING AUTHORITY**
**STATEMENTS OF NET POSITION**

| | | December 31, | | |
|---|---|---|---|---|
| | | 2020 | | 2019 |
| **ASSETS** | | | | |
| **ELECTRIC UTILITY PLANT** | | | | |
| Plant in service | $ | 153,579,204 | $ | 153,440,498 |
| Less accumulated depreciation | | (122,676,577) | | (116,192,685) |
| Plant in service - net | | 30,902,627 | | 37,247,813 |
| Construction work in progress | | 361,390 | | -0- |
| Total electric utility plant - net | | 31,264,017 | | 37,247,813 |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents: | | | | |
| Unrestricted cash and cash equivalents | | 5,089,120 | | 4,311,056 |
| Receivables: | | | | |
| Power sales to Member | | 4,151,327 | | 4,010,757 |
| Steam sales | | 561,171 | | 542,892 |
| Accrued interest and other | | 6,066 | | 116,213 |
| Materials and supplies | | 2,346,458 | | 2,236,359 |
| Prepayments | | 218,849 | | 200,940 |
| Total current assets | | 12,372,991 | | 11,418,217 |
| **NONCURRENT ASSETS** | | | | |
| Other | | 1,582 | | 1,758 |
| Total noncurrent assets | | 1,582 | | 1,758 |
| TOTAL ASSETS | | 43,638,590 | | 48,667,788 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred asset retirement obligation outflow | | 1,733,502 | | 1,955,522 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | 1,733,502 | | 1,955,522 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ | 45,372,092 | $ | 50,623,310 |

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

**CENTRAL VALLEY FINANCING AUTHORITY**
**STATEMENTS OF NET POSITION**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **LIABILITIES AND NET POSITION** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 2,075,565 | $ 1,586,475 |
| Payable due to Member | 1,365,168 | 1,783,529 |
| Total current liabilities | 3,440,733 | 3,370,004 |
| **NONCURRENT LIABILITIES** | | |
| Accrued decommissioning | 8,633,060 | 8,529,159 |
| Total noncurrent liabilities | 8,633,060 | 8,529,159 |
| TOTAL LIABILITIES | 12,073,793 | 11,899,163 |
| **NET POSITION** | | |
| Net investment in capital assets | 31,264,017 | 37,247,813 |
| Unrestricted | 2,034,282 | 1,476,334 |
| TOTAL NET POSITION | 33,298,299 | 38,724,147 |
| **COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)** | | |
| TOTAL LIABILITIES AND NET POSITION | $ 45,372,092 | $ 50,623,310 |

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

## CENTRAL VALLEY 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 | $ 14,314,043 | $ 22,056,380 |
| Gas sales to Member | 1,578,710 | 1,104,687 |
| Steam sales | 530,661 | 529,534 |
| Other | 175,223 | 167,863 |
| Total operating revenues | 16,598,637 | 23,858,464 |
| **OPERATING EXPENSES** | | |
| Fuel | 8,930,372 | 8,161,066 |
| Operations | 5,267,937 | 5,510,917 |
| Maintenance | 144,960 | 4,648,766 |
| Administrative and general | 1,245,270 | 1,191,648 |
| Depreciation | 6,483,892 | 6,481,963 |
| Regulatory amounts collected in rates | -0- | 52,034 |
| Total operating expenses | 22,072,431 | 26,046,394 |
| **OPERATING LOSS** | (5,473,794) | (2,187,930) |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Interest income | 46,994 | 114,342 |
| Interest on debt | -0- | (534,654) |
| Other income | 952 | -0- |
| Total non-operating revenues (expenses) | 47,946 | (420,312) |
| CHANGE IN NET POSITION | (5,425,848) | (2,608,242) |
| NET POSITION - BEGINNING OF YEAR | 38,724,147 | 41,332,389 |
| NET POSITION - END OF YEAR | $ 33,298,299 | $ 38,724,147 |

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

## CENTRAL VALLEY 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 | $ 15,752,183 | $ 25,450,091 |
| Receipts from steam sales | 512,382 | 498,953 |
| Other receipts | 286,562 | 1,237,573 |
| Payments to Member | (11,457,441) | (10,297,558) |
| Payments to vendors | (3,861,328) | (10,506,978) |
| Net cash provided by operating activities | 1,232,358 | 6,382,081 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Construction refund | 36,334 | 9,954 |
| Construction expenditures | (536,430) | -0- |
| Repayment of long-term debt | -0- | (10,590,000) |
| Interest payments on long-term debt | -0- | (765,075) |
| Net cash used in capital and related financing activities | (500,096) | (11,345,121) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 45,802 | 134,534 |
| Net cash provided by investing activities | 45,802 | 134,534 |
| Net increase (decrease) in cash and cash equivalents | 778,064 | (4,828,506) |
| Cash and cash equivalents - beginning of the year | 4,311,056 | 9,139,562 |
| Cash and cash equivalents - end of the year | $ 5,089,120 | $ 4,311,056 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (5,473,794) | $ (2,187,930) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 6,483,892 | 6,481,963 |
| Regulatory amortization | -0- | 52,034 |
| Asset retirement obligation amortization | 325,921 | 300,785 |
| Other income | 952 | -0- |
| Changes in operating assets and liabilities: | | |
| Receivables | (47,510) | 3,328,153 |
| Other assets | (127,832) | (34,154) |
| Payables and accruals | 70,729 | (1,558,770) |
| Net cash provided by operating activities | $ 1,232,358 | $ 6,382,081 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Net amortization of debt related expenses | $ -0- | $ (41,110) |

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

## NOTE 1. ORGANIZATION AND OPERATIONS

The Central Valley Financing Authority (Agency) is a joint powers authority (JPA) formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Regional County Sanitation District (SRCSD) pursuant to the California Government Code (collectively, Members). The purpose of the Agency is to own and operate the Carson Cogeneration Project (Project) and related facilities for electric power generation. The Project, which began commercial operations in 1995, is comprised of a 65 megawatt (MW) natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. The Project is situated on approximately ten acres adjacent to SRCSD's sewage treatment plant. The land is owned by SRCSD 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 $8.5 million in 2020 and $7.1 million in 2019 for general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

The Agency provides steam to SRCSD's adjacent sewage treatment plant pursuant to the Long-Term Commodity Agreement. The Agency also provides steam and electricity for the refrigeration process of the Glacier Ice facility pursuant to the Thermal Energy Sales Agreement. The primary fuel for the Project is a mixture of natural gas and digester gas from SRCSD's sewage treatment plant. Presently, digester gas represents three percent of the fuel used by the Project and the remaining amount is sold to SMUD.

SMUD is entitled to all rights and property in the Project in the event of termination of the JPA agreement. SRCSD 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. SRCSD 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 and one non-voting member of SRCSD. 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 cost of replacement units are capitalized. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than 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 in advance. These prepayments are recognized as expenses in the month the actual costs are incurred.

**Other Noncurrent Assets.** Other Noncurrent Assets is comprised of emission credits.

**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 (FASB) 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 agreement. 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 on the bond refunding 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.

**Asset Retirement Obligation (ARO).** The Agency implemented Statement of Governmental Accounting Standards (SGAS) No. 83, ***"Certain Asset Retirement Obligations"*** in 2019 (see Note 3). The Agency has a legal obligation to decommission its power plant facility. The Agency records the ARO as Accrued Decommissioning and a corresponding Deferred Asset Retirement Obligation Outflows in the Statements of Net Position. The Deferred Asset Retirement Obligation Outflows is amortized over the remaining useful life of the Agency's power plant facility and included as Operating Expenses in the Statements of Revenues, Expenses and Changes in Net Position.

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

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

**Operating Revenues.** Operating revenues include Power and Gas sales to Member, Steam sales and rent income on subleased property, and are recorded when earned.

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

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

**Other Income.** Receivable for the final insurance claim related to the Gas Turbine Generator was recorded as Receivables: Accrued interest and Other on the Statements of Net Position.

**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. ACCRUED DECOMMISSIONING

**Asset Retirement Obligation (ARO).** The Agency accounts for the ARO associated with the future retirement of its power plant facility. GASB No. 83 requires the measurement of the ARO be based on the best estimate of the current value of the outlays expected to be incurred and the current value be adjusted for the effects of the general inflation or deflation at least annually. In addition, it also requires a government to evaluate relevant factors that may significantly change the estimated asset retirement outlays.

The Agency's ground lease agreement with the SRCSD requires the Agency to restore the premises to its original condition upon termination of the contract. A new study to determine the current value of the asset retirement obligation was conducted by an external contractor who specializes in decommissioning studies. The expected costs and scope of work were based on the most recent cost estimate and assumes a contractor will be responsible for the work and that decommissioning would take place between 2025 and 2027. The estimated costs were in 2018 dollars. The result of this study was used to determine the new balance of the ARO and the deferred outflows at January 1, 2018, in order to account for the 2018 activity. The Agency used the annual All Urban Consumer Price Index to adjust this obligation for inflation in 2020 and 2019. The remaining useful life of the Agency's assets is five years at December 31, 2020. At December 31, 2020 and 2019, the Agency's Accrued Decommissioning balance in the Statements of Net Position was $8.6 million and $8.5 million, respectively.

## NOTE 4. ELECTRIC UTILITY PLANT

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

| | Balance January 1, 2020 | Additions | Adjustments/ Transfers/ Disposals | Balance December 31, 2020 |
|---|---|---|---|---|
| Nondepreciable electric utility plant: | | | | |
| Construction work in progress | $ -0- | $ 500,096 | $ (138,706) | $ 361,390 |
| Total nondepreciable electric utility plant | -0- | 500,096 | (138,706) | 361,390 |
| Depreciable electric utility plant: | | | | |
| Generation | 153,440,498 | 138,706 | -0- | 153,579,204 |
| Less: accumulated depreciation | (116,192,685) | (6,483,892) | -0- | (122,676,577) |
| Total electric utility plant - net | $ 37,247,813 | $ (5,845,090) | $ (138,706) | $ 31,264,017 |

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

| | Balance January 1, 2019 (restated) | Additions | Adjustments/ Transfers/ Disposals | Balance December 31, 2019 |
|---|---|---|---|---|
| Nondepreciable electric utility plant: | | | | |
| Construction work in progress | $ -0- | $ (9,954) | $ 9,954 | $ -0- |
| Total nondepreciable electric utility plant | -0- | (9,954) | 9,954 | -0- |
| Depreciable electric utility plant: | | | | |
| Generation | 153,450,452 | -0- | (9,954) | 153,440,498 |
| Less: accumulated depreciation | (109,710,722) | (6,481,963) | -0- | (116,192,685) |
| Total electric utility plant - net | $ 43,739,730 | $ (6,491,917) | $ -0- | $ 37,247,813 |

## NOTE 5. 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, $1.0 million and $0.8 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.

**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 | $ 1,233,392 | $ 1,001,129 |
| LAIF | Not Rated | 3,855,728 | 3,309,927 |
| Total cash and cash equivalents | | $ 5,089,120 | $ 4,311,056 |

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 | $ 5,089,120 | $ 4,311,056 |
| Total cash and cash equivalents | $ 5,089,120 | $ 4,311,056 |

**NOTE 6. LONG-TERM DEBT**

The Agency issued $48.9 million of 2009 Series Cogeneration project revenue bonds (Bonds) in August 2009 with interest rates ranging from 2.25 percent to 5.25 percent, maturing July 2020. 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 | $ 10,590,000 | $ (10,590,000) | $ -0- |
| Unamortized premium/(discounts) - net | 89,811 | (89,811) | -0- |
| Total long-term debt | $ 10,679,811 | $ (10,679,811) | $ -0- |

**2019 Bond Defeasance**. In September 2019, the Agency defeased $5.4 million of 2009 Series Bonds maturing on July 2020, along with the accrued interest using the Agency's available funds. The corresponding amount was placed in an irrevocable trust which had a balance of $5.6 million at December 31, 2019. The defeasance resulted in an accounting loss of $0.2 million which is included in Interest on Debt in the Statements of Revenues, Expenses, and Changes in Net Position.

**NOTE 7. 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 8. 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 | $ 3,855,728 | $ 3,309,927 |
| Total fair value investments | $ 3,855,728 | $ 3,309,927 |

**NOTE 9. COMMITMENTS**

**Commodity Agreement.** The Agency provides SRCSD's sewage treatment plant with all of the steam required for its operation and emergency power should the outside power supply become disrupted. The Agency also purchases a minimum of 90 percent of the digester gas made available to the Project by the sewage treatment plant, provided the gas meets standards set forth in this agreement, as amended, which expires in October 2025.

**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 through October 2025.

**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 $1.8 million.

**Ground Lease Agreement.** The Agency leases land from SRCSD under the ground lease agreement expiring October 2025. The minimum lease payment increases by the escalation in SRCSD's average electric power cost. At December 31, 2020, the Agency's annual minimum lease payment was approximately $0.2 million.

## NOTE 10. 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.

# Northern California Energy Authority

## Financial Statement

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

*including*

**Independent**

**Auditors' Report**

**NORTHERN CALIFORNIA ENERGY AUTHORITY**
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**As of and for the Year Ended December 31, 2020 and 2019**

# Independent Auditors' Report

To the Board of Directors of
Northern California Energy Authority

We have audited the accompanying financial statements of Northern California Energy 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 Northern California Energy 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 Northern California Energy 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 Northern California Energy 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 Northern California Energy 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

## NORTHERN CALIFORNIA ENERGY AUTHORITY
## MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
## For the Years Ended December 31, 2020 and 2019

### Using this Financial Report

This annual financial report for Northern California Energy 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 provides 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 reports all of the Agency's revenues and expenses during the period indicated.

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

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

### 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 2018. SFA is a JPA formed by SMUD and the Modesto Irrigation District (collectively, Members). The Agency was formed for the purpose of prepaying for a fixed quantity supply of natural gas and electricity to be delivered over a thirty-year period by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement between the Agency and J. Aron. The Agency then sells the natural gas and electricity to SMUD. The Agency issued bonds in December 2018 and gas sales started in June 2019.

SMUD purchases all the natural gas and electricity delivered to the Agency pursuant to the Commodity Supply Contract between SMUD and the Agency. The Agency has no employees and SMUD contributes to the Agency the actual costs of providing general and administrative services.

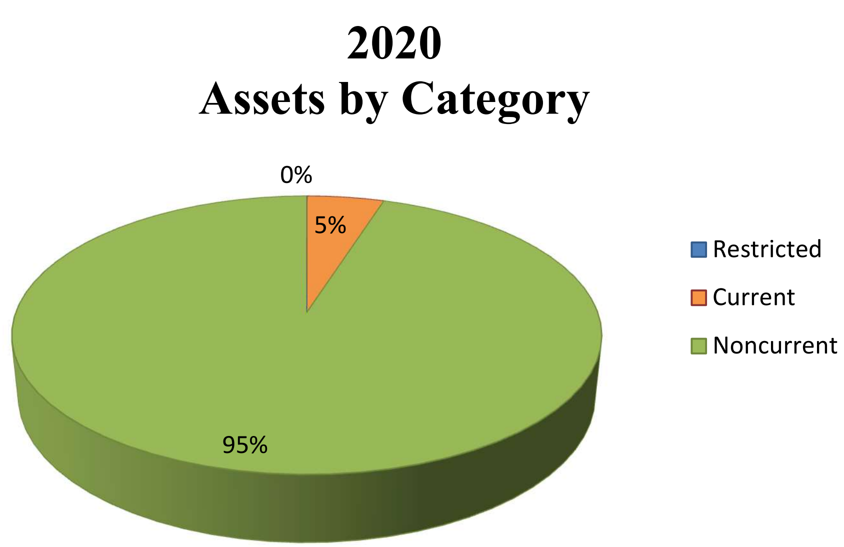
The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

**FINANCIAL POSITION**

**Statements of Net Position Summary**
(Dollars in thousands)

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Assets | | | | | | | |
| Restricted assets | $ 90 | $ 2,840 | $ 2,478 | $ (2,750) | -96.8% | $ 362 | 14.6% |
| Current assets | 27,857 | 27,096 | 22,027 | 761 | 2.8% | 5,069 | 23.0% |
| Noncurrent assets | 532,525 | 535,991 | 539,238 | (3,466) | -0.6% | (3,247) | -0.6% |
| Total assets | $ 560,472 | $ 565,927 | $ 563,743 | $ (5,455) | -1.0% | $ 2,184 | 0.4% |
| Liabilities | | | | | | | |
| Long-term debt - net | $ 556,794 | $ 561,820 | $ 566,893 | $ (5,026) | -0.9% | $ (5,073) | -0.9% |
| Current liabilities | 10,876 | 10,876 | 1,449 | -0- | 0.0% | 9,427 | 650.6% |
| Noncurrent liabilities | 121 | 77 | -0- | 44 | 57.1% | 77 | 100.0% |
| Total liabilities | 567,791 | 572,773 | 568,342 | (4,982) | -0.9% | 4,431 | 0.8% |
| Net position | | | | | | | |
| Restricted | 10,829 | 13,165 | 20,394 | (2,336) | -17.7% | (7,229) | -35.4% |
| Unrestricted | (18,148) | (20,011) | (24,993) | 1,863 | 9.3% | 4,982 | 19.9% |
| Total net position | (7,319) | (6,846) | (4,599) | (473) | -6.9% | (2,247) | -48.9% |
| Total liabilities and net position | $ 560,472 | $ 565,927 | $ 563,743 | $ (5,455) | -1.0% | $ 2,184 | 0.4% |

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



**2020 compared to 2019**

**ASSETS**

- Restricted Asset decreased due to a lowering of the current portion of the debt service requirement to $90,000.

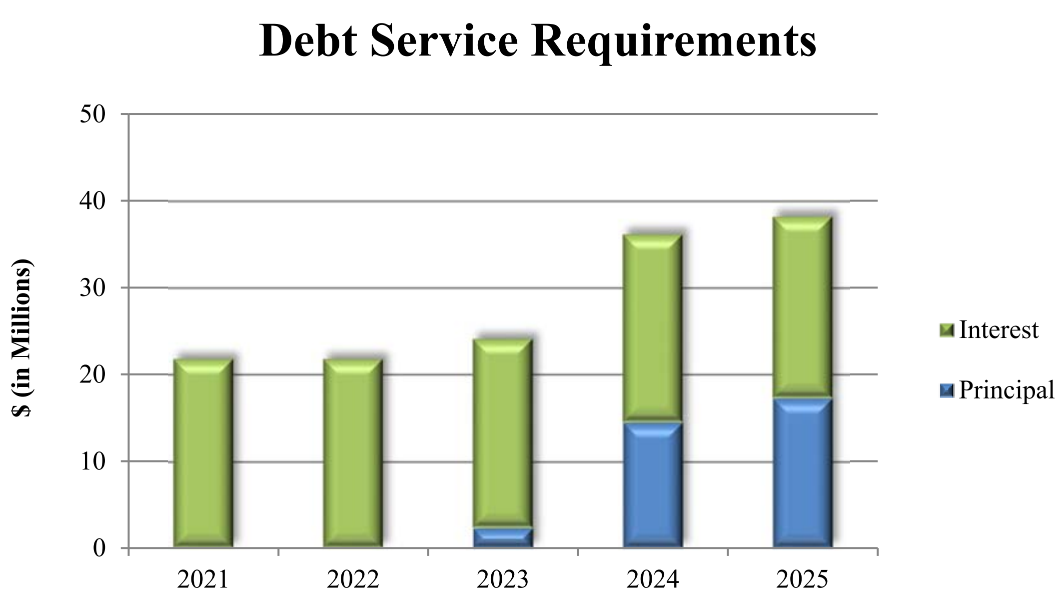
- Current Assets increased primarily due to higher restricted investment balances, accrued interest, and short term prepaid gas supply offset by lower gas sales to member and restricted cash and cash equivalents.

- The Agency's main asset is its Prepaid Gas Supply, of which the noncurrent portion was $532.5 million at December 31, 2020. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2020. The Prepaid Gas Supply (current and noncurrent portion) was about 95 percent of the Agency's assets at December 31, 2020.

**LIABILITIES & NET POSITION**

- Long-Term Debt - net decreased due to the amortization of bond premium. The Agency currently has bonds outstanding in the amount of $539.6 million with maturities through 2049. The Agency's bonds are rated "A3" by Moody's and "A" by Fitch.

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



**2019 compared to 2018**

**ASSETS**

- Current Assets increased primarily due to higher debt service fund balance, receivable from Member for gas sales, and Prepaid Gas Supply.

- The Agency's main asset is its Prepaid Gas Supply, of which the noncurrent portion was $536.0 million at December 31, 2019. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2019.

**LIABILITIES & NET POSITION**

- Long-Term Debt - net decreased due to the amortization of bond premium. The Agency currently has bonds outstanding in the amount of $539.6 million with maturities through 2049.

- Current Liabilities increased due to higher accrued interest for the 2018 Bonds.

**RESULTS OF OPERATIONS**

**Summary of Revenues, Expenses and Changes in Net Position**

(Dollars in thousands)

| | Year Ended December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Operating revenues | $ 20,053 | $ 16,438 | $ -0- | $ 3,615 | 22.0% | $16,438 | 100.0% |
| Operating expenses | (3,366) | (2,682) | (4,045) | (684) | -25.5% | 1,363 | 33.7% |
| Operating income | 16,687 | 13,756 | (4,045) | 2,931 | 21.3% | 17,801 | 440.1% |
| Interest income - net | 530 | 589 | -0- | (59) | -10.0% | 589 | 100.0% |
| Interest on debt | (16,727) | (16,680) | (555) | (47) | -0.3% | (16,125) | -2905.4% |
| Change in net position before Contributions | 490 | (2,335) | (4,600) | 2,825 | 121.0% | 2,265 | 49.2% |
| Distributions to Member | (1,090) | -0- | -0- | (1,090) | -100.0% | -0- | 0.0% |
| Member contributions | 127 | 88 | 1 | 39 | 44.3% | 87 | 8700.0% |
| Change in net position | (473) | (2,247) | (4,599) | 1,774 | 78.9% | 2,352 | 51.1% |
| Net position - beginning of year | (6,846) | (4,599) | -0- | (2,247) | -48.9% | (4,599) | -100.0% |
| Net position - end of year | $ (7,319) | $ (6,846) | $ (4,599) | $ (473) | -6.9% | $ (2,247) | -48.9% |

**2020 compared to 2019**

- Operating revenues increased due to a full year of gas sales compared to seven months of gas sales in the prior year.

- Operating expenses increased due to a full year of prepaid gas amortization compared to seven months in the prior year.

- Distributions to SMUD are based on interest earnings on the Debt Service fund not otherwise needed for another purpose, as specified in the indenture of trust. The first distribution to Member was completed in July 2020, in the amount of $1.1 million.

**2019 compared to 2018**

- Operating revenues represent proceeds from gas sales to Member and gas swap settlements which started in June 2019.

- Operating expenses were $2.7 million, primarily comprised of amortization of Prepaid Gas Supply.

- Interest expense increased due to a full year of interest incurred on the 2018 Bonds.

**Requests for Information**

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

**NORTHERN CALIFORNIA ENERGY AUTHORITY**
**STATEMENTS OF NET POSITION**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **RESTRICTED ASSETS** | | |
| Debt service funds | $ 18,825,750 | $ 20,965,159 |
| Other restricted funds | 3,000,027 | 3,076,479 |
| Less current portion | (21,735,777) | (21,201,638) |
| Total restricted assets | 90,000 | 2,840,000 |
| **CURRENT ASSETS** | | |
| Restricted cash and cash equivalents | 10,876,509 | 10,952,908 |
| Restricted investments | 10,859,268 | 10,248,730 |
| Receivables: | | |
| Gas sales to Member | 2,068,320 | 2,365,920 |
| Accrued interest and other | 541,632 | 244,032 |
| Prepaid gas supply | 3,466,109 | 3,247,134 |
| Prepayments | 44,795 | 36,940 |
| Total current assets | 27,856,633 | 27,095,664 |
| **NONCURRENT ASSETS** | | |
| Prepaid gas supply | 532,524,976 | 535,991,085 |
| Total noncurrent assets | 532,524,976 | 535,991,085 |
| TOTAL ASSETS | $ 560,471,609 | $ 565,926,749 |
| **LIABILITIES AND NET POSITION** | | |
| **LONG-TERM DEBT - net** | $ 556,794,186 | $ 561,820,089 |
| **CURRENT LIABILITIES** | | |
| Accrued interest | 10,876,425 | 10,876,425 |
| Total current liabilities | 10,876,425 | 10,876,425 |
| **NONCURRENT LIABILITIES** | | |
| Arbitrage rebate liability | 120,486 | 76,431 |
| Total noncurrent liabilities | 120,486 | 76,431 |
| TOTAL LIABILITIES | 567,791,097 | 572,772,945 |
| **NET POSITION** | | |
| Restricted | 10,828,866 | 13,165,213 |
| Unrestricted | (18,148,354) | (20,011,409) |
| TOTAL NET POSITION | (7,319,488) | (6,846,196) |
| **COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)** | | |
| TOTAL LIABILITIES AND NET POSITION | $ 560,471,609 | $ 565,926,749 |

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

## NORTHERN CALIFORNIA ENERGY AUTHORITY
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Gas sales to Member | $ 11,954,383 | $ 9,112,470 |
| Gas swap settlement, net | 8,099,099 | 7,326,018 |
| Total operating revenues | 20,053,482 | 16,438,488 |
| **OPERATING EXPENSES** | | |
| Prepaid gas amortization | 3,247,134 | 2,661,781 |
| Administrative and general | 119,448 | 20,359 |
| Total operating expenses | 3,366,582 | 2,682,140 |
| **OPERATING INCOME** | 16,686,900 | 13,756,348 |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Interest income - net | 530,171 | 588,159 |
| Interest on debt | (16,726,946) | (16,679,715) |
| Total non-operating revenues (expenses) | (16,196,775) | (16,091,556) |
| **CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND DISTRIBUTIONS** | 490,125 | (2,335,208) |
| Distributions to Member | (1,090,719) | -0- |
| Member contributions | 127,302 | 88,146 |
| CHANGE IN NET POSITION | (473,292) | (2,247,062) |
| NET POSITION - BEGINNING OF YEAR | (6,846,196) | (4,599,134) |
| NET POSITION - END OF YEAR | $ (7,319,488) | $ (6,846,196) |

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

**NORTHERN CALIFORNIA ENERGY AUTHORITY**
**STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from gas sales to Member | $ 12,251,982 | $ 6,746,550 |
| Receipts from others | 7,801,499 | 7,081,986 |
| Payments to vendors | -0- | (693,153) |
| Net cash provided by operating activities | 20,053,481 | 13,135,383 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Interest payments on long-term debt | (21,752,850) | (11,601,520) |
| Distributions to Member | (1,090,718) | -0- |
| Net cash used in noncapital financing activities | (22,843,568) | (11,601,520) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Sale of investments | 20,195,004 | 19,952,185 |
| Purchase of investments | (18,055,542) | (11,960,915) |
| Interest received | 574,226 | 664,590 |
| Net cash provided by investing activities | 2,713,688 | 8,655,860 |
| Net increase (decrease) in cash and cash equivalents | (76,399) | 10,189,723 |
| Cash and cash equivalents - beginning of year | 10,952,908 | 763,185 |
| Cash and cash equivalents - end of the year | $ 10,876,509 | $ 10,952,908 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income | $ 16,686,900 | $ 13,756,348 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Amortization of prepaid gas supply | 3,247,134 | 2,661,781 |
| Changes in operating assets and liabilities: | | |
| Receivables | -0- | (2,609,952) |
| Prepaid expenses | (7,855) | (36,940) |
| Payables and accruals | 127,302 | (635,854) |
| Net cash provided by operating activities | $ 20,053,481 | $ 13,135,383 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH AND RELATED FINANCING ACTIVITIES** | | |
| Amortization of debt related premiums | $ 5,025,903 | $ 5,073,135 |
| Contributions from Member | 127,302 | 88,146 |

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

**NORTHERN CALIFORNIA ENERGY AUTHORITY**
**NOTES TO FINANCIAL STATEMENTS**
**As of and for the Years Ended December 31, 2020 and 2019**

## NOTE 1. ORGANIZATION AND OPERATIONS

The Northern California Energy 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 formed by SMUD and the Modesto Irrigation District, collectively Members. The purpose of the Agency is to prepay for a supply of a fixed quantity of natural gas and electricity (commodity) to be delivered over a thirty-year period (Commodity Project) by J. Aron & Company LLC (J. Aron) under a Prepaid Commodity Sales Agreement (Prepaid Agreement) between the Agency and J. Aron. The Prepaid Agreement terminates on May 31, 2049. J. Aron is obligated to make payments to the Agency for any shortfall of commodity not delivered or taken under the Prepaid Agreement for any reason, including force majeure.

The Agency has entered into a Commodity Supply Contract (CSC) with SMUD that provides for the sale of all commodities delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of commodity delivered under the CSC and to pay damages for commodity that SMUD fails to take pursuant to the terms of the CSC. SMUD has no obligation to pay for commodity that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Commodity Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the CSC, the Agency has agreed to terminate the CSC and may enter into a replacement CSC with one or more municipal utilities on substantially the same terms as the CSC.

The Agency has no employees. The Commodity Project is operated by SMUD's staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed $127.3 thousand in 2020 and $88.1 thousand in 2019 for administrative and general services provided to the Agency by SMUD.

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

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is also 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. Commodity sale revenues and purchase costs that are directly related to delivery of commodity are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

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

**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 money market funds.

**Receivable from Member.** The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of commodity from the Commodity Project.

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

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

**Commodity Price Swap Agreement.** The Agency uses a forward contract to hedge the impact of market volatility on gas commodity process for its Commodity Supply Contract.

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

- Restricted - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital), grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets.
- Unrestricted - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

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

**Operating Expenses.** Operating expenses include the cost of sales and services, administrative expenses and amortization on Prepaid Commodity Supply 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 for the actual costs of providing administrative and general services are recorded as Member Contributions.

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

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

In May 2020, GASB issued SGAS No. 95, ***"Postponement of the Effective Dates of Certain Authoritative Guidance"*** (GASB No. 95). The primary objective of this statement is to provide temporary relief to governments and other stakeholders as a result of the COVID-19 pandemic. GASB No. 95 postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This statement is effective for the Agency in 2020. The Agency will postpone the implementation of GASB No. 87, *Leases* 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 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. 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; Local Agency Investment Fund; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

**Credit Risk.** This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated at least, at the credit rating of the commodity supplier, or, if the commodity supplier is not rated, the guarantor of the commodity supplier which is currently Goldman Sachs.

**Custodial Credit Risk.** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2020 and 2019, the Agency had money market funds of $10.9 million and $11.0 million, respectively, which were uninsured and were 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 has concentrations of risk greater than five percent invested in J. Aron of 100 percent 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. At December 31, 2020 and 2019, all investment funds were in guaranteed investment contracts that will terminate on June 30, 2024.

**Investment Agreement.** The Agency has entered into guaranteed investment contracts in which it has agreed to invest the debt service fund for a fixed rate of return of 3.4 percent, and the debt service reserve and the working capital funds for a guaranteed fixed rate of return of 3.6 percent with J. Aron. The agreements terminate on June 30, 2024.

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.

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

| | Credit Rating | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Cash and Cash Equivalents: | | | |
| Money market funds | AAAm | $ 10,876,509 | $ 10,952,908 |
| Total cash and cash equivalents | | 10,876,509 | 10,952,908 |
| Investments: | | | |
| Guaranteed investment contracts | BBB+ | 10,949,268 | 13,088,730 |
| Total investments | | 10,949,268 | 13,088,730 |
| Total cash, cash equivalents, and investments | | $ 21,825,777 | $ 24,041,638 |

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash, cash equivalents, and investments: | | |
| Debt service funds: | | |
| Debt service fund | $ 14,825,750 | $ 16,965,159 |
| Debt service reserve fund | 4,000,000 | 4,000,000 |
| Total debt service funds | 18,825,750 | 20,965,159 |
| Other restricted funds: | | |
| Working capital fund | 3,000,000 | 3,000,000 |
| Revenue fund | 27 | 76,479 |
| Total other restricted funds | 3,000,027 | 3,076,479 |
| Total cash, cash equivalents, and investments | $ 21,825,777 | $ 24,041,638 |

**NOTE 4. PREPAID GAS SUPPLY**

The Agency's prepaid gas supply is presented below:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Prepaid gas supply | $ 535,991,085 | $ 539,238,219 |
| Less: amounts due within one year | (3,466,109) | (3,247,134) |
| Total prepaid gas supply - noncurrent portion | $ 532,524,976 | $ 535,991,085 |

The following summarizes prepaid gas supply activity for the year ended December 31, 2020:

| | January 1, 2020 | Additions | Amortization | December 31, 2020 |
|---|---|---|---|---|
| Prepaid gas supply | $ 539,238,219 | $ -0- | $ (3,247,134) | $ 535,991,085 |

The following summarizes prepaid gas supply activity for the year ended December 31, 2019:

| | January 1, 2019 | Additions | Amortization | December 31, 2019 |
|---|---|---|---|---|
| Prepaid gas supply | $ 541,900,000 | $ -0- | $ (2,661,781) | $ 539,238,219 |

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per million British Thermal Units (mmbtu) as specified in, and over the remaining term of, the Prepaid Agreement.

**NOTE 5. LONG-TERM DEBT**

The Agency issued $539.6 million of 2018 Commodity Supply Revenue Bonds (Bonds) in December 2018 maturing in June 2049, with a mandatory tender purchase in June 2024. The Bonds have fixed interest rates of 4.0 percent to 5.0 percent.

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

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| 2018 Commodity supply revenue bonds, fixed rates 4.00% - 5.00%, 2020-2049 | $ 539,615,000 | $ 539,615,000 |
| Unamortized premiums | 17,179,186 | 22,205,089 |
| Less: amounts due within one year | -0- | -0- |
| Total long-term debt - net | $ 556,794,186 | $ 561,820,089 |

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

| | January 1, 2020 | Additions | Payments/ Amortizations | December 31, 2020 |
|---|---|---|---|---|
| 2018 Commodity supply revenue bonds | $ 539,615,000 | $ -0- | $ -0- | $ 539,615,000 |
| Unamortized premiums | 22,205,089 | -0- | (5,025,903) | 17,179,186 |
| Total long-term debt | $ 561,820,089 | $ -0- | $ (5,025,903) | $ 556,794,186 |

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

| | January 1, 2019 | Additions | Payments/ Amortizations | December 31, 2019 |
|---|---|---|---|---|
| 2018 Commodity supply revenue bonds | $ 539,615,000 | $ -0- | $ -0- | 539,615,000 |
| Unamortized premiums | 27,278,224 | -0- | (5,073,135) | 22,205,089 |
| Total long-term debt | $ 56,6893,224 | $ -0- | $ (5,073,135) | $ 561,820,089 |

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

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ -0- | $ 21,752,850 | $ 21,752,850 |
| 2022 | -0- | 21,752,850 | 21,752,850 |
| 2023 | 2,320,000 | 21,752,850 | 24,072,850 |
| 2024 | 14,505,000 | 21,636,850 | 36,141,850 |
| 2025 | 17,300,000 | 20,911,600 | 38,211,600 |
| 2026-2030 | 94,045,000 | 93,855,400 | 187,900,400 |
| 2031-2035 | 72,705,000 | 76,652,400 | 149,537,400 |
| 2036-2040 | 104,815,000 | 57,943,400 | 162,758,400 |
| 2041-2045 | 119,340,000 | 37,585,000 | 156,925,000 |
| 2046-2049 | 114,585,000 | 11,743,400 | 126,328,400 |
| Total | $ 539,615,000 | $ 385,586,600 | $ 925,201,600 |

Interest in the preceding table includes interest requirements at current fixed rate coupon of 4 percent to 5 percent until mandatory remarketing date on July 1, 2024, and percent fixed rate after mandatory remarketing. Principal in the preceding table includes known principal payments until mandatory remarketing date and the amortization schedule after mandatory remarketing date.

The Agency had pledged future net revenues to repay $539.6 million at December 31, 2020 and 2019, for Bonds issued in December 2018. Proceeds from the Bonds were used to purchase the Commodity Project from J. Aron at a price of $541.9 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2049, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the GSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100 percent of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds is $925.2 million and $947.0 million at December 31, 2020 and 2019, respectively. Gas deliveries started in June 2019. Total gross revenues were $20.5 million for 2020. Debt service payments on the Bonds are made semi-annually on January 1 and July 1.

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

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

## NOTE 6. COMMITMENTS

**Commodity Price Swap Agreement.** The Agency has entered into a floating-to-fixed natural gas and electricity commodity price swap agreement (Commodity Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's commodity sales to SMUD under the CSC. The Agency pays an index-based commodity price over the thirty-year period and receives a fixed commodity price as specified in the Commodity Swap Agreement, for notional quantities of commodity at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Commodity Swap Agreement terminates on July 1, 2049. The total notional amount of the Commodity Swap Agreement remaining at December 31, 2020 and 2019 was 110.4 million mmbtu and 9.9 million MWh, and 116.1 million mmbtu and 9.9 million MWh, respectively. Presently, the Commodity Swap Agreement is an average of 17,972 mmbtu per calendar day. Actual daily commodity deliveries will vary month to month, changing on the first day of the month. Early termination of the Commodity Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Commodity Swap Agreement would have no value to either party.

## NOTE 7. CONTINGENCIES

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

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

# Northern California Gas Authority No. 1

**Financial Statements**

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

*including*

**Independent**

**Auditors' Report**

**NORTHERN CALIFORNIA GAS AUTHORITY No. 1**
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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
Northern California Gas Authority No. 1

We have audited the accompanying financial statements of Northern California Gas Authority No. 1, 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 Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1'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 Northern California Gas Authority No. 1 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

**NORTHERN CALIFORNIA GAS AUTHORITY No. 1**
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**
**For the Years Ended December 31, 2020 and 2019**

**Using this Financial Report**

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

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

**Overview of the Financial Statements**

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 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.

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

SMUD purchases all of the natural gas delivered to the Agency pursuant to the Gas Supply Contract between SMUD and the Agency. The Agency has no employees and SMUD contributes to the Agency the actual costs of providing general and administrative services.

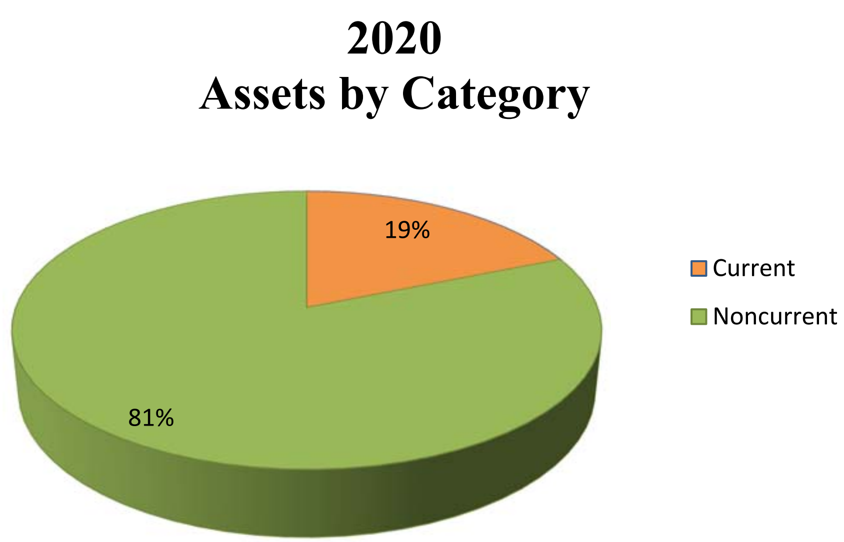
The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

## FINANCIAL POSITION

**Statements of Net Position Summary**
(Dollars in thousands)

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Assets | | | | | | | |
| Current assets | $ 37,271 | $ 33,422 | $ 50,818 | $ 3,849 | 11.5% | $ (17,396) | -34.2% |
| Noncurrent assets | 160,648 | 180,564 | 198,303 | (19,916) | -11.0% | (17,739) | -8.9% |
| Total assets | $ 197,919 | $ 213,986 | $ 249,121 | $ (16,067) | -7.5% | $ (35,135) | -14.1% |
| Liabilities | | | | | | | |
| Long-term debt - net | $ 163,485 | $ 181,935 | $ 198,610 | $ (18,450) | -10.1% | $ (16,675) | -8.4% |
| Current liabilities | 24,288 | 21,937 | 39,433 | 2,351 | 10.7% | (17,496) | -44.4% |
| Total liabilities | 187,773 | 203,872 | 238,043 | (16,099) | -7.9% | (34,171) | -14.4% |
| Net position | | | | | | | |
| Restricted | 8,974 | 8,053 | 16,842 | 921 | 11.4% | (8,789) | -52.2% |
| Unrestricted | 1,172 | 2,061 | (5,764) | (889) | -43.1% | 7,825 | 135.8% |
| Total net position | 10,146 | 10,114 | 11,078 | 32 | 0.3% | (964) | -8.7% |
| Total liabilities and net position | $ 197,919 | $ 213,986 | $ 249,121 | $ (16,067) | -7.5% | $ (35,135) | -14.1% |

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



**2020 Compared to 2019**

**ASSETS**

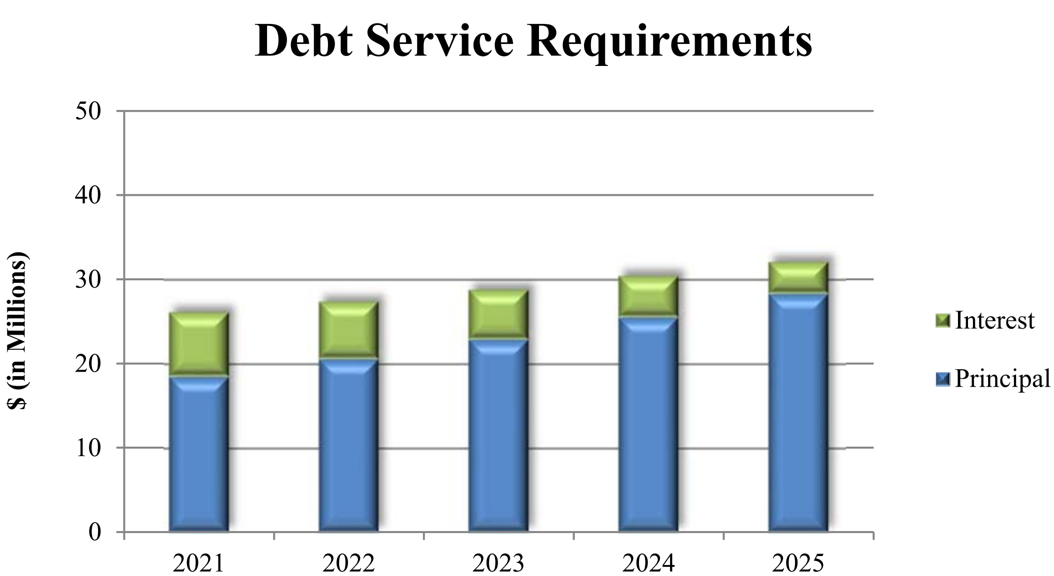
- Current Assets increased due to higher restricted cash and cash equivalents and prepaid gas supply for the current year as a result of a higher gas volume for the entire year.

- The Agency's main asset is its Prepaid Gas Supply, of which, the noncurrent portion was $160.0 million at December 31, 2020. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2020. The Prepaid gas supply (current and noncurrent portion) was about 81 percent of the Agency's assets at December 31, 2020.

**LIABILITIES & NET POSITION**

- Long-Term Debt - net decreased primarily due to $16.7 million of scheduled principal payments for 2020. At December 31, 2020, the Agency had bonds outstanding of $181.9 million with maturities through 2027. At December 31, 2020, the 2007 Agency Bonds are rated "A+" by Standard & Poor's. The Agency's bonds are tied to MSCG's credit rating.

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




- Current Liabilities increased due to higher accounts payable, current portion of long term debt and collateral for credit support as a result of higher gas volume, offset by lower accrued interest payable.

- Restricted Net Position increased due to higher debt service fund requirements and collateral for credit support due to higher gas volume.

**2019 Compared to 2018**

**ASSETS**

- Current Assets decreased due to lower Restricted cash for lower debt service, Accrued interest and other as a result of lower gas volume, and current portion of the Prepaid Gas Supply.

- The Agency's main asset is its Prepaid Gas Supply, of which, the noncurrent portion was $179.8 million at December 31, 2019. Noncurrent Assets decreased due to the amortization of the Prepaid Gas Supply for gas delivered in 2019.

**LIABILITIES & NET POSITION**

- Long-Term Debt - net decreased primarily due to $34.6 million of the scheduled principal payments for 2019. At December 31, 2019, the Agency had bonds outstanding of $198.6 million with maturities through 2027.

- Current Liabilities decreased primarily due to lower current portion of the long-term debt, partially offset by higher credit support obligation to a collateral deposit from MSCG.

**RESULTS OF OPERATIONS**

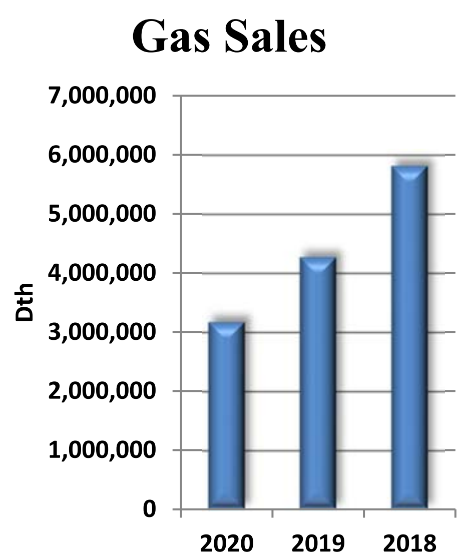
**Summary of Revenues, Expenses and Changes in Net Position**

(Dollars in thousands)

| | December 31, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 2019 vs. 2018 | |
| Operating revenues | $ 25,935 | $ 33,472 | $ 43,760 | $ (7,537) | -22.5% | $ (10,288) | -23.5% |
| Operating expenses | (17,810) | (25,133) | (34,761) | 7,323 | 29.1% | 9,628 | 27.7% |
| Operating income | 8,125 | 8,339 | 8,999 | (214) | -2.6% | (660) | -7.3% |
| Interest and other income | 533 | 850 | 876 | (317) | -37.3% | (26) | -3.0% |
| Interest on debt | (8,205) | (9,280) | (10,645) | 1,075 | 11.6% | 1,365 | 12.8% |
| Change in net position before distributions and contributions | 453 | (91) | (770) | 544 | 597.8% | 679 | 88.2% |
| Distributions to Member | (507) | (953) | (881) | 446 | 46.8% | (72) | -8.2% |
| Member contributions | 86 | 80 | 69 | 6 | 7.5% | 11 | 15.9% |
| Change in net position | 32 | (964) | (1,582) | 996 | 103.3% | 618 | 39.1% |
| Net position - beginning of year | 10,114 | 11,078 | 12,660 | (964) | -8.7% | (1,582) | -12.5% |
| Net position - end of year | $ 10,146 | $ 10,114 | $ 11,078 | $ 32 | 0.3% | $ (964) | -8.7% |

**2020 Compared to 2019**

The following chart shows gas sales in 2020, 2019 and 2018:




- Operating Revenue decreased due to lower Gas swap settlement as a result of lower gas volume.
- Operating Expense decreased due to lower amortization of the Prepaid Gas Supply.
- Interest expense decreased primarily due to lower bonds outstanding.
- Distributions to SMUD are based on interest earnings on the Debt Service fund not otherwise needed for another purpose, as specified in the indenture of trust. In 2020, the Agency distributed $0.5 million to SMUD.

**2019 Compared to 2018**

- Operating Revenue decreased due to lower Gas swap settlement and Gas sales to Member as a result of lower gas volume.
- Operating Expense decreased due to lower amortization of the Prepaid Gas Supply.
- Interest expense decreased primarily due to lower bonds outstanding.
- The Agency distributed $0.9 million to SMUD in 2019.

**Requests for Information**

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

**NORTHERN CALIFORNIA GAS AUTHORITY No. 1**
**STATEMENTS OF NET POSITION**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **RESTRICTED ASSETS** | | |
| Debt service fund | $ 10,932,270 | $ 10,189,434 |
| Other restricted funds | 3,880,177 | 3,125,785 |
| Less current portion | (14,812,447) | (13,315,219) |
| Total restricted assets | -0- | -0- |
| **CURRENT ASSETS** | | |
| Restricted cash and cash equivalents | 14,812,447 | 13,315,219 |
| Receivables: | | |
| Gas sales to Member | 409,439 | 374,608 |
| Accrued interest and other | 2,133,357 | 1,993,049 |
| Prepaid gas supply | 19,795,206 | 17,618,858 |
| Other prepayments | 15,630 | 15,630 |
| Regulatory costs to be recovered within one year | 104,796 | 104,796 |
| Total current assets | 37,270,875 | 33,422,160 |
| **NONCURRENT ASSETS** | | |
| Prepaid gas supply | 159,985,872 | 179,781,077 |
| Regulatory costs for future recovery | 576,381 | 681,179 |
| Prepaid bond insurance costs | 85,966 | 101,598 |
| Total noncurrent assets | 160,648,219 | 180,563,854 |
| TOTAL ASSETS | $ 197,919,094 | $ 213,986,014 |
| **LIABILITIES AND NET POSITION** | | |
| **LONG-TERM DEBT - net** | $ 163,485,000 | $ 181,935,000 |
| **CURRENT LIABILITIES** | | |
| Accounts payable | 1,559,367 | 1,072,714 |
| Credit support for collateral obligation | 3,880,167 | 3,124,864 |
| Long-term debt due within one year | 18,450,000 | 16,675,000 |
| Accrued interest | 398,254 | 1,064,330 |
| Total current liabilities | 24,287,788 | 21,936,908 |
| TOTAL LIABILITIES | 187,772,788 | 203,871,908 |
| **NET POSITION** | | |
| Restricted | 8,974,659 | 8,053,311 |
| Unrestricted | 1,171,647 | 2,060,795 |
| TOTAL NET POSITION | 10,146,306 | 10,114,106 |
| **COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)** | | |
| TOTAL LIABILITIES AND NET POSITION | $ 197,919,094 | $ 213,986,014 |

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

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

| | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Gas sales to Member | $ 3,067,797 | $ 2,227,519 |
| Gas swap settlement, net | 22,867,356 | 31,244,270 |
| Total operating revenues | 25,935,153 | 33,471,789 |
| **OPERATING EXPENSES** | | |
| Prepaid gas amortization | 17,618,857 | 24,948,582 |
| Administrative and general | 86,234 | 80,112 |
| Regulatory amounts collected in rates | 104,796 | 104,796 |
| Total operating expenses | 17,809,887 | 25,133,490 |
| **OPERATING INCOME** | 8,125,266 | 8,338,299 |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Interest income | 532,363 | 850,433 |
| Interest on debt | (8,204,959) | (9,279,888) |
| Total non-operating revenues (expenses) | (7,672,596) | (8,429,455) |
| **CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND CONTRIBUTIONS** | 452,670 | (91,156) |
| Distributions to Member | (506,704) | (952,825) |
| Member contributions | 86,234 | 80,112 |
| CHANGE IN NET POSITION | 32,200 | (963,869) |
| NET POSITION - BEGINNING OF YEAR | 10,114,106 | 11,077,975 |
| NET POSITION - END OF YEAR | $ 10,146,306 | $ 10,114,106 |

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

**NORTHERN CALIFORNIA GAS AUTHORITY No. 1**
**STATEMENTS OF CASH FLOWS**

| | December 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from gas sales to Member | $ | 3,032,966 | $ | 2,352,083 |
| Receipts from others | | 22,808,833 | | 32,849,373 |
| Receipts/payments for credit support collateral | | 755,303 | | 746,733 |
| Net cash provided by operating activities | | 26,597,102 | | 35,948,189 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Repayment of bonds | | (16,675,000) | | (34,560,000) |
| Interest payments on long-term debt | | (8,368,748) | | (9,622,300) |
| Distributions to Member | | (506,704) | | (952,825) |
| Net cash used in noncapital financing activities | | (25,550,452) | | (45,135,125) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received | | 450,578 | | 786,680 |
| Net cash provided by investing activities | | 450,578 | | 786,680 |
| Net (decrease) increase in cash and cash equivalents | | 1,497,228 | | (8,400,256) |
| Cash and cash equivalents - beginning of the year | | 13,315,219 | | 21,715,475 |
| Cash and cash equivalents - end of the year | $ | 14,812,447 | $ | 13,315,219 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | |
| Operating income | $ | 8,125,266 | $ | 8,338,299 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Amortization of prepaid gas supply | | 17,618,857 | | 24,948,582 |
| Regulatory amortization | | 104,796 | | 104,796 |
| Receipts (payments) for credit support collateral | | 755,303 | | 746,733 |
| Changes in operating assets and liabilities: | | | | |
| Receivables | | (93,354) | | 1,729,667 |
| Payables and accruals | | 86,234 | | 80,112 |
| Net cash provided by operating activities | $ | 26,597,102 | $ | 35,948,189 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH RELATED FINANCING ACTIVITIES** | | | | |
| Amortization of debt related premiums | $ | (15,632) | $ | (15,630) |
| Contributions from Member | | 86,234 | | 80,112 |

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

**NORTHERN CALIFORNIA GAS AUTHORITY No. 1**
**NOTES TO FINANCIAL STATEMENTS**
**As of and for the Years Ended December 31, 2020 and 2019**

## NOTE 1. ORGANIZATION AND OPERATIONS

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

The Agency has entered into a Gas Supply Contract (GSC) with SMUD that provides for the sale of all of the natural gas delivered to the Agency over the term of the Prepaid Agreement. SMUD is obligated to pay the Agency for the quantities of gas delivered under the GSC and to pay damages for gas that SMUD fails to take pursuant to the terms of the GSC. SMUD has no obligation to pay for gas that the Agency fails to deliver. The Agency anticipates that SMUD will be the only project participant with respect to the Gas Project during the term of the Prepaid Agreement. However, in the event of a default by SMUD under the GSC, the Agency has agreed to terminate the GSC and may enter into a replacement GSC with one or more municipal utilities on substantially the same terms as the GSC.

The Agency has no employees. The Gas Project is operated by SMUD’s staff. SMUD is obligated to contribute to the Agency the actual costs of providing administrative and general services. SMUD contributed $0.1 million both in 2020 and 2019 for administrative and general services provided to the Agency by SMUD.

The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect, or while any bonds or notes of the Agency are outstanding. Gas Project revenues and the subsequent payments of principal and interest related to the Agency’s long-term debt are dependent upon the continued delivery of natural gas to the Gas Project under the Prepaid Agreement. Various termination events are specified in the Prepaid Agreement. Upon the occurrence of any such event, the Prepaid Agreement may be terminated by the Agency or MSCG. If the Prepaid Agreement is terminated, MSCG will be required to pay a scheduled termination payment to the Agency. Any termination of the Prepaid Agreement will result in the extraordinary mandatory redemption of the Agency’s long-term debt. Neither SFA nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Gas Project agreement.

The Agency’s Commission is comprised of SMUD’s Board of Directors. The Agency is a separate legal entity; however, it is also 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. Natural gas sale revenues and purchase costs that are directly related to delivery of natural gas are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

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

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

**Cash and Cash Equivalents.** Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less and all investments in money market funds.

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

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

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

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

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

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

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

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

- Restricted - This component of net position consists of assets with constraints placed on their use, either externally or internally. Constraints include those imposed by debt indentures (excluding amounts considered in net capital), grants or laws and regulations of other governments, by law through constitutional provisions or enabling legislation, or by the Commission. These restricted assets are reduced by liabilities related to those assets.
- Unrestricted - This component of net position consists of net amount of the assets and liabilities that do not meet the definition of "Restricted."

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

**Operating Expenses.** Operating expenses include the cost of sales and services, administrative expenses and amortization on Prepaid Gas Supply assets and Regulatory Costs for Future Recovery and are recorded when incurred.

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

**Member Contributions.** Amounts contributed by SMUD for the actual costs of providing administrative and general services are recorded as Member Contributions.

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

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

In May 2020, GASB issued SGAS No. 95, ***"Postponement of the Effective Dates of Certain Authoritative Guidance"*** (GASB No. 95). The primary objective of this statement is to provide temporary relief to governments and other stakeholders as a result of the COVID-19 pandemic. GASB No. 95 postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This statement is effective for the Agency in 2020. The Agency will postpone the implementation of GASB No. 87, *Leases*; 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 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. 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; Local Agency Investment Fund; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

**Credit Risk.** This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated, at a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

**Custodial Credit Risk.** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or securities that are in the possession of another party. The Agency does not have a deposit or investment policy for custodial credit risk. At December 31, 2020 and 2019, the Agency had money market funds of $6.0 million and $5.4 million which were uninsured, respectively. At December 31, 2020 and 2019, $2.1 million and $2.3 million of the money market funds were held in trust for the benefit of the Agency respectively, and $3.9 million and $3.1 million represent amounts held by the Agency as a collateral deposit by an investment provider, respectively.

**Concentration of Credit Risk.** This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. To limit the Agency's credit risk for commercial paper purchased under the Debt Service Fund Agreement, the aggregate maturity amount invested in any combination of one issuer, affiliate of issuer, or backed by any one credit support, cannot exceed $30.0 million. The Agency has concentrations of risk greater than five percent invested in Chesham Finance of 100 percent 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. At December 31, 2020 and 2019, all of the Agency's investments had maturities of one year or less.

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

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 (S&P).

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

| | Credit Rating | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Cash and Cash Equivalents: | | | |
| Money market funds | AAAm | $ 5,958,103 | $ 5,374,882 |
| Commercial paper - Chesham Finance | A-1 | 8,854,344 | 7,940,337 |
| Total cash and cash equivalents | | $ 14,812,447 | $ 13,315,219 |

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

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash and Cash Equivalents: | | |
| Debt service fund | $ 10,932,270 | $ 10,189,434 |
| Other restricted funds: | | |
| Collateral for credit support | 3,880,167 | 3,124,864 |
| Revenue fund | 10 | 921 |
| Total other restricted funds | 3,880,177 | 3,125,785 |
| Total cash and cash equivalents | $ 14,812,447 | $ 13,315,219 |

**NOTE 4. PREPAID GAS SUPPLY**

The Agency's prepaid gas supply is presented below:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Prepaid gas supply | $ 178,596,039 | $ 196,065,052 |
| Prepaid gas supply revenue | 1,185,039 | 1,334,883 |
| Total prepaid gas supply | 179,781,078 | 197,399,935 |
| Less: amounts due within one year | (19,795,206) | (17,618,858) |
| Total prepaid gas supply - noncurrent portion | $ 159,985,872 | $ 179,781,077 |

The following summarizes prepaid gas supply activity for the year ended December 31, 2020:

| | January 1, 2020 | Terminations | Amortization | December 31, 2020 |
|---|---|---|---|---|
| Prepaid gas supply | $ 196,065,052 | $ -0- | $ (17,469,013) | $ 178,596,039 |
| Prepaid gas supply revenue | 1,334,883 | -0- | (149,844) | 1,185,039 |
| Total prepaid gas supply | $ 197,399,935 | $ -0- | $ (17,618,857) | $ 179,781,078 |

The following summarizes prepaid gas supply activity for the year ended December 31, 2019:

| | January 1, 2019 | Terminations | Amortization | December 31, 2019 |
|---|---|---|---|---|
| Prepaid gas supply | $ 220,796,428 | $ -0- | $ (24,731,376) | $ 196,065,052 |
| Prepaid gas supply revenue | 1,552,089 | -0- | (217,206) | 1,334,883 |
| Total prepaid gas supply | $ 222,348,517 | $ -0- | $ (24,948,582) | $ 197,399,935 |

The prepaid gas supply is the discounted NPV of the fixed monthly natural gas prices per million British Thermal Units (mmbtu) as specified in, and over the remaining term of, the Prepaid Agreement. The prepaid gas supply revenue is the discounted NPV of $0.07 per mmbtu over the remaining term of the Prepaid Agreement.

## NOTE 5. LONG-TERM DEBT

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

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| 2007 Series B Gas project revenue bonds, variable rates, 2020-2027 | $ 181,935,000 | $ 198,610,000 |
| Less: amounts due within one year | (18,450,000) | (16,675,000) |
| Total long-term debt - net | $ 163,485,000 | $ 181,935,000 |

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

| | January 1, 2020 | Additions | Payments/ Amortizations | December 31, 2020 |
|---|---|---|---|---|
| 2007 Gas project revenue bonds | $ 198,610,000 | $ -0- | $ (16,675,000) | $ 181,935,000 |
| Total long-term debt | $ 198,610,000 | $ -0- | $ (16,675,000) | $ 181,935,000 |

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

| | January 1, 2019 | Additions | Payments/ Amortizations | December 31, 2019 |
|---|---|---|---|---|
| 2007 Gas project revenue bonds | $ 233,170,000 | $ -0- | $ (34,560,000) | $ 198,610,000 |
| Total long-term debt | $ 233,170,000 | $ -0- | $ (34,560,000) | $ 198,610,000 |

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

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 18,450,000 | $ 7,631,960 | $ 26,081,960 |
| 2022 | 20,550,000 | 6,815,276 | 27,365,276 |
| 2023 | 22,865,000 | 5,905,895 | 28,770,895 |
| 2024 | 25,530,000 | 4,893,110 | 30,243,110 |
| 2025 | 28,295,000 | 3,764,547 | 32,059,547 |
| 2026-2027 (combined) | 66,245,000 | 3,637,257 | 69,882,257 |
| Total | $ 181,935,000 | $ 32,648,045 | $ 214,583,045 |

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

The Agency had pledged future net revenues to repay $181.9 million and $198.6 million at December 31, 2020 and 2019, respectively, for Bonds issued in May 2007. Proceeds from the Bonds were used to purchase the Gas Project from MSCG at a price of $754.1 million with the remaining amounts used to fund the appropriate accounts for the Agency. The Bonds, payable through 2027, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes bond proceeds, rights under the GSC, revenues, any termination payment and any investment income. Annual principal and interest payments on the Bonds are expected to require approximately 100 percent of the Agency's net revenues. The total principal and interest remaining to be paid on the Bonds was $214.5 million and $239.6 million at December 31, 2020 and 2019, respectively. Debt service payments on the Bonds are made quarterly on January 1, April 1, July 1 and October 1.

Principal and interest paid was $25.0 million and $44.2 million for 2020 and 2019, respectively. Total net revenues were $26.5 million and $34.3 million for 2020 and 2019, respectively.

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

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

**Interest Rate Swap Agreements - 2007 Series B Bonds.** The following summarizes the Agency's swap agreement at December 31, 2020:

The following summarizes the Agency's swap agreement at December 31, 2020:

| Notional Amount | Agency Pays | Fixed Rate | Floating Rate | Termination Date | Credit Support Provider Credit Rating (S&P) |
|---|---|---|---|---|---|
| $ 181,935,000 | Fixed | 4.304% | 67% of LIBOR +.72% | 07/01/27 | A+ |

The following summarizes the Agency's swap agreement at December 31, 2019:

| Notional Amount | Agency Pays | Fixed Rate | Floating Rate | Termination Date | Credit Support Provider Credit Rating (S&P) |
|---|---|---|---|---|---|
| $ 198,610,000 | Fixed | 4.304% | 67% of LIBOR +.72% | 07/01/27 | A+ |

At December 31, 2020 and 2019, the Agency had a variable-to-fixed interest rate swap agreement with a counterparty. The Agency pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month London Interbank Offered Rates (LIBOR) (0.23 percent and 1.9 percent at December 31, 2020 and 2019, respectively) plus an interest rate spread, as specified in the swap agreement. The total notional amount of the swap at December 31, 2020 and 2019 was $181.9 million and $198.6 million, respectively, and was equivalent to the outstanding principal balance on the Agency's Bonds. The swap is amortized over the life of the swap agreement in a manner corresponding to the principal repayment schedule of the Bonds. Early termination of the swap would occur upon termination of the Prepaid Agreement for any reason. Upon early termination, the swap would have no value to either party.

**Variable Rate 2007 Series B Bonds.** The Agency's variable rate Bonds bear interest at a quarterly rate of 0.9 percent at December 31, 2020.

## NOTE 6. COMMITMENTS

**Natural Gas Commodity Price Swap Agreement.** The Agency has entered into a floating-to-fixed natural gas commodity price swap agreement (Gas Swap Agreement) with a counterparty for the purpose of fixing the variable price on the Agency's natural gas sales to SMUD under the GSC. The Agency pays an index-based natural gas price over the twenty-year period and receives a fixed natural gas price as specified in the Gas Swap Agreement, for notional quantities of natural gas at a pricing point corresponding to the daily contract quantity and the delivery point under the Prepaid Agreement. The Gas Swap Agreement terminates on May 31, 2027. The total notional amount of the Gas Swap Agreement remaining at December 31, 2020 was 20.3 million mmbtu. Presently, the Gas Swap Agreement is 8,675 mmbtu per calendar day, and this amount will change on June 1 of each remaining year of the Gas Swap Agreement and will range from 8,675 to 8,673 mmbtu per calendar day. Early termination of the Gas Swap Agreement would occur upon termination of the Prepaid Agreement for any reason whatsoever. Upon early termination, the Gas Swap Agreement would have no value to either party.

## NOTE 7. CONTINGENCIES

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

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

# 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.

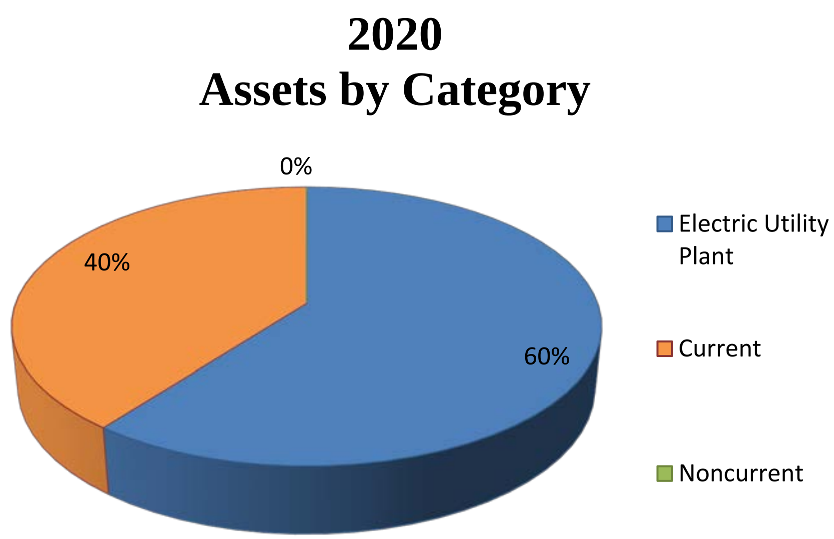
The plant completed combustion turbine 1A (Engine 185-191) major overhaul and the DCS Controls Upgrade.

## 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

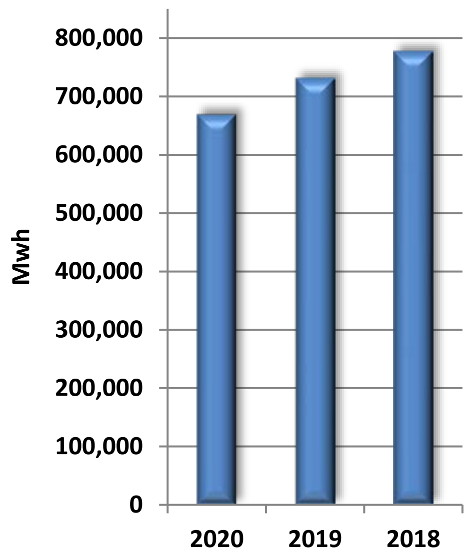
## OPERATING REVENUES

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.

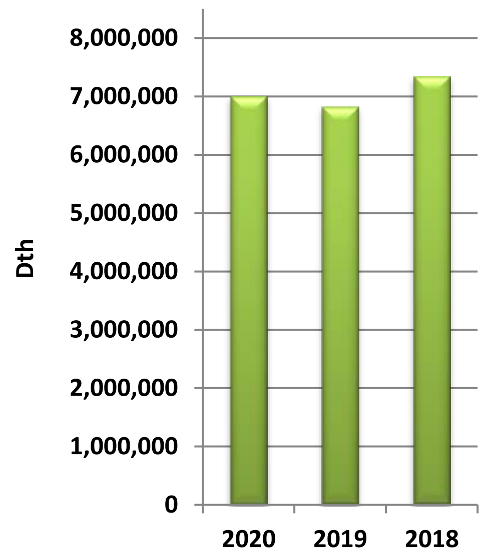
The Agency saw a decrease in power sales as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction in run time in 2019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

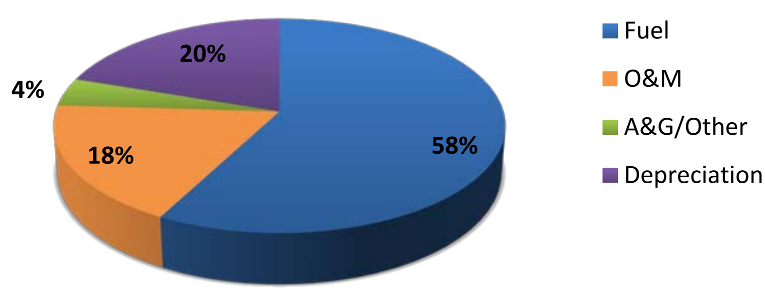



## Gas Consumption




**OPERATING EXPENSES**

## 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 | 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.

## 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.

# 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.

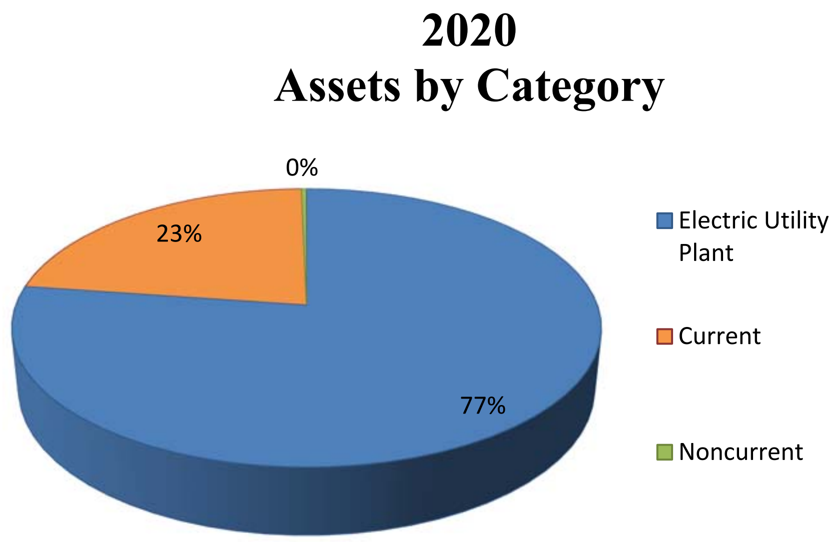
The plant completed the Zero Liquid Discharge (ZLD) Evaporator Replacement Project. The ZLD evaporator / brine loop section was exhibiting significant cracks. The material used in 2006 was not the recommended stainless material now being recommended by the original equipment manufacturer. The existing 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.

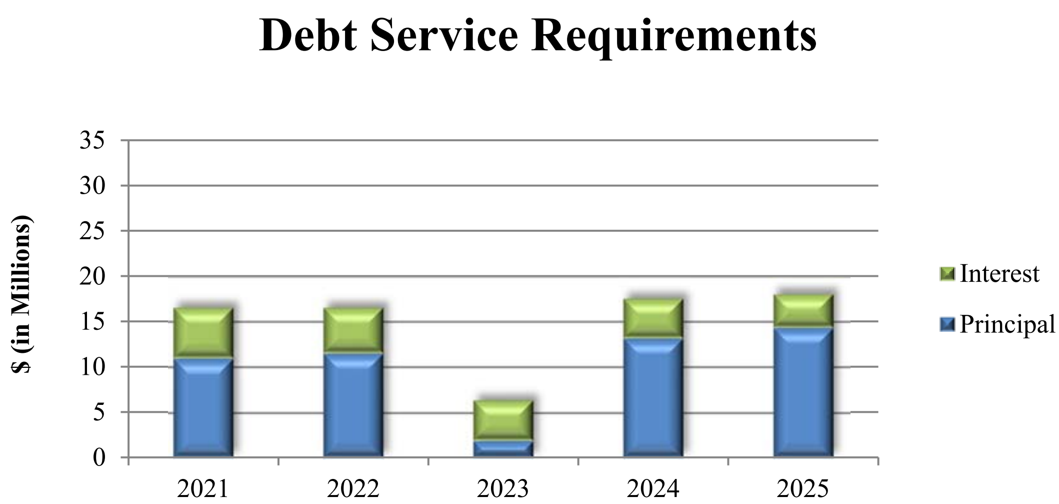
- Current Assets increased primarily due to higher Unrestricted cash as part of normal operations, Restricted cash for debt service, Receivables from SMUD for the fuel portion of the PPA billings in November and December 2020, and Prepayments due to a milestone payment for the purchase of the spare gas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

**<u>ASSETS & DEFERRED OUTFLOWS OF RESOURCES</u>**

- 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.

**<u>LIABILITIES & NET POSITION</u>**

- 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, | | | Change | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 vs. 2019 | | 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% |

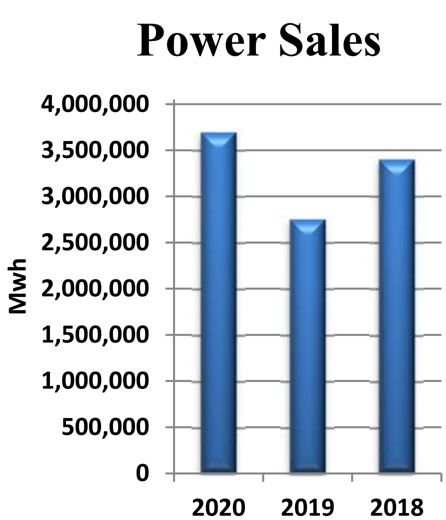
**2020 Compared to 2019**

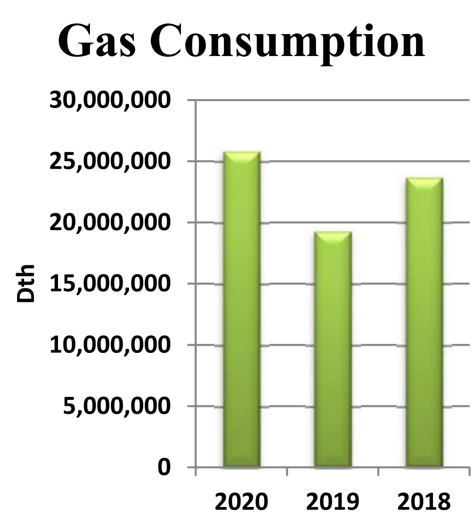
## OPERATING REVENUES

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.

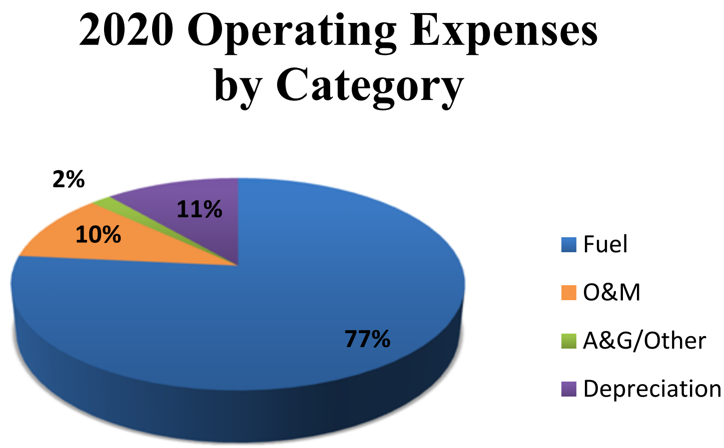
In 2020, the Agency saw an increase in power sales and gas consumption as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provides other California and western United States utilities access to a larger more cost 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 | 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 | 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.

# Sacramento Power Authority

## Financial Statements

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

*including*

## Independent Auditors' Report

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

# Independent Auditors' Report

To the Board of Directors of
Sacramento Power Authority

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

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

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

**Other Matter**

*Required Supplementary Information*

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

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

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

## Using this Financial Report

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

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

## Overview of the Financial Statements

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

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

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

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

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

## Nature of Operations

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

SMUD purchases all of the electricity produced by the Project and McClellan pursuant to the Purchase Power Agreements (PPA) between SMUD and the Agency. The Agency has no employees and is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

**Financial & Operational Highlights**

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

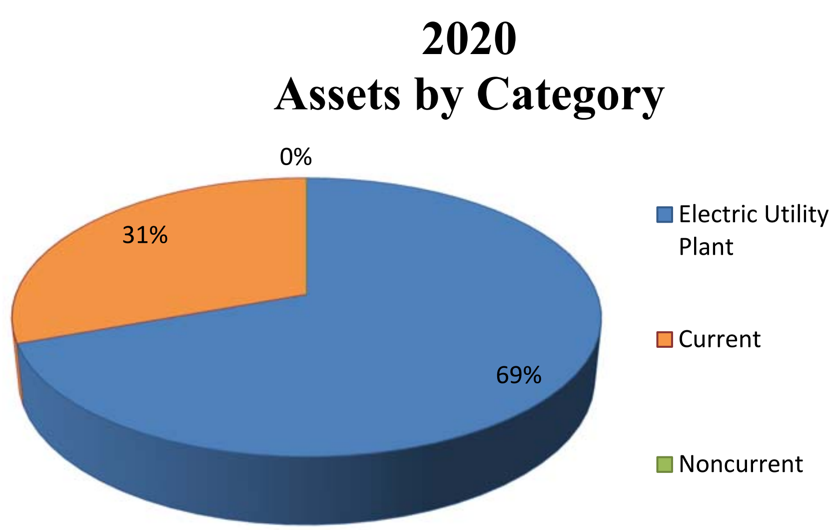
In 2020, the Agency completed the year with an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 96.23 percent, an IEEE Reliability rating of 99.92 percent and a unit capacity factor of 36.8 percent.

## FINANCIAL POSITION

**Statements of Net Position Summary**
(Dollars in thousands)

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

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




**2020 Compared to 2019**

**ASSETS**

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

**LIABILITIES & NET POSITION**

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

**2019 Compared to 2018**

**ASSETS**

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

**LIABILITIES & NET POSITION**

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

**RESULTS OF OPERATIONS**

**Summary of Revenues, Expenses and Changes in Net Position**

(Dollars in thousands)

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

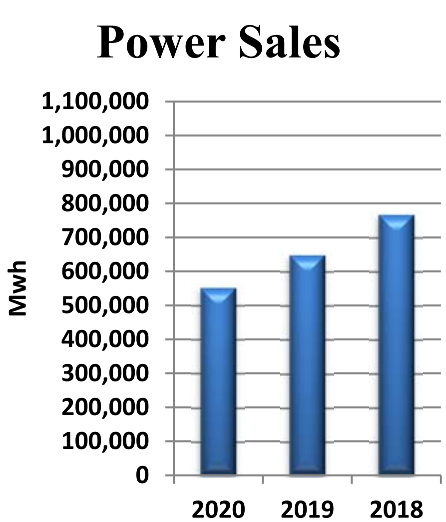
**2020 Compared to 2019**

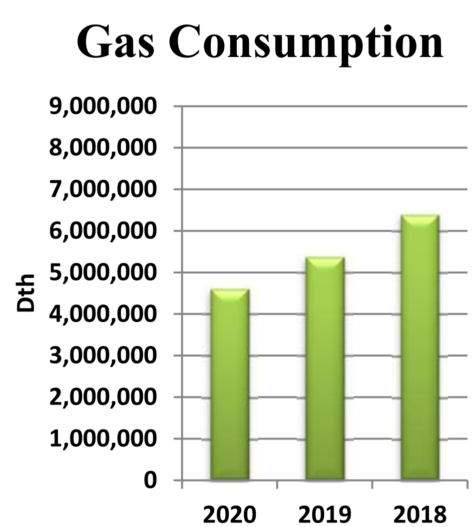
**OPERATING REVENUES**

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

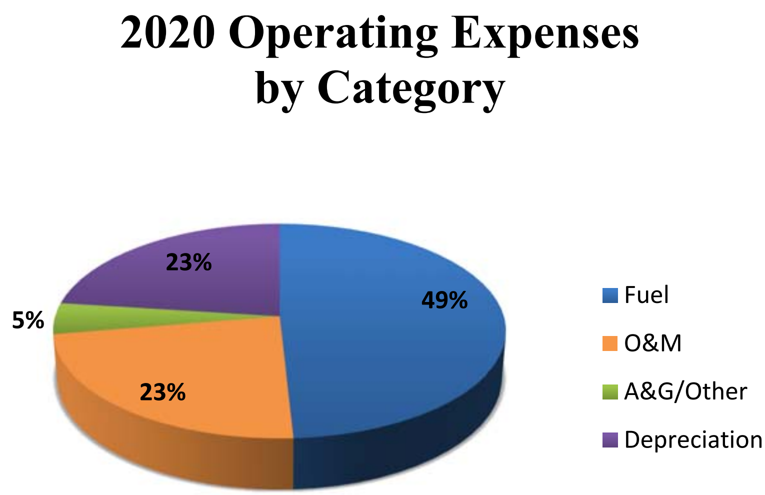
The Agency saw a decrease in power sales and gas consumption as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction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

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



## OPERATING EXPENSES




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

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

- Operation and maintenance decreased due to lower maintenance costs.

**2019 Compared to 2018**

## RESULTS OF OPERATIONS

- Fuel expense decreased due to lower fuel costs of $5.8 million and fuel volume of $3.8 million.

- Operation and maintenance increased due to the combustion turbine overhaul.

**Requests for Information**

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

**SACRAMENTO POWER AUTHORITY**
**STATEMENTS OF NET POSITION**

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

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

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

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

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

**SACRAMENTO POWER AUTHORITY**
**STATEMENTS OF CASH FLOWS**

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

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

## NOTE 1. ORGANIZATION AND OPERATIONS

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

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

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

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

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

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

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

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Method of Accounting.** The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency’s accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Electric revenues and costs that are directly related to generation of electricity and steam are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**Plant in Service.** The Agency generally computes depreciation on Electric Utility Plant on a straight-line basis using five years for software and the remaining life of the JPA for all other capital assets. The costs of replacement units are capitalized. Major overhaul parts are depreciated over their estimated useful lives, ranging from 5 to 15 years. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years.

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

**Receivable from Member.** The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of power generated by the Project.

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE 3. ELECTRIC UTILITY PLANT**

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

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

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

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

**NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Equivalents and Investments.** The Agency's investments are governed by the California State and Municipal Codes and its Indenture, which allow Agency investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; LAIF; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

**Credit Risk.** This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated, at a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

**Custodial Credit Risk.** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. The Agency does not have a deposit policy for custodial credit risk.

At December 31, 2020 and 2019, $1.3 million and $0.6 million of the Agency's cash balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 134 percent and 131 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2020 and 2019, respectively.

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

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

The following schedules present credit risk by type of security held at December 31, 2020 and 2019. If applicable, the credit ratings listed are from Standard & Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

| | Credit Rating | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Cash and Cash Equivalents: | | | |
| Deposits | N/A | $ 1,556,718 | $ 876,256 |
| LAIF | Not Rated | 9,347,947 | 8,709,524 |
| Total cash and cash equivalents | | $ 10,904,665 | $ 9,585,780 |

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 | $ 10,904,665 | $ 9,585,780 |
| Total cash and cash equivalents | $ 10,994,665 | $ 9,585,780 |

## NOTE 5. INSURANCE PROGRAMS

The Agency purchases commercial, property and casualty insurance coverage at levels consistent with coverage on similar facilities. The policies' deductible dollar amounts vary depending on the type of coverage. Excess liability coverage for most claims against the Agency is $140.0 million and property is covered under an all-risk policy to replacement value. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims, and $2.5 million for property claims. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

## NOTE 6. FAIR VALUE MEASUREMENTS

SGAS No. 72, ***"Fair Value Measurement and Application***" (GASB No. 72), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Agency utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Agency's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are disclosed below. All of the Agency's investments are valued using Level 2 inputs.

- LAIF - uses the fair value of the pool's share price multiplied by the number of shares held. This pool can include a variety of investments such as U.S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, and other investments. The fair values of the securities are generally based on quoted and/or observable market prices.

The following table identifies the level within the fair value hierarchy that the Agency's financial assets are accounted for on a recurring basis as of December 31, 2020 and 2019, respectively. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures (Level 2)

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Investments reported as Cash and Cash Equivalents: | | |
| LAIF | $ 9,347,947 | $ 8,709,524 |
| Total fair value investments | $ 9,347,947 | $ 8,709,524 |

**NOTE 7. COMMITMENTS**

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

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

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

## NOTE 8.  CONTINGENCIES

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

2

# BOARD AGENDA ITEM
## STAFFING SUMMARY SHEET

| | |
|---|---|
| SSS No. CFO 21-002 | Committee Meeting & Date: Finance & Audit, March 16, 2021 |
| | Board Meeting Date: n/a |

| TO | | TO | |
|---|---|---|---|
| 1. | Gary King | 6. | |
| 2. | Jennifer Davidson | 7. | |
| 3. | | 8. | |
| 4. | | 9. | **Legal** |
| 5. | | 10. | **CEO & General Manager** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Consent Calendar** | **Yes** | **No** *If no, schedule a dry run presentation.* | **Budgeted** | **Yes** | **No** *(If no, explain in Cost/Budgeted section.)* | |

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Lisa Limcaco | Accounting | B352 | 7045 | 3/5/21 |

**NARRATIVE:**

**Requested Action:** Present SMUD's financial results for the year 2020.

**Summary:** Staff will present the Board's Finance and Audit Committee with SMUD's financial results for the year 2020.

**Board Policy:** *(Number & Title)* GP-3

**Benefits:** Provide the Board Members with current information on SMUD's financial condition.

**Cost/Budgeted:** n/a

**Alternatives:** None

**Affected Parties:** Accounting

**Coordination:** Accounting

**Presenter:** Lisa Limcaco

**Additional Links:**

| SUBJECT | ITEM NO. ***(FOR LEGAL USE ONLY)*** |
|---|---|
| Review of SMUD's 2020 Financial Results | |

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

| SSS No. HRS 21-003 |
| --- |

# BOARD AGENDA ITEM
## STAFFING SUMMARY SHEET

| Committee Meeting Date<br>Finance & Audit<br>March 16, 2021 |
| --- |
| Board Meeting Date<br>N/A |

| TO | | TO | |
| --- | --- | --- | --- |
| 1. | Gary King | 6. | |
| 2. | Jennifer Davidson | 7. | |
| 3. | | 8. | |
| 4. | | 9. | **Legal** |
| 5. | | 10. | **CEO & General Manager** |

| **Consent Calendar** | | **Yes** | | **No** *If no, schedule a dry run presentation.* | **Budgeted** | | **Yes** | | **No** *(If no, explain in Cost/Budgeted section.)* |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
| --- | --- | --- | --- | --- |
| Laurie Rodriguez | Human Resources, Diversity & Inclusion | B251 | 5628 | 3/4/2021 |

**NARRATIVE:**

**Requested Action:** Provide update on the Multi-Party SMUD, UC Davis Health, and Sacramento State/University Enterprises, Inc. (UEI) Child Development Center, including construction, cost projections, schedule, and staff and family transition.

**Summary:** The new child development center on Folsom Blvd. slated to replace the current Lighthouse Child Development Center, has passed some milestones over the past year. This presentation will review the background on the project, share data on the impact on COVID-19 and childcare needs, give a status on the new operator selection process, provide construction project updates and timeline, as well as communication and relations with current Lighthouse parents and staff.

**Board Policy:** *(Number & Title)* Employee Relations SD-8 – Provides a benefit offering for employees and may serve to facilitate work-life balance

**Benefits:** The Child Development Center will provide an affordable, quality childcare option in the vicinity of the workplace.

**Cost/Budgeted:** 2020 Budget for Child Development Center Tenant Improvements: ~$2M; Expect updated estimate by month end.

**Alternatives:** N/A

**Affected Parties:** UC Davis Health and Sacramento State/UEI

**Coordination:** Human Resources, Diversity & Inclusion

**Presenter:** Laurie Rodriguez, Human Resources, Diversity & Inclusion Director

**Additional Links:**

| SUBJECT<br>Child Development Center Update | ITEM NO. ***(FOR LEGAL USE ONLY)*** |
| --- | --- |

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

4

| SSS No. SCS-21-038 | **BOARD AGENDA ITEM** STAFFING SUMMARY SHEET | Committee Meeting & Date: Finance & Audit - 03/16/21 <br> Board Meeting Date: March 18, 2021 |
|---|---|---|

| TO | | TO | |
|---|---|---|---|
| 1. | Alan Sparks | 6. | Jennifer Davidson |
| 2. | Robert Adams | 7. | Gary King |
| 3. | Casey Fallon | 8. | |
| 4. | Attila Miszti | 9. | **Legal** |
| 5. | Frankie McDermott | 10. | CEO & General Manager |

| Consent Calendar | X | Yes | | No *If no, schedule a dry run presentation.* | Budgeted | X | Yes | | No *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Jesse Mays | Procurement | EA404 | 5744 | 2/26/21 |

**NARRATIVE:**

**Requested Action:** Authorize the Chief Executive Officer and General Manager to execute a direct procurement contract with Hot Line Construction, Inc. for Pole Replacement and Other Line Work for a period of two years from March 22, 2021, to March 21, 2023, with two optional one-year extensions for a total aggregate contract amount not-to-exceed $51,220,537.

**Summary:** SMUD requests approval to execute a Direct Procurement Contract with Hot Line Construction, Inc. to perform pole replacement and other line work for a total aggregate amount not-to-exceed $51,220,537 for a period of two years from March 22, 2021, to March 21, 2023, with two optional one-year extensions. Hot Line Construction, Inc. is an Electrical, General, and Pole Installation International Brotherhood of Electrical Workers (IBEW) contractor based out of Brentwood, CA, with a local Sacramento office.

Request for Proposal (RFP) No. 200009.JM was issued in March 2020 to solicit qualified firms to remove and replace existing wood poles on SMUD's distribution/transmission systems. On April 16, 2020, twelve (12) responsive proposals and one (1) non-responsive proposal were received and evaluated in accordance with the advertised criteria. On June 18, 2020, the Board authorized the Chief Executive Officer and General Manager to award a contract to the highest evaluated proposer, Power Contracting, LLC, for Pole Replacement and Other Line Work (Resolution No. 20-06-06). Unfortunately, Power Contracting, LLC has not been successful in meeting SMUD’s performance expectations per the contract, thus this request to issue a direct procurement contract to Hot Line Construction, Inc., the third ranked proposer (see results table for RFP No. 200009.JM below). The table below includes Hot Line Construction, Inc.’s updated pricing. Although Underground Electric Construction Company, LLC ranked second, they proposed to subcontract a large portion of the primary scope of work, pole replacements, to one of their subcontractors which can be problematic in SMUD’s management of the work and ultimately exceeds SMUD’s risk tolerance for this category of work, which is not in SMUD’s best interest. Issuing a contract to Hot Line Construction, Inc. on a direct procurement basis is beneficial to SMUD because they have the capacity to keep production going immediately in response to an unexpected non-performing contractor, Power Contracting, LLC. Additionally, SMUD staff performed market research that shows Hot Line Construction, Inc.’s pricing to be approximately 5.5% below market for the initial term of this agreement. After all analysis, SMUD staff has determined Hot Line Construction, Inc.’s pricing to be fair and reasonable.

**Board Policy:** *(Number & Title)* BL-8, Delegation to the Chief Executive Officer and General Manager with Respect to Procurement; SD-4, Reliability; SD-6, Safety; SD-13, Economic Development

**Recommendation:** Issue direct procurement contract to:

| |
|---|
| HOT LINE CONSTRUCTION, INC. |
| 9020 BRENTWOOD BLVD. SUITE H |
| BRENTWOOD, CA 94513 |

| Responsive Proposals Received | P/F | 10 Points SEED | 30 Points Technical | 60 Points Pricing | Total Score | Overall Rank | Proposal Amount | Proposed Award Amount |
|---|---|---|---|---|---|---|---|---|
| Power Contracting, LLC | P | 2.13 | 28.88 | 60.00 | 91.01 | 1 | $46,839,355 | |
| Underground Electric Construction Company, LLC | P | 10 | 27.13 | 53.53 | 90.65 | 2 | $52,643,343 | |
| Hot Line Construction, Inc. | P | 4.35 | 29.00 | 53.94 | 88.33 | 3 | $51,220,537 | NTE $51,220,537 Aggregate Amount of all Task Authorizations |
| Diversified Utility Services, Inc. | P | 4.06 | 22.81 | 55.36 | 82.23 | 4 | $50,863,266 | |
| Summit Line Construction | P | 3.50 | 24.00 | 45.20 | 72.70 | 5 | $62,265,884 | |
| Asplundh Construction, LLC | P | 3.50 | 22.63 | 41.52 | 67.64 | 6 | $67,783,684 | |
| PAR Electrical Contractors, Inc. | P | 0.35 | 24.13 | 40.84 | 65.32 | 7 | $68,683,762 | |
| Edison Power Constructors, Inc. | P | - | 20.00 | 43.98 | 63.98 | 8 | $63,767,201 | |
| Cupertino Electric, Inc. | P | 0.83 | 29.00 | 32.85 | 62.68 | 9 | $85,447,922 | |
| Wilson Utility Construction Co | P | 3.11 | 19.50 | 34.96 | 57.56 | 10 | $80,469,178 | |
| International Line Builders, Inc. | P | - | 24.63 | 31.79 | 56.42 | 11 | $88,207,108 | |
| Sturgeon Electric California, LLC | P | 1.57 | 27.63 | 26.90 | 56.10 | 12 | $104,410,937 | |

**Comments:** Supplier Diversity Program: Hot Line Construction, Inc. is self-performing 88% of the work and subcontracting 8.6% to SEED vendors, and 3.4% to non-SEED vendors.

**Benefits:** This contract will provide SMUD with a qualified contractor to provide pole replacement services to maintain SMUD's infrastructure.

**Cost/Budgeted:** $51,220,537; Budgeted for 2021 through March 2025 by Grid Assets, Line Assets.

**Alternatives:** Without a direct procurement contract, SMUD would have a work stoppage until a substitute contractor and funding mechanism is identified for the work originally awarded to Power Contracting, LLC. Depending on the contracting strategy, this could take up to fourteen (14) weeks to secure.

**Affected Parties:** Grid Assets, Supply Chain Services, and Contractor.

**Coordination:** Grid Assets – Lucas Raley, and Supply Chain Services.

**Presenter:** Casey Fallon, Director of Procurement, Warehouse & Fleet

**Additional Links:**

SUBJECT **Approve Direct Procurement Contract with Hot Line Construction, Inc. for Pole Replacement and Other Line Work**

ITEM NO. ***(FOR LEGAL USE ONLY)***

| SSS No. | BOARD AGENDA ITEM | Committee Meeting & Date |
|---|---|---|
| SCS-21-039 | STAFFING SUMMARY SHEET | Finance & Audit – 03/16/21 |
| | | Board Meeting Date: March 18, 2021 |

# BOARD AGENDA ITEM

## STAFFING SUMMARY SHEET

| | TO | | TO |
|---|---|---|---|
| 1. | Alan Sparks | 6. | Frankie McDermott |
| 2. | Robert Adams | 7. | Jennifer Davidson |
| 3. | Casey Fallon | 8. | Gary King |
| 4. | Todd Prangley | 9. | **Legal** |
| 5. | Attila Miszti | 10. | **CEO & General Manager** |

| **Consent Calendar** | | **Yes** | | **No** *If no, schedule a dry run presentation.* | **Budgeted** | | **Yes** | | **No** *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Jesse Mays | Procurement | EA404 | 5744 | 2/26/21 |

**NARRATIVE:**

**Requested Action:** Authorize the Chief Executive Officer and General Manager to award contracts to Hot Line Construction, Inc. and Mountain G Enterprises for General Line Construction Work for a period of two years from March 22, 2021, to March 21, 2023, for a total aggregate contract amount not-to-exceed $20,000,000.

**Summary:** Request for Proposal (RFP) No. WS2615893830 was issued in December 2020 to solicit qualified electrical contractors who are able to provide all labor, equipment, and incidentals necessary to perform general line construction work, including overhead and underground line construction and maintenance on sub transmission lines. The RFP included a provision to award one or more contracts to the highest rated proposer(s). SMUD held a pre-proposal conference in January 2021 which was attended by twelve (12) vendors. SMUD received a total of seven (7) proposals, two (2) were responsive and five (5) were non-responsive. Through negotiations Mountain G Enterprises reduced their total price by 22%. The result of the evaluation and award recommendations are shown below.

**Board Policy:** *(Number & Title)* BL-8, Delegation to the Chief Executive Officer and General Manager with Respect to Procurement; SD-4, Reliability; SD-6, Safety; SD-13, Economic Development.

**Recommendation:** Award to the Highest Evaluated Responsive Proposers.

Award to:

| HOT LINE CONSTRUCTION, INC. | MOUNTAIN G ENTERPRISES |
|---|---|
| 9020 BRENTWOOD BLVD. SUITE H | 1180 IRON POINT ROAD, SUITE 320 |
| BRENTWOOD, CA 94513 | FOLSOM, CA 95630 |

| | |
|---|---|
| Proposers Notified by Procurement: | 71 |
| Proposers Downloaded: | 28 |
| Pre-Proposal Conference Attendance: | 12 |
| Proposals Received: | 7 |

| Responsive Proposals Received | P/F | 10 Points SEED | 30 Points Technical | 60 Points Pricing | Total Score | Overall Rank | Proposal Amount | Evaluated Proposal Amount | Proposed Award Amount |
|---|---|---|---|---|---|---|---|---|---|
| Hot Line Construction, Inc. | P | 10 | 29.25 | 60.00 | 99.25 | 1 | $1,583,794 | $1,504,604 | NTE $20,000,000 Aggregate Amount of all Task Authorizations |
| Mountain G Enterprises | P | 2.48 | 25.08 | 47.29 | 74.85 | 2 | $1,913,823 | $1,909,077 | |

| Non-Responsive Proposals Received | Proposal Amount |
|---|---|
| Asplundh Construction LLC | $1,812,582 |
| Diversified Utility Services Inc | $3,829,592 |
| PAR Electrical Contractors Inc | $2,382,226 |
| Potelco, Inc. | $2,770,306 |
| Sturgeon Electric California LLC | $1,746,285 |

**Comments:** The RFP included a requirement that the proposer must obtain a minimum of 22.75 points out of the 30 technical points available. Asplundh Construction, LLC, Diversified Utility Services, Inc., PAR Electrical Contractors, Inc., and Potelco, Inc. did not obtain the minimum technical points required. Sturgeon Electric California, LLC did not list its subcontractors performing the specified commercial useful function in accordance with Public Contract Code §4104 and does not possess all required licenses to accomplish the full scope of work; therefore, their proposal was deemed non-responsive.

Supplier Diversity Program: Hot Line Construction, Inc. is self-performing 74% of the work and subcontracting 21% to SEED vendors, and 5% to non-SEED vendors. Mountain G Enterprises is self-performing 81% of the work and subcontracting 5% to SEED vendors, and 14% to non-SEED vendors.

**Benefits:** These contracts will provide SMUD with two qualified contractors to perform general line construction on an as needed basis to maintain SMUD's operations and reliability to its customers.

**Cost/Budgeted:** $20,000,000; Budgeted for 2021 through March 2023 by Grid Assets, Line Assets.

**Alternatives:** Solicit the contracts as the need arises. This would not be in SMUD's best interest because it would delay the work execution. Additionally, SMUD has been adversely affected by the labor climate induced by Pacific Gas & Electric (PG&E) and their ongoing commitment to reduce wildfire risk across its service area. As a result, SMUD has lost contract crews that supported critical Line Assets programs. This loss has caused Line Assets to strategically realign its workload and the work performed by internal SMUD crews. Securing the services provided by Hot Line Construction, Inc. and Mountain G Enterprises will allow the business unit the ability to augment general line construction work while maintaining flexibility in its realignment efforts.

**Affected Parties:** Grid Assets, Supply Chain Services, and Contractor

**Coordination:** Grid Assets – Mike Munn, and Supply Chain Services

**Presenter:** Casey Fallon, Director of Procurement, Warehouse & Fleet

**Additional Links:**

SSS No. SCS 21-029

# BOARD AGENDA ITEM

## STAFFING SUMMARY SHEET

| Committee Meeting & Date |
|---|
| Finance and Audit 03/16/2021 |
| Board Meeting Date 03/18/2021 |

| TO | | TO | |
|---|---|---|---|
| 1. | Alan Sparks | 6. | Gary King |
| 2. | Robert Adams | 7. | Jennifer Davidson |
| 3. | Casey Fallon | 8. | |
| 4. | Ross Gould | 9. | **Legal** |
| 5. | Frankie McDermott | 10. | **CEO & General Manager** |

| Consent Calendar | X | Yes | | No *If no, schedule a dry run presentation.* | Budgeted | X | Yes | | No *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Doug Moore | Supply Chain Services | EA404 | 7069 | 03/03/2021 |

**NARRATIVE:**

**Requested Action:** Authorize the Chief Executive Officer and General Manager to award contract CW2223313 to Doug Veerkamp General Engineering Inc. to provide Construction Services for the West Point and Yellowjacket Campgrounds and Appurtenant Boat Ramps Project in the amount of $8,396,902 and for a contract term from April 1, 2021 to January 31, 2022.

**Summary:** RFP Doc. 2701606177 was issued on November 11, 2020 to solicit qualified firms to reconstruct and expand the West Point and Yellowjacket Campgrounds and Boat Ramps as required by USFS 4(e) Condition 45 of the License for the Upper American River Project. The scope of work includes demolition, grading, realignment of existing loops and spurs, installation of new tables/fire rings/BBQ's, new septic and leech lines, water supply/storage/distribution, lake access trails, boat ramp extensions, etc.. The design/environmental/permitting for this project has received USFS approval. Construction is planned to begin as soon as snowmelt allows in 2021 and is targeted for completion before inclement weather begins toward the end of 2021.

**Board Policy:** *(Number & Title)* BL-8; Delegation to the GM with respect to Procurement; Procurement principles followed in this award include but are not limited to: a) Competition, d) Inclusiveness, e) Economic Development, f) Environmental Procurement, and g) Responsible Bidder(s).

**Recommendation:** *Award to Highest Evaluated Responsive Proposer* Award to Highest Evaluated Responsive Proposer

Award to:

| |
|---|
| Doug Veerkamp General Engineering, Inc. |
| 2585 Cold Springs Road |
| Placerville, CA 95667 |

Participants Invited - Ariba: 33

Bids/Proposals Received: 6

| Responsive Proposals Received | SEED Points | Technical Points | Price Points | Total Score | Rank | Proposal Amount | SEED Credit | Evaluated Proposal Amount | Proposed Award Amount |
|---|---|---|---|---|---|---|---|---|---|
| | 10 | 50 | 40 | 100 | | | | | |
| DVGE, Inc. | 9.80 | 46.08 | 37.34 | 93.22 | 1 | $8,396,901 | $82,289 | $8,314,612 | $8,396,902 |
| Clark Bros., Inc. | 10.00 | 38.33 | 40.00 | 88.33 | 2 | $8,011,491. | $250,000 | $7,761,490 | |
| Burdick Excavating, Inc. | 8.50 | 42.42 | 37.03 | 87.95 | 3 | $8,455,059 | $71,868 | $8,383,191 | |
| K.W. Emerson, Inc. | - | 40.83 | 35.11 | 75.94 | 4 | $8,842,435 | | $8,842,435 | |
| Westcon Construction Corp. | 9.82 | 31.50 | 34.17 | 75.49 | 5 | $9,175,369 | $90,056 | $9,085,313 | |
| TSI Engineering, Inc. | 10.00 | 28.21 | 32.64 | 70.85 | 6 | $9,761,927 | $250,000 | $9,511,927 | |

SEED Program:

The highest evaluated responsive proposer, Doug Veerkamp General Engineering, Inc., is self-performing 80% of this work. Through outreach efforts, DVGE was able to subcontract with SEED verified subcontractors/vendors for 20% of their contract.

**Benefits:** Completion of a major project that is a requirement/condition for compliance with the operating License for the UARP.

**Cost/Budgeted:** $8,396,902 / $8,629,869 Budgeted for 2021 by Power Generation, Cost Center 463

**Alternatives:** None. Project is UARP License Compliance.

**Affected Parties:** Power Generation, Supply Chain Services, US Forest Service, and Doug Veerkamp General Engineering Inc.

**Coordination:** Power Generation - Darold Perry/Shane Crowe, and Supply Chain Services – Doug Moore.

**Presenter:** Ross Gould

**Additional Links:**

| SUBJECT | Award Contract to Doug Veerkamp General Engineering, Inc. to complete the West Point and Yellowjacket Campgrounds and Boat Ramps Project located in the Upper American River Project | ITEM NO. *(FOR LEGAL USE ONLY)* |
|---|---|---|

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

7

| SSS No. | | Committee Meeting & Date |
|---|---|---|
| RDPS 21-008 | # BOARD AGENDA ITEM<br>**STAFFING SUMMARY SHEET** | Finance & Audit – 03/16/21 |
| | | Board Meeting Date<br>March 18, 2021 |

| TO | | TO | |
|---|---|---|---|
| 1. | Erik Krause | 6. | Gary King |
| 2. | Jennifer Restivo | 7. | |
| 3. | Tracy Carlson | 8. | |
| 4. | Stephen Clemons | 9. | **Legal** |
| 5. | Jennifer Davidson | 10. | **CEO & General Manager** |

| **Consent Calendar** | | **Yes** | | **No** *If no, schedule a dry run presentation.* | **Budgeted** | | **Yes** | | **No** *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Erik Krause | Retail Product Delivery & Sales | A102 | | 2/26/2021 |

**NARRATIVE:**

**Requested Action:** Authorize the Chief Executive Officer and General Manager to execute a four-year Customer-Tailored Electric Services Agreement (Agreement) with NTT Global Data Centers Americas, Inc. (NTT).

**Summary:** NTT operates the largest data center in SMUD's service territory and is one of SMUD's largest commercial accounts.

In January 2016, the Board approved a customer tailored rate agreement with NTT, effective March 26, 2016, that includes a two-tiered contract structure with a "base" load component, at a higher price, and a "base plus" component for new load at the marginal cost of energy. Additionally, under the agreement, NTT does not pay public goods charges for any new load. The two-tiered contract structure was a temporary arrangement designed to provide an economic development incentive to drive significant load growth over the term of the contract. In fact, the rate succeeded in driving load growth with load growing from 35 MW to 50 MW between 2016 and 2021.

In 2019, NTT requested an extension to its current contract when it was trying to recruit additional long-term load. Based on NTT's request, staff reviewed the current agreement, analyzed the funds going to public goods and the contribution to marginal costs. In doing so, staff determined, among other things, that:

- The current "base plus" price had fallen below marginal costs, which is out of compliance with Board policy for customer tailored rate agreements
- If we extended the contract, it is likely that over 50% of NTT's load would be priced below marginal cost.

In crafting the new Agreement, we carefully evaluated and considered the marginal cost to serve them, their contribution to SMUD's fixed costs and public good costs, and the financial impact to SMUD if NTT were to relocate to another state.

Staff sought to reduce the current discount in a manner that avoids rate shock, recognizes the economic value that NTT provides to SMUD, and ensures that SMUD at least recovers our marginal costs. Accordingly, the discount reduces each year of the contract and, by the fourth year, falls to 15%.

This new 4-year Agreement (K700) will become effective March 26, 2021, after the existing contract (K508) expires. Under the Agreement, SMUD will provide NTT a discounted blended rate. The discount rate will be structured as a single-tiered rate, called Base Usage, for 100% of all metered usage at accounts 6375516 and 6375518, corresponding to NTT's CA1, CA2, CA3 and CA4 datacenter facilities.

| | |
|---|---|
| **Board Policy:** *(Number & Title)* | Board Strategic Direction(s) SD-13 Economic Development, and SD-2 Competitive Rates - The Agreement minimizes the rate of change from the previous contract while incentivizing the retention and growth of one of our largest commercial customers; SD-9, Resource Planning, the contract provides retention and growth of high load factor load. |
| **Benefits:** | The Agreement maintains pricing that continues to incentivize growth, minimizes rate shock, helps to retain one of our largest customers, and ensures that SMUD recovers our marginal cost of service and public goods contribution. |
| **Cost/Budgeted:** | The proposed contract maintains an average 19% discount over the four years compared to our standard retail rate and SMUD's costs to serve NTT. The NTT rate is budgeted for each year. |
| **Alternatives:** | Provide electric services under SMUD's otherwise applicable rate schedules and risk impacting NTT's load growth and/or loss of significant client load. |
| **Affected Parties:** | NTT Global Data Centers Americas, Inc. – Affected customer<br>Pricing - Perform rate and cost benefit analysis<br>Information Technologies – Perform SAP updates to accommodate new single tier rate and pricing<br>Billing Services – Validate new single tier, Contract Year pricing and bill customer<br>Legal – Provide legal review and guidance<br>Retail Product Delivery and Sales – Customer and internal coordination |
| **Coordination:** | Retail Product Delivery and Sales; Pricing |
| **Presenter:** | Erik Krause, Director Retail Product Delivery and Sales |

**Additional Links:**

| SUBJECT | **Customer-Tailored Electric Services Agreement with NTT Global Data Centers Americas, Inc.** | ITEM NO. ***(FOR LEGAL USE ONLY)*** |
|---|---|---|

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.

**RETAIL ELECTRIC SERVICES AGREEMENT**
**between**
**NTT GLOBAL DATA CENTERS AMERICAS, INC.**
**and**
**SACRAMENTO MUNICIPAL UTILITY DISTRICT**

This **RETAIL ELECTRIC SERVICES AGREEMENT** ("Agreement") is entered into by and between **NTT GLOBAL DATA CENTERS AMERICAS, INC** ("NTT"), a Nevada corporation, and the **SACRAMENTO MUNICIPAL UTILITY DISTRICT** (SMUD), a California municipal utility district.

**- RECITALS -**

A. NTT, SMUD's largest private retail customer, is engaged in the business of enterprise data center colocation services with a single or aggregated load in excess of 499 kW each month for three (3) consecutive months, measured as the peak load in the year prior to the establishment of the rate.

B. NTT intends to retain their largest client, with a load of 36 MWs and expects to expand its load by approximately 20-25 MWs during the term of this contract.

C. SMUD is an electric utility engaged in the business of generation, transmission, and distribution of electric power to customers principally in the Sacramento County area.

D. SMUD, through Board Resolution No. 97-04-13, effective June 1, 1997, provided for negotiated Customer-Tailored Rates for commercial and industrial customers.

E. SMUD and NTT currently have a customer-tailored rate agreement (Contract No. K508) which expires March 26, 2021.

F. The Parties desire to enter into this new voluntary, mutually beneficial Agreement, which takes effect upon the expiration of Contract No. K508, for the purpose of describing the customer-tailored rate, terms and conditions associated with the provision of retail electric service to NTT's facilities.

G. For purposes of Internal Revenue Service regulations applicable to SMUD, this Agreement is considered a retail requirements contract.

## - AGREEMENT -

The Parties agree as follows:

## ARTICLE 1 – TERM AND SCOPE

**1.1** **Term**. This Agreement shall be effective as of the date of last execution by the Parties, ("Effective Date") and shall continue in effect for four (4) years after the effective date of the Contract Rate ("Contract Rate Term"). The effective date of the Contract Rate Term is March 26, 2021, upon termination of Contract No. K508.

**1.2** **Scope**. During the Contract Rate Term, the terms and conditions of this Agreement, including the Exhibits, shall apply to the NTT Account numbers (6378816 & 6378818) associated with the 69kV substation service(s) at facilities/buildings located at the following addresses, all located in Sacramento California, 95834:

**1.1.1** 1200 Striker Ave. (CA1 substation, SMUD meter number 2513927)

**1.1.2** 1312 Striker Ave (CA2 substation, SMUD meter number 2516816)

**1.1.3** 1625 National Dr. (CA3/CA4 substation, SMUD meter number 2521727

**1.1.4** 1731 National Dr. (CA3/CA4 substation, SMUD meter number 2512536)

## ARTICLE 2 - CONTRACT DOCUMENTS

**2.1** **Documents Included**. This Agreement consists of this document, Exhibit A (Definitions), and Exhibit B (Contract Rate Schedule) which are specifically incorporated herein and made a part hereof by this reference.

**2.2** **Conflict with Exhibits**. In the event of a conflict between the terms of this document and the terms of any of the Exhibits, the terms of this document shall control.

**2.3** **Entire Agreement**. This Agreement constitutes the entire understanding between NTT and SMUD as to the subject matter hereof and may not be modified except by mutual written agreement.

## ARTICLE 3 – CONTRACT RATE

**3.1** **General**. As further described in Exhibit B, SMUD provides NTT the following monthly Contract Rate during the Contract Rate Term for NTT Account(s):

1. Monthly kWh electricity usage: 100% of all electricity usage as listed in Exhibit B, Table 2, will be billed at the Base Usage rate of:
    a. $0.08481/kWh, Contract Year 1 (March 26, 2021 to March 26, 2022)
    b. $0.09016/kWh, Contract Year 2 (March 26, 2022 to March 26, 2023)
    c. $0.09584/kWh, Contract Year 3 (March 26, 2023 to March 26, 2024)
    d. $0.10188/kWh, Contract Year 4 (March 26, 2024 to March 26, 2025)

2. The Base Plus Usage rate does not apply to this Agreement and may be displayed on the monthly invoices with an Electricity Usage of zero "0" and a Rate equal to the Base Plus Rate in the corresponding contract year.

3. The Hydro Generation Adjustment (credit or charge) will not apply to NTT Account(s).

4. NTT shall be billed the following standard fixed charges based on the GUT_L Rate Category (Rate Schedule GS-TOU1) - rate category/schedule name subject to change - and subject to all SMUD's Rates, Rules and Regulations, as amended from time to time:

    a. System Infrastructure Fixed Charge

    b. Contract Site Infrastructure Fixed Charge

    c. Power Factor Waiver or Adjustment Charges

    d. Optional "opt-in" programs and services as selected by NTT, e.g. Custom Greenergy Partner, Energy Tracking Services, etc.

    e. County of Sacramento Utility Taxes

    f. State Surcharge

**3.2** **Metering**. The 69kV electric service, serving NTT's CA1 substation, CA2 substation, and the CA3/CA4 substation - shall be separately metered. SMUD will aggregate the metered energy usage for CA1&CA2, 2 meters, and create a Campus Billing account (Account # 6375516) and aggregate the metered energy usage for CA3/CA4, 2 meters, and create a separate Campus Billing account (Account 6375518).

**3.3** **Assumption**. The Contract Rate is based on NTT retaining ~36 MW of load from their largest client and the addition of new load of approximately 20-25 MWs at the locations specified under this Agreement during the four-year term. However, a failure by NTT to retain the ~36 MW, or add a minimum of 20 MWs during the Contract Rate Term shall not change or void any provision of this Retail Electric Service Agreement.

## ARTICLE 4 - EXCLUSIVITY

During the Term, SMUD shall, as partial consideration hereunder, have the exclusive right to supply electricity to the NTT Accounts and NTT shall have the obligation to receive and purchase electricity exclusively from SMUD for the NTT Accounts.

## ARTICLE 5 - MISCELLANEOUS

**5.1** **Status of Parties at Expiration**. At the expiration of this Agreement, NTT may receive electric service under any SMUD rate schedule(s) or contract for which it is eligible. This Agreement shall not be construed as limiting SMUD rate options available to NTT at the expiration of this Agreement. Conversely, this Agreement shall not be construed as creating a right in or expectation of NTT to receive electric service not available to other SMUD customers pursuant and subject to SMUD Rates, Rules and Regulations. Moreover, unless otherwise noted in Article 3, this Agreement shall not be construed as exempting NTT from any generally applicable charges, including without limitation the Power Factor Waiver or Adjustment Charges, System Infrastructure Fixed Charge, Contract Site Infrastructure Charge, State Surcharge, County of Sacramento utility taxes and optional “opt-in” programs and services.

**5.2** **SMUD's Rates, Rules and Regulations**. Except as to matters addressed in this Agreement or which may be reasonably inferred with reference to this Agreement, electric service provided to NTT shall be subject to all SMUD’s Rates, Rules and Regulations, as amended from time to time.

**5.2.1** **Priority**. In the event of any direct conflict between this Agreement and SMUD's Rates, Rules and Regulations, the terms and provisions of this Agreement, as may be amended from time to time, shall control.

**5.3** **Notices**. Any notice to be given or any document to be delivered by either Party to the other hereunder may be delivered in person or may be deposited in the United States mail, postage prepaid, or sent by overnight courier with receipt confirmation, email, or by facsimile, if such document is not a notice of default hereunder, with a confirming copy to be delivered by first-class mail, and addressed to SMUD or NTT at the following addresses:

If to SMUD:
Sacramento Municipal Utility District
Damien Waples, Strategic Account Advisor – Account Management and Sales
6301 S Street, MS A102
Sacramento, CA 95817-1899

| | |
|---|---|
| Telephone Number: | (916) 732-5961 |
| Facsimile Number: | (916) 732-5162 |
| Mobile Number: | (916) 765-3193 |
| Email: | Damien.Waples@smud.org |

If to NTT:
NTT GLOBAL DATA CENTERS AMERICAS, INC.
Megan Krafka, Vice President of Finance
1200 Striker Ave. Sacramento, CA 95834

| | |
|---|---|
| Telephone Number: | (916) 286-4085 |
| Mobile Number: | (916) 367-1556 |
| Email: | MKrafka@RagingWire.com and, Legal@RagingWire.com |

Either Party may, from time to time, by written notice to the other, designate a different address. Any notice or other document sent by mail shall be deemed delivered on the earlier of actual receipt or two (2) business days after mailing.

**5.4** **Assignment**. Neither Party may assign this Agreement without the express written consent of the other Party.

**5.5** **Severability**. If any provision of this Agreement becomes invalid or unenforceable by decision of a court of competent jurisdiction, or state or federal statute, the remainder of this Agreement which can be given effect without the invalid provision shall continue in full force and shall not be impaired or invalidated.

## ARTICLE 6 - SIGNATURE

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their duly authorized representatives as of the date set forth below.

| | |
|---|---|
| **NTT**<br>NTT Global Data<br>Centers Americas, Inc. | **SMUD**<br>Sacramento Municipal Utility District |
| By: ______________________ | By: ______________________ |
| Name: Meghan Krafka | Name: Paul Lau |
| Title: Vice President of Finance | Title: Chief Executive Officer and<br>General Manager |
| Date: ____________________ | Date: ____________________ |

Approved as to form:

| | |
|---|---|
| By: ______________________<br>Jim Lahey,<br>Sr. Director of Legal Services,<br>NTT Global Data<br>Centers Americas, Inc. | By: ______________________<br>Andrew Meditz,<br>Counsel for the<br>Sacramento Municipal Utility District |

**Exhibit A**
**to the**
**Retail Electric Services Agreement**

**- DEFINITIONS -**

Words or phrases in this Agreement that are initially capitalized shall have the meaning stated below.

"Agreement" means this Retail Electric Services Agreement between NTT and SMUD.

"Base Usage" means 100% of all metered energy usage as listed in Exhibit B Table 2.

"Base Plus Usage" will not be used in this contract but may display on the monthly invoices and will be listed in Exhibit B Table 3.

"Campus Account" means the aggregation of two (2) 69kV meters (2513927, 2516816), at CA1&CA2 and the aggregation of two (2) meters (2521727 & 2512536) at CA3/CA4 for purposes of creating two separate Campus Billing accounts.

"Contract Rate" means the rates structure described in Section 3.1 and meeting the criteria of SMUD Resolution 97-04-03 for negotiated Customer Tailored Rates for commercial and industrial customers.

"Contract Rate Term" means the four (4) year period from the effective date of the new Contact Rate (March 26, 2021) to its expiration on March 26, 2025.

"Contract Year" means the 12-month period starting on March 26 for a given year of the contract.

"Month" means a standard SMUD billing period of 27 to 34 days.

"Parties" means collectively NTT and SMUD.

"Party" means individually NTT or SMUD.

"NTT" means NTT GLOBAL DATA CENTERS AMERICAS, INC.

"NTT Account(s)" means any SMUD 69kV electricity account serving a NTT data center facility in existence as of the Effective Date via CA1, CA2 and CA3/CA4 substations.

"SMUD" means the Sacramento Municipal Utility District, a California municipal utility district.

"Term" means the period of time beginning on the Effective Date and ending on the expiration of this Agreement during which this Agreement shall be effective.

**Exhibit B**
**to the**
**Retail Electric Services Agreement**

**- CONTRACT RATE SCHEDULE -**

**Base Usage Pricing Details - Contract Rate:**

**1)** Base Usage electricity charge per Table 1 below:
**Table 1:**

| Contract Year 1 Mar 26, 2021 to Mar 26, 2022 | Contract Year 2 Mar 27, 2022 to Mar 26, 2023 | Contract Year 3 Mar 27, 2023 to Mar 26, 2024 | Contract Year 4 Mar 27, 2024 to Mar 26, 2025 |
|---|---|---|---|
| $0.08481 /kWh | $0.09016 /kWh | $0.09584 /kWh | $0.10188 /kWh |

**a)** Aggregated electricity usage for the 4 SMUD 69kV meters that qualify for the Base Usage rate per Table 2 below.

**Table 2:**

| Facilities / Account Number | Meter Numbers to be aggregated | Year 1 Mar 26, 2021 to Mar 26, 2022 kWh Bill Base Usage | Year 2 Mar 26, 2022 to Mar 26, 2023 kWh Bill Base Usage | Year 3 Mar 26, 2023 to Mar 26, 2024 kWh Bill Base Usage | Year 4 Mar 26, 2024 to Mar 26, 2025 kWh Bill Base Usage |
|---|---|---|---|---|---|
| CA1 & CA2<br><br>6375516 | 2513927<br>2516816 | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage |
| CA3/CA4<br><br>6375518 | 2521727<br>2512536 | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage | 100% of all metered kWh electricity usage |

**2)** Base Plus Usage electricity charge does not apply in this contract but may display on the monthly electricity charge invoice with an Electricity Usage as zero (0) and a rate equal to the Base Usage rate in the corresponding contract year.

**3)** Monthly System Infrastructure Fixed Charged based on the GUT_L Rate Category (Rate Schedule GS-TOU1)

**4)** Contract Site Infrastructure Charge Based on the GUT_L Rate Category

**5)** Power Factor Waiver or Adjustment Charges

**6)** Hydro Generation Adjustment will not apply to the Base Usage

**7)** Optional “opt-in” programs and services, e.g. Greenergy, Energy Tracking Services, etc.

**8)** Applicable County of Sacramento utility taxes and State Surcharge

**9)** SMUD will aggregate the metered energy usage from all 4 meters listed in Table 2 and create two (2) Campus Billed Accounts. Account 6375516 will correspond to CA1&CA2 and Account 6375518 will correspond to CA3/CA4.

8

| SSS No. | | |
|---|---|---|
| BOD 2021-006 | **BOARD AGENDA ITEM**<br>**STAFFING SUMMARY SHEET** | Committee Meeting & Date<br>Finance & Audit 2021<br>Board Meeting Date<br>N/A |

| TO | | TO | |
|---|---|---|---|
| 1. | Gary King | 6. | |
| 2. | Jennifer Davidson | 7. | |
| 3. | | 8. | |
| 4. | | 9. | **Legal** |
| 5. | | 10. | **CEO & General Manager** |

| **Consent Calendar** | | **Yes** | x | **No** *If no, schedule a dry run presentation.* | **Budgeted** | | **Yes** | | **No** *(If no, explain in Cost/Budgeted section.)* |
|---|---|---|---|---|---|---|---|---|---|

| FROM (IPR) | DEPARTMENT | MAIL STOP | EXT. | DATE SENT |
|---|---|---|---|---|
| Rosanna Herber / Donna Lofton | Board Office | B307 | 5079 | 12/22/20 |

**NARRATIVE:**

**Requested Action:** Provide a summary of committee direction from the Board to Staff.

**Summary:** During a Board discussion at the January 2017 Policy Committee, the Board requested having an on-going opportunity to do a wrap up period at the end of each committee meeting to summarize various Board member suggestions and requests that were made at the meeting in an effort to make clear the will of the Board. The Committee Chair will summarize Board member requests that come out of the committee presentations for this meeting.

**Board Policy:** *(Number & Title)* GP-4 Agenda Planning states the Board will focus on the results the Board wants the organization to achieve.

**Benefits:** Having an agendized opportunity to summarize the Board's requests and suggestions that arise during the committee meeting will help clarify what the will of the Board.

**Cost/Budgeted:** N/A

**Alternatives:** Not summarize the Board's requests at this meeting.

**Affected Parties:** Board of Directors and Executive Staff

**Coordination:** Donna Lofton, Special Assistant to the Board

**Presenter:** Rosanna Herber, Finance & Audit Committee Chair

**Additional Links:**

| SUBJECT | ITEM NO. ***(FOR LEGAL USE ONLY)*** |
|---|---|
| Summary of Committee Direction | |

ITEMS SUBMITTED AFTER DEADLINE WILL BE POSTPONED UNTIL NEXT MEETING.