SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sacramento Municipal Utility District Financing Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Municipal Utility District Financing Authority which comprise the Statements of Net Position as of December 31, 2015 and 2014, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Sacramento 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 the 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.

To the Board of Directors of
Sacramento Municipal Utility District Financing Authority

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 at December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 19, 2016

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

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 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, 2015 and 2014. 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. 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 501 megawatt 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 staff 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 consolidated financial statements of SMUD.

Financial & Operational Highlights

In June 2015, the Agency issued $193.3 million of 2015 Series Cosumnes Project Revenue Refunding Bonds (2015 Bonds). Proceeds from the 2015 Bonds and $24.8 million of available funds were used to refund $233.2 million of the outstanding 2006 Bonds (see note 5). The Agency also entered into a new PPA with SMUD.

In 2015, 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 2015 included an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 95.5 percent, an IEEE Reliability rating of 99.63 percent and an overall capacity factor of 90.3 percent.

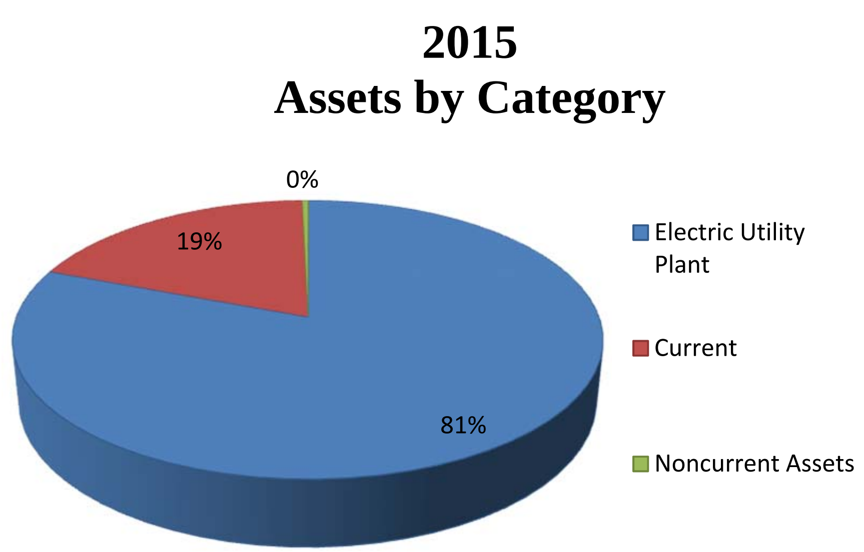
The following maintenance and capital improvement projects were completed throughout the year, as well as during the cold iron outage in March and April: Combustion Turbine Generator (CTG) 3 major overhaul, Steam Turbine valve rotation maintenance, Zero Liquid Discharge (ZLD) system maintenance and high voltage relay protection maintenance and testing. The costs of the capital improvement projects totaled $7.6 million and the maintenance costs totaled $1.2 million. The Agency successfully completed all work planned for the year and on budget.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31, 2015	2014	2013	Change 2015 vs. 2014		Change 2014 vs. 2013	
Assets							
Electric utility plant - net	$ 244,251	$ 253,204	$ 269,117	$ (8,953)	-3.5%	$ (15,913)	-5.9%
Restricted assets	-0-	69,887	56,383	(69,887)	-100.0%	13,504	24.0%
Current assets	57,170	49,463	52,755	7,707	15.6%	(3,292)	-6.2%
Noncurrent assets	1,414	3,468	3,708	(2,054)	-59.2%	(240)	-6.5%
Total assets	302,835	376,022	381,963	(73,187)	-19.5%	(5,941)	-1.6%
Deferred outflows of resources	4,098	-0-	-0-	4,098	100.0%	-0-	0.0%
Total assets and deferred outflows of resources	306,933	376,022	381,963	(69,089)	-18.4%	(5,941)	-1.6%
Liabilities							
Long-term debt - net	$ 198,415	$ 228,928	$ 239,652	$ (30,513)	-13.3%	$ (10,724)	-4.5%
Current liabilities	56,362	42,791	47,723	13,571	31.7%	(4,932)	-10.3%
Total liabilities	254,777	271,719	287,375	(16,942)	-6.2%	(15,656)	-5.4%
Net position							
Net investment in capital assets	27,139	25,008	30,665	2,131	8.5%	(5,657)	-18.4%
Restricted	12,274	64,143	50,392	(51,869)	-80.9%	13,751	27.3%
Unrestricted	12,743	15,152	13,531	(2,409)	-15.9%	1,621	12.0%
Total net position	52,156	104,303	94,588	(52,147)	-50.0%	9,715	10.3%
Total liabilities and net position	$ 306,933	$ 376,022	$ 381,963	$ (69,089)	-18.4%	$ (5,941)	-1.6%

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



2015 Compared to 2014

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project, which comprises $244.3 million in Plant in Service and Construction Work In Progress, net of Accumulated Depreciation at December 31, 2015. The Electric Utility Plant – net decreased due to $16.6 million depreciation expense for the year, partially offset by a $7.6 million addition for the CTG3 overhaul inspections. Electric Utility Plant assets make up about 81 percent of the Agency's assets.

- Restricted Assets decreased due to the release of the Agency's various restricted funds as a result of the bond refunding and the new PPA with SMUD, and higher Distribution to Member.

- Current Assets increased primarily due to a higher debt service fund and a higher Receivable from SMUD for the fuel portion of the PPA billings in November and December 2015.

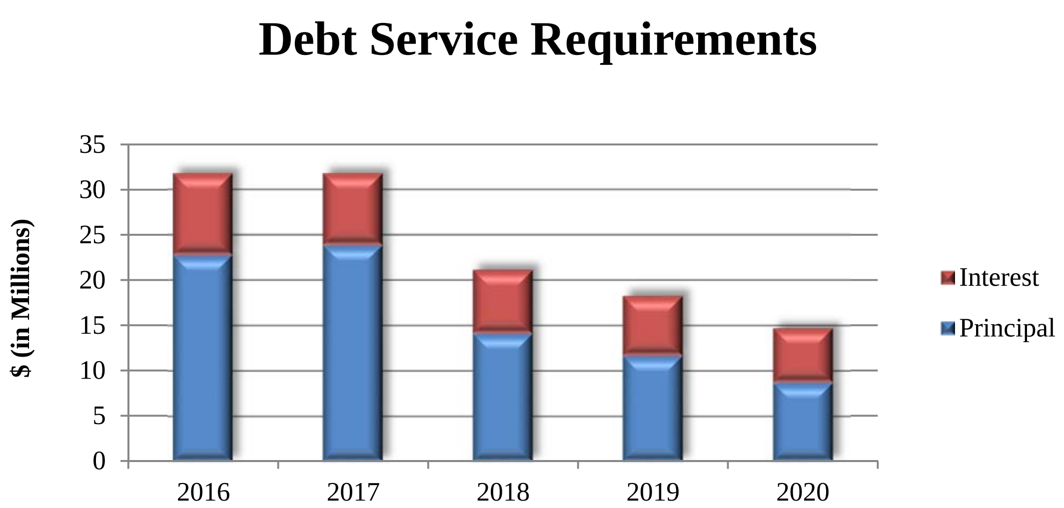
- Noncurrent Assets decreased primarily due to the write off of the prepaid insurance for the refunding of the 2006 Bonds.

- Deferred Outflows of Resources increased due to the unamortized loss upon issuance of the 2015 Bonds.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to the refunding of the Agency bonds of $233.2 million with maturities through 2030. The 2015 Bonds are backed by SMUD credit instead of bond insurance due to the new PPA. The 2015 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 primarily due to a higher current portion of the long-term debt and higher fuel billings from SMUD for November and December 2015, partially offset by lower accrued interest and accounts payable for operator reimbursables and capital projects at December 31, 2015.

2014 Compared to 2013

ASSETS

- The Agency's main asset is its investment in the Project, which comprises $253.2 million in Plant in Service and Construction Work In Progress, net of Accumulated Depreciation at December 31, 2014. The Electric Utility Plant – net decreased due to $17.9 million depreciation expense for the year, partially offset by $2.0 million of additions. The additions included CTG2 and CTG3 turbine overhaul inspections, Combustion Dynamics Monitoring System project and ZLD Vapor duct.

- Restricted Assets increased primarily due to a $13.2 million increase in the overhaul fund as part of normal operations.

- Current Assets decreased primarily due to lower Receivable from SMUD for the fuel portion of the PPA billings in November and December 2014, partially offset by an increase in the release fund due to the large distribution to SMUD in 2013.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $9.6 million of the scheduled principal payments for 2014. At December 31, 2014, the Agency had bonds outstanding of $233.2 million with maturities through 2030. The 2006 Agency Bonds were insured by MBIA Insurance Corporation, now known as National Public Financial Guarantee Corp.

- Current Liabilities decreased primarily due to lower fuel billings from SMUD for November and December 2014, partially offset by higher accounts payable for operator reimbursables and capital projects at December 31, 2014.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

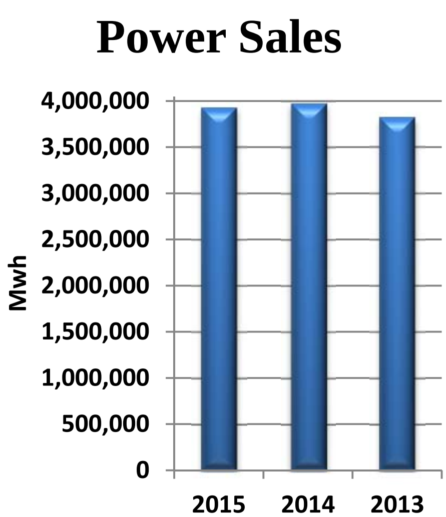
	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Operating revenues	$ 214,565	$ 231,388	$ 242,511	$ (16,823)	-7.3%	$ (11,123)	-4.6%
Operating expenses	(197,697)	(206,429)	(220,460)	8,732	4.2%	14,031	6.4%
Operating income	16,868	24,959	22,051	(8,091)	-32.4%	2,908	13.2%
Interest and other income	183	151	143	32	21.2%	8	5.6%
Interest on debt	(7,198)	(10,895)	(11,295)	3,697	33.9%	400	3.5%
Change in net position before distributions	9,853	14,215	10,899	(4,362)	-30.7%	3,316	30.4%
Distributions to Member	(62,000)	(4,500)	(37,000)	(57,500)	-1277.8%	32,500	87.8%
Change in net position	(52,147)	9,715	(26,101)	(61,862)	-636.8%	35,816	137.2%
Net position - beginning of year	104,303	94,588	120,689	9,715	10.3%	(26,101)	-21.6%
Net position - end of year	$ 52,156	$ 104,303	$ 94,588	$ (52,147)	-50.0%	$ 9,715	10.3%

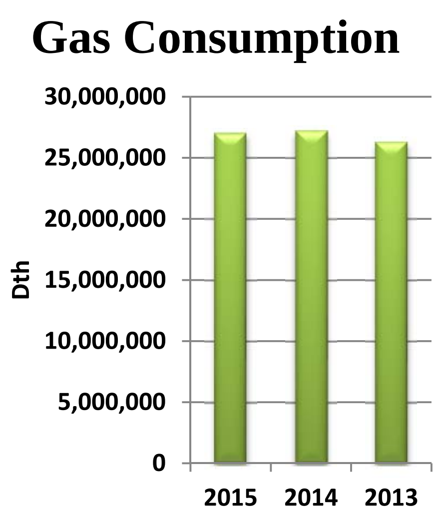
2015 Compared to 2014

OPERATING REVENUES

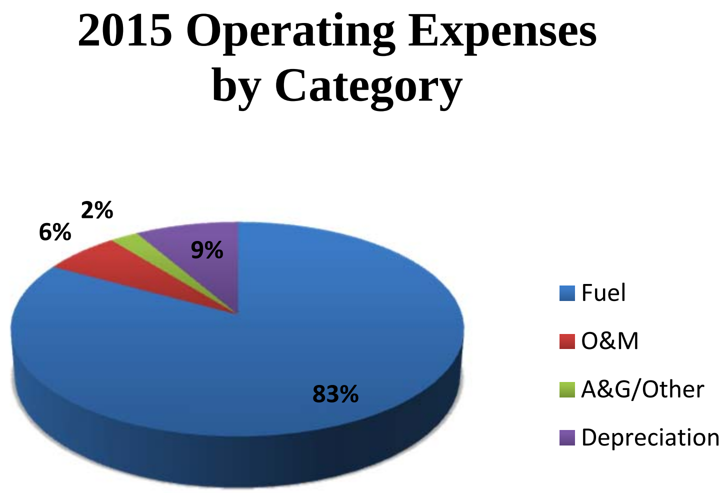
Operating Revenues decreased primarily due to lower Power Sales to Member. The Agency's power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency's actual cost of operations including debt service. This formula changed when the PPA was revised in June 2015. In 2015, power sales was lower primarily due to lower prices of natural gas and lower fuel volume, and a change to how the overhaul costs are reimbursed.

The following charts show power sales and gas consumption in 2015, 2014, and 2013:





OPERATING EXPENSES



The following table summarizes Operating Expenses 2015, 2014 and 2013 (dollars in thousands).

	December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Operating Expenses							
Fuel	$ 164,107	$ 175,097	$ 188,227	$ (10,990)	-6.3%	$ (13,130)	-7.0%
Operations and Maintenance	12,366	11,378	12,240	988	8.7%	(862)	-7.0%
Administrative & general and Other	4,662	2,083	2,104	2,579	123.8%	(21)	-1.0%
Depreciation	16,562	17,871	17,889	(1,309)	-7.3%	(18)	-0.1%
Total operating expenses	$ 197,697	$ 206,429	$ 220,460	$ (8,732)	-4.2%	$ (14,031)	-6.4%

- Fuel expense decreased due to lower fuel cost of $9.2 million and lower fuel consumption of $1.8 million.

- Administrative and general and Other expenses increased primarily due to the write off of the prepaid insurance due to the bond refunding and the bond issuance costs for the 2015 Bonds.

INTEREST ON DEBT

Interest on debt decreased due to a lower debt principal as a result of the bond refunding.

DISTRIBUTIONS TO MEMBER

Distributions to SMUD are optional and based on excess funds collected through the billings for debt service and operating costs as compared to projected cash requirements, and may vary significantly from year to year. Distributions to Member increased due to a $62.0 million distribution to SMUD due to the release of the restricted funds resulting from the bond refunding.

2014 Compared to 2013

RESULTS OF OPERATIONS

- Operating Revenues decreased primarily due to lower Power sales to Member in 2014, due to lower fuel prices for natural gas, partially offset by higher fuel volume. This decrease is partially offset by higher variable and overhaul revenue.

- Fuel expense decreased due to lower fuel cost of $19.7 million, partially offset by higher fuel consumption of $6.6 million.

- Operations and Maintenance expense decreased primarily due to lower CTG overhaul maintenance, partially offset by higher canal pumping expense.

- Distributions to Member decreased primarily due a $25.0 million distribution of the excess overhaul fund balance in 2013.

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31,	
	2015	2014
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 420,305,482	$ 412,032,249
Less accumulated depreciation	(177,088,145)	(160,526,335)
Plant in service - net	243,217,337	251,505,914
Construction work in progress	1,033,283	1,697,601
Total electric utility plant - net	244,250,620	253,203,515
RESTRICTED ASSETS		
Revenue bond reserve and debt service funds	17,106,475	21,500,949
Other restricted funds	-0-	59,099,318
Less current portion	(17,106,475)	(10,713,000)
Total restricted assets	-0-	69,887,267
CURRENT ASSETS		
Cash, cash equivalents and investments:		
Unrestricted cash and cash equivalents	4,591,082	3,937,714
Restricted cash and cash equivalents	17,106,475	10,713,000
Receivables:		
Power sales to Member	34,505,444	33,130,964
Accrued interest and other	6,801	26,815
Materials and supplies	616,027	1,163,230
Prepayments	239,886	387,306
Regulatory costs recovered within one year	104,416	104,416
Total current assets	57,170,131	49,463,445
NONCURRENT ASSETS		
Regulatory costs for future recovery	1,409,614	1,514,030
Prepayments and other	4,394	1,953,902
Total noncurrent assets	1,414,008	3,467,932
TOTAL ASSETS	302,834,759	376,022,159
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	4,098,499	-0-
Total deferred outflows of resources	4,098,499	-0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 306,933,258	$ 376,022,159

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 198,415,433	$ 228,928,314
CURRENT LIABILITIES		
Accounts payable	2,930,008	3,389,634
Payable due to Member	25,805,044	23,676,291
Long-term debt due within one year	22,795,000	10,055,000
Accrued interest	4,832,245	5,669,725
Total current liabilities	56,362,297	42,790,650
TOTAL LIABILITIES	254,777,730	271,718,964
NET POSITION		
Net investment in capital assets	27,138,686	25,008,150
Restricted	12,274,230	64,142,593
Unrestricted	12,742,612	15,152,452
TOTAL NET POSITION	52,155,528	104,303,195
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
TOTAL LIABILITIES AND NET POSITION	$ 306,933,258	$ 376,022,159

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

	Years Ended December 31, 2015	Years Ended December 31, 2014
OPERATING REVENUES		
Power sales to Member	$ 214,564,874	$ 231,387,525
Total operating revenues	214,564,874	231,387,525
OPERATING EXPENSES		
Fuel	164,106,945	175,096,750
Operations	11,152,278	10,387,600
Maintenance	1,213,699	990,007
Administrative and general	4,558,084	1,978,580
Depreciation	16,561,810	17,871,177
Regulatory amounts collected in rates	104,416	104,416
Total operating expenses	197,697,232	206,428,530
OPERATING INCOME	16,867,642	24,958,995
NON-OPERATING REVENUES (EXPENSES)		
Interest and other income	183,099	150,845
Interest on debt	(7,198,408)	(10,894,517)
Total non-operating expenses	(7,015,309)	(10,743,672)
CHANGE IN NET POSITION BEFORE DISTRIBUTIONS	9,852,333	14,215,323
Distributions to Member	(62,000,000)	(4,500,000)
CHANGE IN NET POSITION	(52,147,667)	9,715,323
NET POSITION - BEGINNING OF YEAR	104,303,195	94,587,872
NET POSITION - END OF YEAR	$ 52,155,528	$ 104,303,195

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	Years Ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 213,190,394	$ 237,631,351
Payments to Member	(164,232,233)	(183,902,867)
Payments to vendors	(12,707,460)	(9,725,006)
Net cash provided by operating activities	36,250,701	44,003,478
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Distributions to Member	(62,000,000)	(4,500,000)
Net cash used in noncapital financing activities	(62,000,000)	(4,500,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuances, including premium	223,707,599	-0-
Repayments and refundings of long-term debt	(243,155,363)	(9,610,000)
Construction expenditures	(7,386,970)	(1,811,726)
Interest payments on long-term debt	(10,459,504)	(11,784,508)
Net cash used in capital and related financing activities	(37,294,238)	(23,206,234)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	14,648,635	10,602,059
Purchases of securities	-0-	(10,547,983)
Interest received	212,253	227,557
Net cash provided by investing activities	14,860,888	281,633
Net increase (decrease) in cash and cash equivalents	(48,182,649)	16,578,877
Cash and cash equivalents - beginning of the year	69,880,206	53,301,329
Cash and cash equivalents - end of the year	$ 21,697,557	$ 69,880,206
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 4,591,082	$ 3,937,714
Restricted cash and cash equivalents	17,106,475	10,713,000
Revenue bond reserve and debt service funds (a component of the total of $21,500,949 at December 31, 2014)	-0-	253,537
Other restricted funds (a component of the total of $59,099,318 at December 31, 2014)	-0-	54,975,955
Cash and cash equivalents - end of the year	$ 21,697,557	$ 69,880,206

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, 2015	Years Ended December 31, 2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 16,867,642	$ 24,958,995
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,561,810	17,871,177
Regulatory amortization	104,416	104,416
Amortization of prepaid bond insurance	2,082,453	134,351
Changes in operating assets and liabilities:		
Receivables	(1,374,480)	6,243,826
Other assets	561,678	(7,359)
Payables and accruals	1,447,182	(5,301,928)
Net cash provided by operating activities	$ 36,250,701	$ 44,003,478
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unrealized holding losses	$ -0-	$ (40,644)
Amortization of debt related costs	2,423,616	668,491

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS NOTES

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 501 megawatt natural gas-fired combined cycle generation facility. 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), formerly known as Wood Group Power Operations, Inc., under the terms of the Operations and Maintenance Agreement.

In June 2015, the Agency entered into a new Power Purchase Agreement (PPA) with SMUD. Pursuant to the new PPA, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, including transportation, and other costs paid by SMUD on the Agency's behalf. The Agency was charged $166.1 million in 2015 and $176.9 million in 2014 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 in 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 consolidated financial statements of SMUD as a component unit of SMUD's financial reporting entity because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Plant in Service. Overhaul parts are depreciated over their estimated useful lives, ranging from 2.25 to 18 years. The remaining balance of the Electric Utility Plant is depreciated over the estimated useful life of 30 years. The costs of replacement units are capitalized. Repair and maintenance costs are charged to expense. When the Agency retires portions of its Electric Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Electric Utility Plant is removed from Plant in Service. Capital assets are generally defined by the Agency as tangible assets with an initial, individual cost of more than three thousand dollars and an estimated useful life in excess of two years.

Restricted Assets. The Agency's restricted assets are comprised of cash and U.S. government securities, which use 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. The Agency's deposits with LAIF comprise cash representing demand deposits up to a $50.0 million maximum and cash equivalents representing amounts which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost, which approximates fair value, and the LAIF is reported at the value of its pool shares.

Investments. All of the Agency's investments are reported at fair value. Realized and unrealized gains and losses are included in Interest and Other Income in the Statements of Revenues, Expenses and Changes in Net Position.

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.

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 FASB and AICPA 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.

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 Administrative and General in the Statements of Revenues, Expenses and Changes in Net Position.

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 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 capital, above), grants or laws and regulations of other governments, 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."

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.

Subsequent Events. Subsequent events for the Agency have been evaluated through February 19, 2016, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements. In February 2015, GASB issued Statement of Governmental Accounting Standards (SGAS) No. 72, ***"Fair Value Measurement and Application"*** (GASB No. 72). GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. This statement requires investments to be measured at fair value, which is described as an exit price. This statement requires valuation techniques that are appropriate in the circumstances and for which sufficient data are available to be used to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. This statement establishes a hierarchy of inputs to the valuation techniques used to measure fair value. The hierarchy has three levels. 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 within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management assumptions. A fair value takes into account the highest and best use for a nonfinancial asset. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB No. 72 is effective for the Agency in 2016. The Agency is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2015, GASB issued SGAS No. 76, ***"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*** (GASB No. 76). GASB No. 76 established the hierarchy of GAAP for state and local governments. This statement supersedes SGAS No. 55, ***"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"***). The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Category A is comprised of GASB statements. Category B includes GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB. GASB No.

76 is effective for the Agency in 2016. The Agency is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

NOTE 3. ELECTRIC UTILITY PLANT

The Agency had the following electric utility plant activity during 2015:

	Balance December 31, 2014	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2015
Nondepreciable utility plant:				
Construction work in progress	$ 1,697,601	$ 7,608,915	$ (8,273,233)	$ 1,033,283
Total nondepreciable utility plant	1,697,601	7,608,915	(8,273,233)	1,033,283
Depreciable utility plant:				
Generation	412,032,249	8,273,233	-0-	420,305,482
Less: accumulated depreciation	(160,526,335)	(16,561,810)	-0-	(177,088,145)
Total utility plant - net	$ 253,203,515	$ (679,662)	$ (8,273,233)	$ 244,250,620

The Agency had the following electric utility plant activity during 2014:

	Balance December 31, 2013	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2014
Nondepreciable utility plant:				
Construction work in progress	$ 477,976	$ 1,957,390	$ (737,765)	$ 1,697,601
Total nondepreciable utility plant	477,976	1,957,390	(737,765)	1,697,601
Depreciable utility plant:				
Generation	411,294,484	737,765	-0-	412,032,249
Less: accumulated depreciation	(142,655,158)	(17,871,177)	-0-	(160,526,335)
Total utility plant - net	$ 269,117,302	$ (15,176,022)	$ (737,765)	$ 253,203,515

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investments are governed by the California Government and Public Utilities 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 rated in the top two rating agency categories; bankers' acceptances; certificates of deposit; repurchase and reverse repurchase agreements; mortgage backed bond and collateralized mortgage obligations; LAIF; money market funds; certain investment agreements; and other short term investments rated at least P-1 or A-1 by Moody's and Standard & Poor's, respectively. The California Government Code 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" or equivalent for short-term 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, 2015 and 2014, $2.2 million and $0.0 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 117 percent and 132 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest) at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Agency had money market mutual funds of $17.1 million and $35.4 million which were uninsured, respectively. The Agency's money market mutual 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 following are the concentrations of risk greater than five percent in either year:

	December 31,	
Investment Type:	2015	2014
Freddie Mac	0%	21%

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from the 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 has no investments at December 31, 2015. Of the Agency's total portfolio at December 31, 2014, all of the Agency's investments had maturities of one year or less except for Freddie Mac, which has a maturity between one to five years.

The following schedules present the credit risk at December 31, 2015 and 2014. The credit ratings listed are from Standard and Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit	December 31,	
	Rating	2015	2014
Cash and Cash Equivalents:			
Deposits	N/A	$ 2,446,146	$ 42,259
LAIF	Not Rated	2,144,936	34,444,716
Money Market Mutual Funds	AAAm	17,106,475	35,393,231
Total cash and cash equivalents		21,697,557	69,880,206
Investments:			
Freddie Mac	AA+	-0-	10,534,412
Fannie Mae	AA+	-0-	-0-
Federal Home Loan Banks	AA+	-0-	2,120,223
Federal Farm Credit Banks	AA+	-0-	2,003,140
Total investments		-0-	14,657,775
Total cash, cash equivalents, and investments		$ 21,697,557	$ 84,537,981

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

	December 31, 2015	December 31, 2014
Total Cash, Cash Equivalents, and Investments:		
Revenue bond reserve and debt service funds:		
Revenue bond reserve fund	$ -0-	$ 10,787,949
Debt service fund	17,106,475	10,713,000
Total revenue bond reserve and debt service funds	17,106,475	21,500,949
Other restricted funds:		
Overhaul fund	-0-	46,529,429
Operating funds	-0-	2,897,467
Maintenance reserve funds	-0-	2,253,614
Distribution funds	-0-	4,235,988
Working capital funds	-0-	2,227,947
Other funds	-0-	954,873
Total other restricted funds:	-0-	59,099,318
Unrestricted funds	4,591,082	3,937,714
Total cash, cash equivalents, and investments	$ 21,697,557	$ 84,537,981

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 issued $300.4 million of 2006 project revenue bonds in January 2006 with interest rates ranging from 3.25 percent to 5.25 percent, maturing July 2030.

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

	December 31, 2015	December 31, 2014
2015 Cosumnes project revenue refunding bonds, fixed rates 2.00% - 5.00%, 2016-2030	$ 193,335,000	$ -0-
2006 Cosumnes project revenue bonds, fixed rates	-0-	233,155,000
Unamortized premium – net	27,875,433	5,828,314
Total long-term debt	221,210,433	238,983,314
Less: amounts due within one year	(22,795,000)	(10,055,000)
Total long-term debt - net	$ 198,415,433	$ 228,928,314

The following summarizes activity in long-term debt for the year ended December 31, 2015:

	December 31, 2014	Additions	Refunding, Payments or Amortization	December 31, 2015
Cosumnes project Revenue bonds	$ 233,155,000	$ 193,335,000	$ (233,155,000)	$ 193,335,000
Unamortized premiums – net	5,828,314	30,372,599	(8,325,480)	27,875,433
Total long-term debt	$ 238,983,314	$ 223,707,599	$ (241,480,480)	$ 221,210,433

The following summarizes activity in long-term debt for the year ended December 31, 2014:

	December 31, 2013	Additions	Refunding, Payments or Amortization	December 31, 2014
Cosumnes project Revenue bonds	$ 242,765,000	$ -0-	$ (9,610,000)	$ 233,155,000
Unamortized premiums – net	6,496,805	-0-	(668,491)	5,828,314
Total long-term debt	$ 249,261,805	$ -0-	$ (10,278,491)	$ 238,983,314

Revenue Bond Refunding. In June 2015, the Agency issued $193.3 million of 2015 Series Cosumnes Project Revenue Refunding Bonds (Bonds). Proceeds from the 2015 Series Bonds and $24.8 million of available funds were used to refund $233.2 million of the outstanding 2006 Series Bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-term Debt in the Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of $4.4 million, which is being amortized over the life of the refunding issue, and a current period loss of $0.03 million which is included in Interest on Debt in the Statement of Revenues, Expenses, and Changes in Net Assets. The 2015 refunding reduced future aggregate debt service payments by $46.7 million and resulted in a total economic gain of $35.5 million, which is the difference between the present value of the old and new debt service payments.

The annual debt service requirements to maturity for Bonds are as follows at December 31, 2015:

Year	Principal	Interest	Total
2016	$ 22,795,000	$ 9,013,944	$ 31,808,944
2017	23,900,000	7,907,600	31,807,600
2018	14,140,000	7,190,600	21,330,600
2019	11,705,000	6,625,000	18,330,000
2020	8,710,000	6,039,750	14,749,750
2021-2025 (combined)	51,580,000	23,283,500	74,863,500
2026-2030 (combined)	60,505,000	8,386,000	68,891,000
Total	$ 193,335,000	$ 68,446,394	$ 261,781,394

The Agency has pledged future net revenues to repay $193.3 million for 2015 Bonds at December 31, 2015 and $233.2 million for 2006 Bonds at December 31, 2014. Proceeds from the 2015 Bonds were used to refund previously issued 2006 Bonds that provided financing for the Project. The 2015 Bonds, payable through 2030, are secured solely by a pledge of and lien on the trust estate under the Indenture dated June 1, 2015 which includes revenues from the PPA and investment income from funds established under the Indenture. The 2006 Bonds, originally payable through 2030 but refunded in 2015, were secured solely by a pledge of and lien on the trust estate under the Indenture dated January 1, 2006 which includes all revenues, income, rents and receipts derived by the Agency. Annual principal and interest payments on the Bonds require approximately 4.9 percent of the Agency’s net revenues for 2015 and 9.2 percent for 2014. The total principal and interest remaining to be paid on the Bonds is $261.8 million and $342.3 million at December 31, 2015 and 2014, respectively. Debt service payments are made semi-annually on January 1 and July 1. Principal and interest paid was $243.6 million and $21.4 million for 2015 and 2014, respectively. Total net revenues were $214.7 million and $231.5 million for 2015 and 2014, 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.

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. The Agency has additional insurance coverage in excess of the requirements of the Indenture. Excess liability coverage for most claims against the Agency is $140.0 million. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims, $1.0 million for property claims, and up to $50.0 million for earthquakes. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7. 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. A new Operations and Maintenance Agreement between the Agency and Ethos was signed in November 2015 and will take effect in January 2016. At December 31, 2015, the minimum annual commitment to Ethos under this agreement was approximately $3.6 million.

Ground Lease Agreement. The Agency leases land from SMUD under the ground lease agreement expiring December 2040. At December 31, 2015, the Agency's annual minimum lease payment was approximately $0.1 million.

Water Supply Agreement. Pursuant to the Water Supply Agreement, SMUD supplies water to the Agency. The Agency pays for the actual water supply, storage, and transportation costs for 30 years following Acceptance, which means that the Water Supply Agreement will be in effect through September 2039.

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.