Northern California Energy Authority

Financial Statements
and Independent Auditors' Report
December 31, 2021 and 2020

NORTHERN CALIFORNIA ENERGY AUTHORITY
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Independent Auditors' Report

To the Board of Directors of
Northern California Energy Authority

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

Required Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
March 1, 2022

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, 2021 and 2020. 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. 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 commenced gas sales 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.

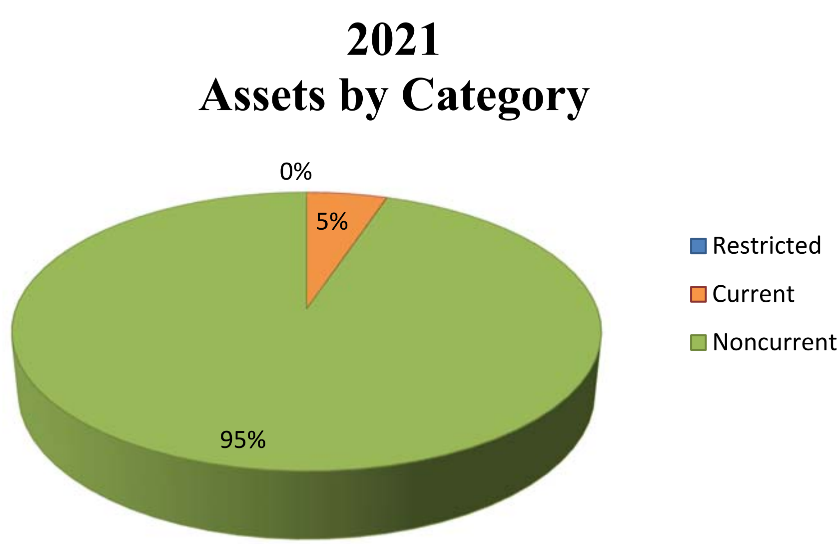
The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, due to the extent of its operational and financial relationship with SMUD, it is included in the financial statements of SMUD.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Assets							
Restricted assets	$ -0-	$ 90	$ 2,840	$ (90)	-100.0%	$ (2,750)	-96.8%
Current assets	28,879	27,857	27,096	1,022	3.7%	761	2.8%
Noncurrent assets	528,808	532,525	535,991	(3,717)	-0.7%	(3,466)	-0.6%
Total assets	$ 557,687	$ 560,472	$ 565,927	$ (2,785)	-0.5%	$ (5,455)	-1.0%
Liabilities							
Long-term debt - net	$ 551,815	$ 556,794	$ 561,820	$ (4,979)	-0.9%	$ (5,026)	-0.9%
Current liabilities	12,276	10,876	10,876	1,400	12.9%	-0-	0.0%
Noncurrent liabilities	161	121	77	40	33.1%	44	57.1%
Total liabilities	564,252	567,791	572,773	(3,539)	-0.6%	(4,982)	-0.9%
Net position							
Restricted	8,697	10,829	13,165	(2,132)	-19.7%	(2,336)	-17.7%
Unrestricted	(15,262)	(18,148)	(20,011)	2,886	15.9%	1,863	9.3%
Total net position	(6,565)	(7,319)	(6,846)	754	10.3%	(473)	-6.9%
Total liabilities and net position	$ 557,687	$ 560,472	$ 565,927	$ (2,785)	-0.5%	$ (5,455)	-1.0%

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



2021 compared to 2020

ASSETS

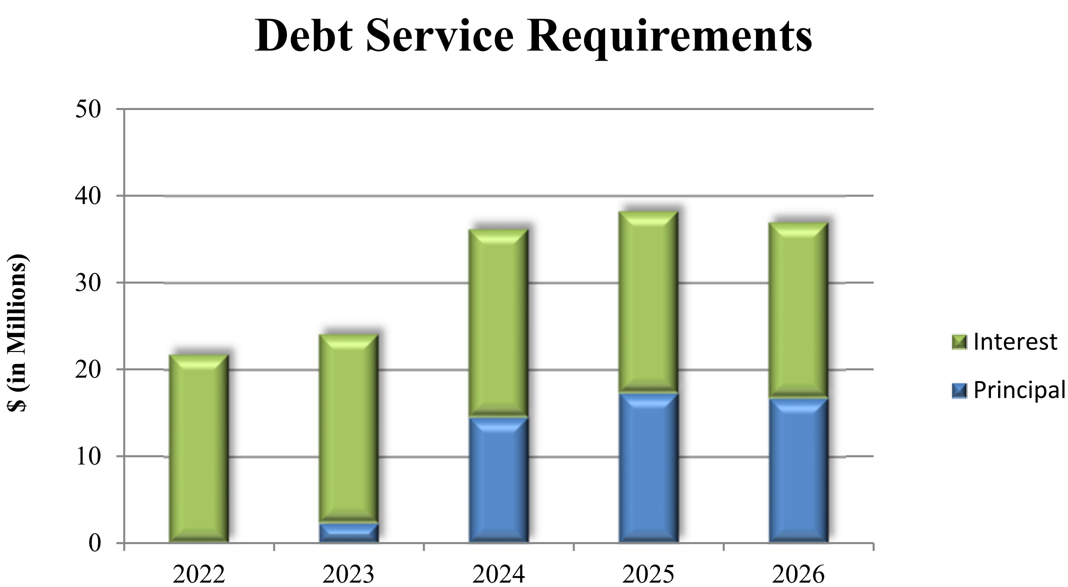
- Current Assets increased primarily due to higher gas sales to Member, offset by lower restricted investments.

- The Agency's main asset is its prepaid gas supply, of which the noncurrent portion was $528.8 million at December 31, 2021. Noncurrent Assets decreased due to the amortization of the prepaid gas supply for gas delivered in 2021. The prepaid gas supply (current and noncurrent portion) was 95 percent of the Agency's assets at December 31, 2021.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased due to the amortization of bond premium. The Agency currently has bonds outstanding of $539.6 million with maturities through 2049. The Agency's bonds are rated "A2" by Moody's and "A" by Fitch.

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



- Current Liabilities increased due to higher variable gas prices as compared to the swap fixed price resulting in a swap payable.

- Restricted Net Position decreased due to lower debt service requirements and accrued interest and other payable.

2020 compared to 2019

ASSETS

- Restricted Asset decreased due to a reduction in 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.
- Noncurrent Assets decreased due to the amortization of the prepaid gas supply for gas delivered in 2020.

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased due to the amortization of bond premium.
- Restricted Net Position decreased due to lower debt service requirements.

RESULTS OF OPERATIONS

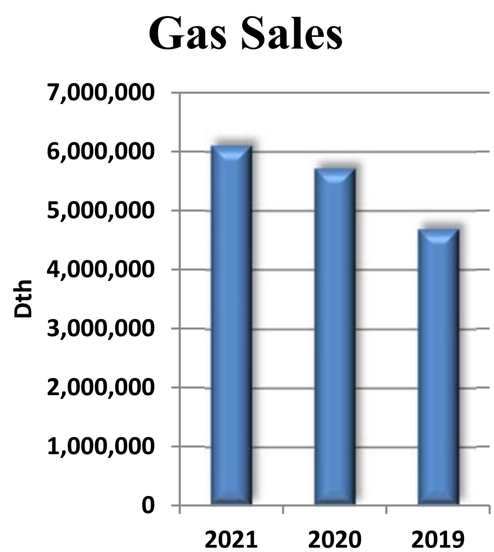
Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	December 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Operating revenues	$ 21,406	$ 20,053	$ 16,438	$ 1,353	6.7%	$ 3,615	22.0%
Operating expenses	(3,573)	(3,366)	(2,682)	(207)	-6.1%	(684)	-25.5%
Operating income	17,833	16,687	13,756	1,146	6.9%	2,931	21.3%
Interest income - net	458	530	589	(72)	-13.6%	(59)	-10.0%
Interest on debt	(16,773)	(16,727)	(16,680)	(46)	-0.3%	(47)	-0.3%
Change in net position before Contributions	1,518	490	(2,335)	1,028	209.8%	2,825	121.0%
Distributions to Member	(843)	(1,090)	-0-	247	22.7%	(1,090)	-100.0%
Member contributions	79	127	88	(48)	-37.8%	39	44.3%
Change in net position	754	(473)	(2,247)	1,227	259.4%	1,774	78.9%
Net position - beginning of year	(7,319)	(6,846)	(4,599)	(473)	-6.9%	(2,247)	-48.9%
Net position - end of year	$ (6,565)	$ (7,319)	$ (6,846)	$ 754	10.3%	$ (473)	-6.9%

2021 compared to 2020

The following chart shows gas sales in 2021, 2020 and 2019:



- Operating Revenues increased due to higher gas sales to Member as a result of higher gas price index, offset by lower gas swap settlement due to lower net swap price.

- 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. Distribution to SMUD was $0.8 million in 2021.

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.

- Distribution to SMUD was $1.1 million in 2020.

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, 2021	December 31, 2020
ASSETS		
RESTRICTED ASSETS		
Debt service funds	$ 18,134,664	$ 18,825,750
Other restricted funds	3,000,066	3,000,027
Less current portion	(21,134,730)	(21,735,777)
Total restricted assets	-0-	90,000
CURRENT ASSETS		
Restricted cash and cash equivalents	10,876,505	10,876,509
Restricted investments	10,258,225	10,859,268
Receivables:		
Gas sales to Member	4,010,160	2,068,320
Accrued interest and other	-0-	541,632
Prepaid gas supply	3,716,894	3,466,109
Prepayments	17,500	44,795
Total current assets	28,879,284	27,856,633
NONCURRENT ASSETS		
Prepaid gas supply	528,808,082	532,524,976
Total noncurrent assets	528,808,082	532,524,976
TOTAL ASSETS	$ 557,687,366	$ 560,471,609
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 551,815,040	$ 556,794,186
CURRENT LIABILITIES		
Accrued interest and other	12,276,633	10,876,425
Total current liabilities	12,276,633	10,876,425
NONCURRENT LIABILITIES		
Arbitrage rebate liability	160,674	120,486
Total noncurrent liabilities	160,674	120,486
TOTAL LIABILITIES	564,252,347	567,791,097
NET POSITION		
Restricted	8,697,423	10,828,866
Unrestricted	(15,262,404)	(18,148,354)
TOTAL NET POSITION	(6,564,981)	(7,319,488)
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
TOTAL LIABILITIES AND NET POSITION	$ 557,687,366	$ 560,471,609

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, 2021	Years Ended December 31, 2020
OPERATING REVENUES		
Gas sales to Member	$ 25,323,720	$ 11,954,383
Gas swap settlement, net	(3,917,904)	8,099,099
Total operating revenues	21,405,816	20,053,482
OPERATING EXPENSES		
Prepaid gas amortization	3,466,109	3,247,134
Administrative and general	106,703	119,448
Total operating expenses	3,572,812	3,366,582
OPERATING INCOME	17,833,004	16,686,900
NON-OPERATING REVENUES (EXPENSES)		
Interest income - net	458,430	530,171
Interest on debt	(16,773,704)	(16,726,946)
Total non-operating revenues (expenses)	(16,315,274)	(16,196,775)
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND DISTRIBUTIONS	1,517,730	490,125
Distributions to Member	(842,631)	(1,090,719)
Member contributions	79,408	127,302
CHANGE IN NET POSITION	754,507	(473,292)
NET POSITION - BEGINNING OF YEAR	(7,319,488)	(6,846,196)
NET POSITION - END OF YEAR	$ (6,564,981)	$ (7,319,488)

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

NORTHERN CALIFORNIA ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from gas sales to Member	$ 23,381,880	$ 12,251,982
Other receipts/payments - net	(1,976,064)	7,801,500
Net cash provided by operating activities	21,405,816	20,053,482
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest payments on long-term debt	(21,752,850)	(21,752,850)
Distributions to Member	(842,631)	(1,090,719)
Net cash used in noncapital financing activities	(22,595,481)	(22,843,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	22,595,342	20,195,004
Purchase of investments	(21,904,299)	(18,055,542)
Interest received	498,618	574,226
Net cash provided by investing activities	1,189,661	2,713,688
Net decrease in cash and cash equivalents	(4)	(76,399)
Cash and cash equivalents - beginning of year	10,876,509	10,952,908
Cash and cash equivalents - end of the year	$ 10,876,505	$ 10,876,509
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 17,833,004	$ 16,686,900
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of prepaid gas supply	3,466,109	3,247,134
Changes in operating assets and liabilities:		
Receivables	(1,400,208)	-0-
Prepaid expenses	27,295	(7,854)
Payables and accruals	1,479,616	127,302
Net cash provided by operating activities	$ 21,405,816	$ 20,053,482
SUPPLEMENTAL DISCLOSURE OF NONCASH AND RELATED FINANCING ACTIVITIES		
Amortization of debt related premiums	$ 4,979,146	$ 5,025,903
Contributions from Member	79,408	127,302

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

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. 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 $0.1 million both in 2021 and 2020.

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 included in the financial statements of SMUD as a component unit because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting. The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Commodity sale revenues, gas swap payments 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 Statements of Net Position. The Agency is exposed to the risk of early termination of the Prepaid Agreement if the counterparties default or if the swap agreements are terminated. Net swap payments received or paid are reported as a component of Operating Revenues in the Statements of Revenues, Expenses and Changes in Net Position.

Amortization of Bond Premiums. Bond premiums are amortized over the life of the bonds using the scientific amortized cost procedure gross method.

Commodity Price Swap Agreement. The Agency uses a forward contract to hedge the impact of market volatility on gas commodity prices for its CSC.

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 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 March 1, 2022, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements, adopted. 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 was effective for the Agency in 2020. The Agency 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 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.

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 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.

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, 2021 and 2020, the Agency had money market funds of $10.9 million 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, 2021 and 2020.

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, 2021 and 2020. At December 31, 2021 and 2020, 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, 2021 and 2020. 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, 2021	December 31, 2020
Cash and Cash Equivalents:			
Money market funds	AAAm	$ 10,876,505	$ 10,876,509
Total cash and cash equivalents		10,876,505	10,876,509
Investments:			
Guaranteed investment contracts	BBB+	10,258,225	10,949,268
Total investments		10,258,225	10,949,268
Total cash, cash equivalents, and investments		$ 21,134,730	$ 21,825,777

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

	December 31, 2021	December 31, 2020
Cash, cash equivalents, and investments:		
Debt service funds:		
Debt service fund	$ 14,134,664	$ 14,825,750
Debt service reserve fund	4,000,000	4,000,000
Total debt service funds	18,134,664	18,825,750
Other restricted funds:		
Working capital fund	3,000,000	3,000,000
Revenue fund	66	27
Total other restricted funds	3,000,066	3,000,027
Total cash, cash equivalents, and investments	$ 21,134,730	$ 21,825,777

NOTE 4. PREPAID GAS SUPPLY

The Agency's prepaid gas supply is presented below:

	December 31, 2021	December 31, 2020
Prepaid gas supply	$ 532,524,976	$ 535,991,085
Less: amounts due within one year	(3,716,894)	(3,466,109)
Total prepaid gas supply - noncurrent portion	$ 528,808,082	$ 532,524,976

The following summarizes prepaid gas supply activity for the year ended December 31, 2021:

	January 1, 2021	Terminations	Amortization	December 31, 2021
Prepaid gas supply	$ 535,991,085	$ -0-	$ (3,466,109)	$ 532,524,976

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	$ 539,238,219	$ -0-	$ (3,247,134)	$ 535,991,085

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, 2021	December 31, 2020
2018 Commodity supply revenue bonds, fixed rates 4.00% - 5.00%, 2022-2049	$ 539,615,000	$ 539,615,000
Unamortized premiums	12,200,040	17,179,186
Less: amounts due within one year	-0-	-0-
Total long-term debt - net	$ 551,815,040	$ 556,794,186

The following summarizes long-term debt activity for the year ended December 31, 2021:

	January 1, 2021	Additions	Payments/ Amortizations	December 31, 2021
2018 Commodity supply revenue bonds	$ 539,615,000	$ -0-	$ -0-	$ 539,615,000
Unamortized premiums	17,179,186	-0-	(4,979,146)	12,200,040
Total long-term debt	$ 556,794,186	$ -0-	$ (4,979,146)	$ 551,815,040

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 annual debt service requirements to maturity for the Bonds are as follows at December 31, 2021:

Year	Principal	Interest	Total
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	8,211,600
2026	16,710,000	20,219,600	36,929,600
2027-2031	93,815,000	90,093,600	183,908,600
2032-2036	83,865,000	73,744,200	157,609,200
2037-2041	97,110,000	53,750,800	150,860,800
2042-2046	125,940,000	32,811,400	158,751,400
2047-2049	88,050,000	7,160,000	95,210,000
Total	$ 539,615,000	$ 363,833,750	$ 903,448,750

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 an assumed 4 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, 2021 and 2020, 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 $903.4 million and $925.2 million at December 31, 2021 and 2020, respectively. Debt service payments on the Bonds are made semi-annually on January 1 and July 1. The first Bond principal payment is due in 2023. Interest paid was $21.8 million for both 2021 and 2020. Total net revenues were $21.9 million and $20.6 million for 2021 and 2020, 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 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, 2021 was 104.3 million mmbtu and 9.9 million MWh. Presently, the Commodity Swap Agreement is an average of 19,448 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.