Sacramento Municipal Utility District Financing Authority

Financial Statements

as of December 31, 2019 and 2018

and

Report of Independent Auditors

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
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As of and for the Years Ended December 31, 2019 and 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Sacramento Municipal Utility District Financing Authority, a component unit of Sacramento Municipal Utility District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Sacramento Municipal Utility District Financing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Sacramento Municipal Utility District Financing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sacramento Municipal Utility District Financing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District Financing Authority as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
February 21, 2020

Using this Financial Report

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

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission.

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2019 and 2018. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position report all of the Agency's revenues and expenses during the periods indicated.

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

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

Nature of Operations

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

SMUD purchases all of the electricity produced by the Project pursuant to the Power Purchase Agreement (PPA) between SMUD and the Agency. The Agency has no employees and is obligated to reimburse SMUD for the actual costs of providing general and administrative services, water, fuel costs, and other costs paid by SMUD on the Agency's behalf.

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

Financial & Operational Highlights

In 2019, 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 2019 included an Institute of Electrical and Electronics Engineers (IEEE) Availability rating of 68.7 percent, an IEEE Reliability rating of 100 percent and an overall capacity factor of 59.6 percent.

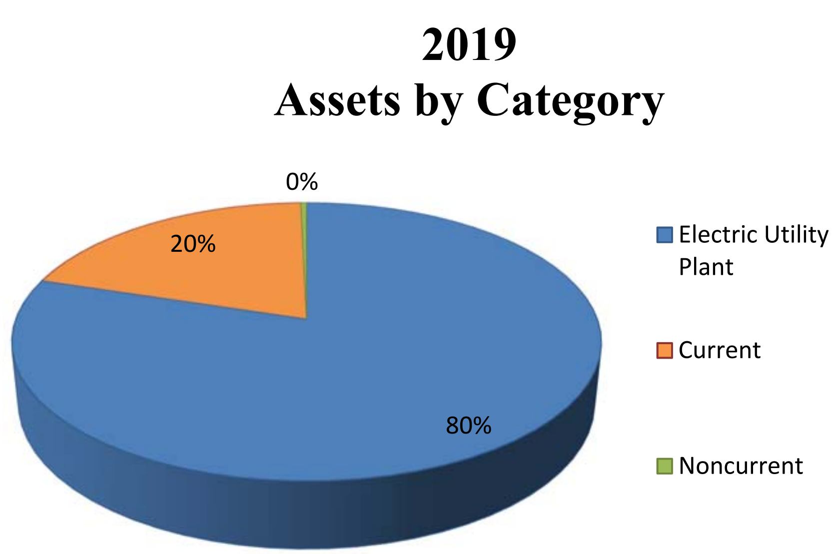
The plant completed the Advanced Gas Path (AGP) capital improvement project in 2019 for Combustion Turbine Generator (CTG) 2 for $22.0 million and the Steam Turbine Major Overhaul for $5.2 million during the cold iron outage in the first quarter of 2019. In 2019 the plant also purchased a spare Combustion Turbine Rotor for $5.2 million, this will shorten the duration of the of the 2022 Combustion Turbine Major Overhaul considerably.

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

	December 31,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Assets							
Electric utility plant - net	$ 220,676	$ 230,315	$ 219,260	$ (9,639)	-4.2%	$ 11,055	5.0%
Current assets	54,906	74,372	51,238	(19,466)	-26.2%	23,134	45.2%
Noncurrent assets	998	1,103	1,209	(105)	-9.5%	(106)	-8.8%
Total assets	276,580	305,790	271,707	(29,210)	-9.6%	34,083	12.5%
Deferred outflows of resources	2,195	2,593	3,031	(398)	-15.3%	(438)	-14.5%
Total assets and deferred outflows of resources	$ 278,775	$ 308,383	$ 274,738	$ (29,608)	-9.6%	$ 33,645	12.2%
Liabilities							
Long-term debt - net	$ 126,571	$ 138,049	$ 152,830	$ (11,478)	-8.3%	$ (14,781)	-9.7%
Current liabilities	33,257	84,439	42,418	(51,182)	-60.6%	42,021	99.1%
Total liabilities	159,828	222,488	195,248	(62,660)	-28.2%	27,240	14.0%
Net position							
Net investment in capital assets	87,590	83,154	55,321	4,436	5.3%	27,833	50.3%
Restricted	4,355	5,852	7,070	(1,497)	-25.6%	(1,218)	-17.2%
Unrestricted	27,002	(3,111)	17,099	30,113	968.0%	(20,210)	-118.2%
Total net position	118,947	85,895	79,490	33,052	38.5%	6,405	8.1%
Total liabilities and net position	$ 278,775	$ 308,383	$ 274,738	$ (29,608)	-9.6%	$ 33,645	12.2%

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



2019 Compared to 2018

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project, which comprises $220.7 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2019. The Electric Utility Plant - net decreased primarily due to $13.5 million depreciation expense for the year, offset by $3.9 million of additions. The additions included the CTG2 and Spare AGP, Zero Liquid Discharge Upgrade, Flex Software Upgrade, and Valve Access Platform. Electric Utility Plant assets make up about 80 percent of the Agency's assets.

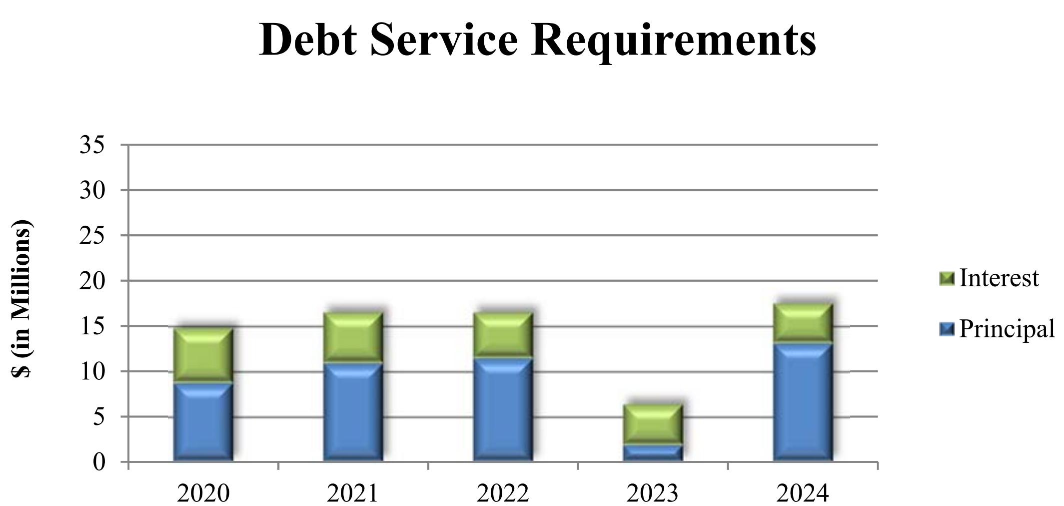
- Current Assets decreased primarily due to lower Receivable from SMUD for the advance portion of the PPA billings in November and December 2018, Restricted cash for debt service, and Unrestricted cash as part of normal operations, partially offset by higher Materials and supplies for the purchase of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

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

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $11.7 million of the scheduled principal payments for 2019. At December 31, 2019, the Agency had bonds outstanding of $120.8 million with maturities through 2030. The Agency's Bonds are rated "AA" by Standard and Poor's and Fitch.

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



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

2018 Compared to 2017

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

- The Agency's main asset is its investment in the Project, which comprises $230.3 million in Electric Utility Plant, net of Accumulated Depreciation at December 31, 2018. The Electric Utility Plant - net increased primarily due to $46.2 million of additions, offset by $19.7 million net book value of assets retired and $15.5 depreciation expense for the year. The additions included the CTG3 and CTG2 AGP, Flex Software Upgrade, AGP, Controls GE System 1, Site Access, and Valve Access Platform.

- Current Assets increased primarily due to higher Receivable from SMUD for the fuel portion of the PPA billings in November and December 2018, Prepayments for inventory, and Materials and supplies for the replenishments of inventory, partially offset by lower Restricted cash for debt service.

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

LIABILITIES & NET POSITION

- Long-Term Debt - net decreased primarily due to $14.1 million of the scheduled principal payments for 2018. At December 31, 2018, the Agency had bonds outstanding of $132.5 million with maturities through 2030.

- Current Liabilities increased primarily due to higher accounts payable for the AGP project and advance from SMUD to cover anticipated payments for the AGP project, partially offset by lower current portion of the long-term debt and accrued interest.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

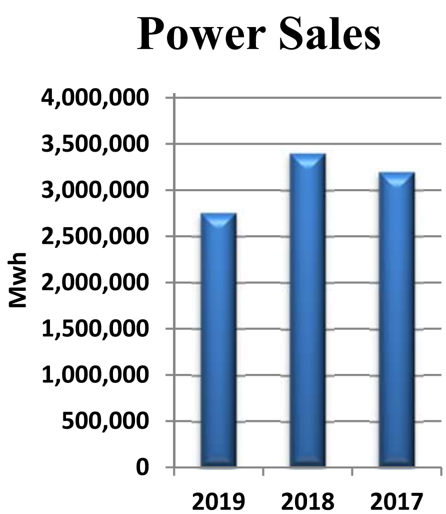
	December 31,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Operating revenues	$ 157,200	$ 154,235	$ 163,942	$ 2,965	1.9%	$ (9,707)	-5.9%
Operating expenses	(120,562)	(131,133)	(151,250)	10,571	8.1%	20,117	13.3%
Operating income	36,638	23,102	12,692	13,536	58.6%	10,410	82.0%
Interest income	368	302	139	66	21.9%	163	117.3%
Interest on debt	(3,962)	(4,269)	(4,537)	307	7.2%	268	5.9%
Other income (expense)	8	(12,730)	-0-	12,738	100.1%	(12,730)	-100.0%
Change in net position	33,052	6,405	8,294	26,647	416.0%	(1,889)	-22.8%
Net position - beginning of year	85,895	79,490	71,196	6,405	8.1%	8,294	11.6%
Net position - end of year	$ 118,947	$ 85,895	$ 79,490	$ 33,052	38.5%	$ 6,405	8.1%

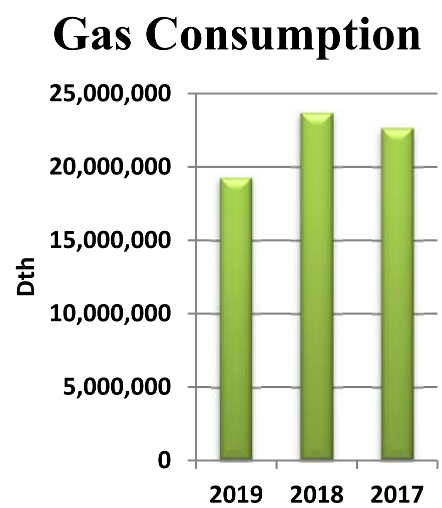
2019 Compared to 2018

OPERATING REVENUES

Operating Revenues increased primarily due to higher Power sales to Member in 2019. The Agency's power sales are determined monthly, based on a formula defined in the PPA, which is driven by the Agency's actual cost of operations including debt service. In 2019, Power sales were higher due to higher capital and other costs, partially offset by lower fuel, overhaul costs, and financial payment.

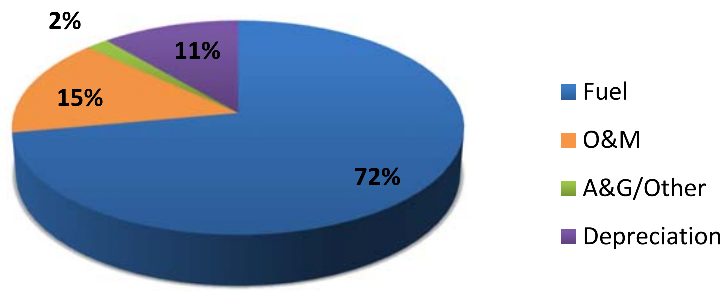
The following charts show power sales and gas consumption in 2019, 2018, and 2017:





OPERATING EXPENSES

2019 Operating Expenses by Category



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

	December 31,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Operating Expenses							
Fuel	$ 86,902	$ 93,008	$ 120,433	$ (6,106)	-6.6%	$ (27,425)	-22.8%
Operations and Maintenance	17,888	20,548	12,321	(2,660)	-12.9%	8,227	66.8%
Administrative & general and Other	2,242	2,088	1,837	154	7.4%	251	13.7%
Depreciation	13,530	15,489	16,659	(1,959)	-12.6%	(1,170)	-7.0%
Total operating expenses	$ 120,562	$ 131,133	$ 151,250	$ (10,571)	-8.1%	$ (20,117)	-13.3%

- Fuel expense decreased due to lower fuel volume of $17.3 million, partially offset by higher fuel cost of $11.2 million.
- Operations and Maintenance expense decreased primarily due to the lower steam turbine overhaul costs, partially offset by higher operator fees.
- Depreciation expense decreased due to the retirement of CTG assets.

OTHER EXPENSES

- Other expenses decreased due to the retirement of CTG assets in 2018.

2018 Compared to 2017

RESULTS OF OPERATIONS

- Operating Revenues decreased primarily due to lower Power sales to Member as a result of lower fuel and financial payment, partially offset by higher capital, overhaul, and operator costs.
- Fuel expense decreased due to lower fuel cost of $32.7 million, partially offset by higher fuel volume of $5.3 million.
- Operations and Maintenance expense increased primarily due to the steam turbine overhaul.
- Depreciation expense decreased due to the retirement of CTG assets.
- Other expense increased primarily due to the loss on retirement of CTG assets of $19.7 million, partially offset by salvage value $7.5 million.

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31,	
	2019	2018
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in service	$ 388,181,575	$ 355,888,891
Less accumulated depreciation	(169,723,822)	(156,222,818)
Plant in service - net	218,457,753	199,666,073
Construction work in progress	2,218,147	30,648,861
Total electric utility plant - net	220,675,900	230,314,934
RESTRICTED ASSETS		
Debt service funds	7,374,875	9,165,000
Less current portion	(7,374,875)	(9,165,000)
Total restricted assets	-0-	-0-
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	13,274,986	14,871,833
Restricted cash and cash equivalents	7,374,875	9,165,000
Receivables:		
Power sales to Member	25,577,192	46,286,317
Accrued interest and other	66,811	87,737
Materials and supplies	7,235,618	2,625,047
Prepayments	1,272,444	1,231,741
Regulatory costs recovered within one year	104,416	104,416
Total current assets	54,906,342	74,372,091
NONCURRENT ASSETS		
Regulatory costs for future recovery	991,950	1,096,366
Other	5,626	7,031
Total noncurrent assets	997,576	1,103,397
TOTAL ASSETS	276,579,818	305,790,422
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized bond losses	2,195,364	2,593,160
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,195,364	2,593,160
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 278,775,182	$ 308,383,582

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

SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY
STATEMENTS OF NET POSITION

	December 31,	
	2019	2018
LIABILITIES AND NET POSITION		
LONG-TERM DEBT - net	$ 126,571,174	$ 138,049,455
CURRENT LIABILITIES		
Accounts payable	2,422,389	27,410,791
Payable due to Member	19,104,190	42,010,749
Long-term debt due within one year	8,710,000	11,705,000
Accrued interest	3,019,875	3,312,500
Total current liabilities	33,256,454	84,439,040
TOTAL LIABILITIES	159,827,628	222,488,495
NET POSITION		
Net investment in capital assets	87,590,090	83,153,639
Restricted	4,355,000	5,852,500
Unrestricted	27,002,464	(3,111,052)
TOTAL NET POSITION	118,947,554	85,895,087
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
TOTAL LIABILITIES AND NET POSITION	$ 278,775,182	$ 308,383,582

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

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

	Years Ended December 31, 2019	Years Ended December 31, 2018
OPERATING REVENUES		
Power sales to Member	$ 157,200,782	$ 154,234,674
Total operating revenues	157,200,782	154,234,674
OPERATING EXPENSES		
Fuel	86,901,965	93,007,465
Operations	11,940,605	9,020,424
Maintenance	5,947,916	11,527,698
Administrative and general	2,137,594	1,982,990
Depreciation	13,529,809	15,489,297
Regulatory amounts collected in rates	104,416	104,416
Total operating expenses	120,562,305	131,132,290
OPERATING INCOME	36,638,477	23,102,384
NON-OPERATING REVENUES (EXPENSES)		
Interest income	368,258	302,334
Interest on debt	(3,961,890)	(4,269,636)
Other expenses (revenues) - net	7,622	(12,729,835)
Total non-operating revenues (expenses)	(3,586,010)	(16,697,137)
CHANGE IN NET POSITION	33,052,467	6,405,247
NET POSITION - BEGINNING OF YEAR	85,895,087	79,489,840
NET POSITION - END OF YEAR	$ 118,947,554	$ 85,895,087

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, 2019	Years Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 155,282,407	$ 149,875,872
Payments to Member	(89,942,489)	(92,656,564)
Payments to vendors	(22,653,605)	(22,503,064)
Net cash provided by operating activities	42,686,313	34,716,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES		
Construction expenditures	(28,132,469)	(16,901,157)
Salvage on retirement of plant	-0-	2,500,000
Repayment of long-term debt	(11,705,000)	(14,140,000)
Interest payments on long-term debt	(6,625,000)	(7,190,600)
Net cash used in capital and related financing activities	(46,462,469)	(35,731,757)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	389,184	242,933
Net cash provided by investing activities	389,184	242,933
Net decrease in cash and cash equivalents	(3,386,972)	(772,580)
Cash and cash equivalents - beginning of the year	24,036,833	24,809,413
Cash and cash equivalents - end of the year	$ 20,649,861	$ 24,036,833
CASH AND CASH EQUIVALENTS INCLUDED IN:		
Unrestricted cash and cash equivalents	$ 13,274,986	$ 14,871,833
Restricted cash and cash equivalents	7,374,875	9,165,000
Cash and cash equivalents - end of the year	$ 20,649,861	$ 24,036,833

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, 2019	Years Ended December 31, 2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 36,638,477	$ 23,102,384
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,529,809	15,489,297
Regulatory amortization	104,416	104,416
Changes in operating assets and liabilities:		
Receivables	(1,918,375)	(4,358,802)
Other assets	(4,649,869)	(2,412,423)
Payables and accruals	(1,018,145)	2,791,372
Net cash provided by operating activities	$ 42,686,313	$ 34,716,244
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Net amortization of debt related (expenses) and premiums	$ 2,370,485	$ 2,638,164
Gain (loss) on asset retirements	7,622	(14,677,366)
Write off of inventory	-0-	(552,469)

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

NOTE 1. ORGANIZATION AND OPERATIONS

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

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

Pursuant to the Power Purchase Agreement (PPA) with SMUD, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf. The Agency was charged $89.3 million in 2019 and $95.3 million in 2018 for general and administrative services, water, fuel costs, and other costs paid by SMUD on the Agency's behalf.

SMUD is entitled to all rights and property of the Project in the event of termination of the JPA agreement. MID has no obligation to make contributions or advances to the Agency. The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect, or while any bonds or notes of the Agency are outstanding. Project revenues and the subsequent payments of principal and interest related to the Agency's long-term debt are not dependent upon the continued successful operation of the Project. SMUD is required to make payments in an amount sufficient to pay principal and interest and all other payments required to be made under the Indenture of Trust (Indenture), dated June 1, 2015. Neither MID nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Project agreements.

The Agency's Commission is comprised of SMUD's Board of Directors. The Agency is a separate legal entity; however, it is included in the financial statements of SMUD as a component unit of SMUD's financial reporting entity because of the extent of its operational and financial relationships with SMUD.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Receivable from Member. The Agency records as a Receivable from Member the amounts due from SMUD for the purchase of power generated by the Project.

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

Prepayments. The Agency's prepayments consist of an advance payment for inventory, property insurance, leases and permits. The Agency pays for property insurance, leases and permits annually in advance. These prepayments are recognized as expenses in the month the actual costs are incurred.

Regulatory Deferrals. As a regulated entity, the Agency's financial statements are prepared in accordance with GASB Statement No. 62, ***"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants Pronouncements,"*** which require that the effects of the rate making process be recorded in the financial statements. Accordingly, certain expenses and credits normally reflected in the Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, SMUD through the PPA. The Agency records regulatory assets and credits to reflect rate-making actions of the Commission. The account includes the unamortized debt issuance costs of previously issued bonds of the Agency. The regulatory asset is amortized using the straight-line method over the remaining life of the associated bonds and recorded in Regulatory Amounts Collected in Rates in the Statements of Revenues, Expenses and Changes in Net Position.

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

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

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses. Deferred 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 Commission. 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.

Other Expenses (Revenues) - net. Amounts recorded for the write-off of the remaining net book value of the Combustion Turbine Generator parts partially offset by salvage value.

Subsequent Events. Subsequent events for the Agency have been evaluated through February 21, 2020, which is the date that the financial statements were available to be issued.

Recent Accounting Pronouncements. In November 2016, GASB issued Statement of Governmental Accounting Standards (SGAS) No. 83, ***"Certain Asset Retirement Obligations"*** (GASB No. 83). An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB No. 83 establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Recognition occurs when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates the government to perform the asset retirement activities. GASB No. 83 requires the measurement of the ARO be based on the probability weighted best estimate of the current value of outlays expected to be incurred, and adjusted for general inflation or deflation at least annually. It requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. The ARO should only be remeasured when the result of the evaluation indicates a significant change in the estimated outlays. GASB No. 83 also requires disclosures of descriptive information about the nature of a government's AROs including the methods and assumptions used for the estimates of the liabilities, the estimated remaining useful life of the associated tangible capital assets, how any funding and assurance requirements are being met, and the amount of any assets restricted for payment of the AROs (if not separately displayed in the financial statements). If a liability for an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons therefor. This statement is effective for the Agency in 2019. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency does not have an ARO, this statement has no impact on the Agency.

In January 2017, GASB issued SGAS No. 84, ***"Fiduciary Activities"*** (GASB No. 84). This statement establishes standards of accounting and financial reporting for fiduciary activities. GASB No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position reports the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the fiduciary activities. The statement of changes in fiduciary net position reports the additions to and deductions from the fiduciary fund(s). This statement also provides for the recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the Agency in 2019. The Agency has assessed the financial statement impact of adopting the new statement, and the Agency has no fiduciary activities to report.

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. GASB No. 87 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. It 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. The lease liability should be measured at the present value of payments expected to be made during the lease term. As payments are made the lease liability is reduced and an outflow of resources (interest expense) is recognized for the interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The lease receivable should be measured at the present value of the lease payments expected to be received during the lease term. Any payments received are first allocated to accrued interest receivable and then to lease receivable. The deferred inflow of resources should be recognized as inflows of resources (revenue) in a systematic and rational manner over the term of the lease. The lessor should not derecognize the asset underlying the lease. A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement. The lease term is defined as the period during which a lessee has a noncancellable right to use an underlying asset, plus the following periods, if applicable. A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources (expenses) or inflows of resources (revenues), respectively, based on the payment provisions of the lease contract. This statement is effective for the Agency in 2020. The Agency is currently assessing the financial statement impact of adopting this statement.

In March 2018, GASB issued SGAS No. 88, ***"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements"*** (GASB No. 88). The primary objective of this statement is to improve the information that is disclosed in notes to financial statements related to debt, including direct borrowings and direct placements. GASB No. 88 also clarifies which liabilities should be included when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB No. 88 also requires additional information related to debt be disclosed, including unused lines of credits; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for the Agency in 2019. The Agency included additional note disclosures related to debt in Note 5.

In June 2018, GASB issued SGAS No. 89, ***"Accounting for Interest Cost Incurred before the End of a Construction Period"*** (GASB No. 89). The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The GASB has allowed that provided the criteria for regulated operations are met and the entity has elected regulatory accounting, qualifying interest cost may be capitalized as a regulatory asset. This statement is effective for the Agency in 2020. The Agency has assessed the financial statement impact of adopting the new statement and its impact is not material. The Agency will discontinue capitalizing interest costs in 2020 when GASB 89 is implemented.

In August 2018, GASB issued SGAS No. 90, ***"Majority Equity Interests"*** (GASB No. 90). The objectives of this statement are (1) to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and (2) to improve the relevance of financial statement information for certain component units. GASB No. 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method. For all other holdings of a majority equity interest, a government should report the legally separate organization as a component unit. The government should report an asset related to the majority equity interest using the equity method. This statement is effective for the Agency in 2019. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency does not have majority equity interests in any legally separate organizations, this statement has no impact on the Agency.

In May 2019, GASB issued SGAS No. 91, ***"Conduit Debt Obligations"*** (GASB No. 91). The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. A conduit debt obligation is defined as a debt instrument having all of the following characteristics: (a) there are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee; (b) the issuer and the third-party obligor are not within the same financial reporting entity; (c) the debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer; (d) the third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance; and (e) the third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments). All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so. An issuer should not recognize a conduit debt obligation as a liability, however, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. This statement is effective for the Agency in 2021. The Agency is currently assessing the financial statement impact of adopting this statement.

In November 2016, GASB issued SGAS No. 83, ***"Certain Asset Retirement Obligations"*** (GASB No. 83). An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB No. 83 establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Recognition occurs when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates the government to perform the asset retirement activities. GASB No. 83 requires the measurement of the ARO be based on the probability weighted best estimate of the current value of outlays expected to be incurred, and adjusted for general inflation or deflation at least annually. It requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. The ARO should only be remeasured when the result of the evaluation indicates a significant change in the estimated outlays. GASB No. 83 also requires disclosures of descriptive information about the nature of a government's AROs including the methods and assumptions used for the estimates of the liabilities, the estimated remaining useful life of the associated tangible capital assets, how any funding and assurance requirements are being met, and the amount of any assets restricted for payment of the AROs (if not separately displayed in the financial statements). If a liability for an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons therefor. This statement is effective for the Agency in 2019. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency does not have an ARO, this statement has no impact on the Agency.

NOTE 3. ELECTRIC UTILITY PLANT

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

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

The Agency had the following electric utility plant activity during 2018:

	Balance January 1, 2018	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, 2018
Nondepreciable electric utility plant:				
Construction work in progress	$ 1,113,812	$ 46,221,630	$ (16,686,581)	$ 30,648,861
Total nondepreciable electric utility plant	1,113,812	46,221,630	(16,686,581)	30,648,861
Depreciable electric utility plant:				
Generation	428,034,898	16,686,581	(88,832,588)	355,888,891
Less: accumulated depreciation	(209,888,743)	(15,489,297)	69,155,222	(156,222,818)
Total electric utility plant - net	$ 219,259,967	$ 47,418,914	$ (36,363,947)	$ 230,314,934

NOTE 4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments. The Agency's investments are governed by the California State and Municipal Codes and its Indenture, which allow the Agency investments to include: obligations which are unconditionally guaranteed by the U.S. Government or its agencies or instrumentalities; direct and general obligations of the State or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; LAIF; and money market funds. The Agency's investment policy also includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. To mitigate the risk, the Agency limits investments to those rated, at a minimum, "A-1" or equivalent for short-term investments and "A" or equivalent for medium-term corporate notes by a nationally recognized rating agency.

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

At December 31, 2019 and 2018, $0.5 million and $1.3 million of the Agency's cash balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 131 percent and 135 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Agency had money market funds of $7.4 million and $9.2 million which were uninsured, respectively. The Agency's money market funds are held in trust for the benefit of the Agency.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The Agency had no investments subject to this risk at December 31, 2019 and 2018.

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, 2019 and 2018.

The following schedules present credit risk by type of security held at December 31, 2019 and 2018. The credit ratings listed are from Standard & Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit	December 31,	
	Rating	2019	2018
Cash and Cash Equivalents:			
Deposits	N/A	$ 739,723	$ 1,535,529
LAIF	Not Rated	12,535,263	13,336,304
Money market funds	AAAm	7,374,875	9,165,000
Total cash and cash equivalents		$ 20,649,861	$ 24,036,833

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

	December 31, 2019	December 31, 2018
Cash and Cash Equivalents:		
Debt service funds	$ 7,374,875	$ 9,165,000
Unrestricted funds	13,274,986	14,871,833
Total cash and cash equivalents	$ 20,649,861	$ 24,036,833

NOTE 5. LONG-TERM DEBT

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

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

	December 31, 2019	December 31, 2018
2015 Cosumnes project revenue refunding bonds, fixed rates 5.00%, 2020-2030	$ 120,795,000	$ 132,500,000
Unamortized premium - net	14,486,174	17,254,455
Total long-term debt	135,281,174	149,754,455
Less: amounts due within one year	(8,710,000)	(11,705,000)
Total long-term debt - net	$ 126,571,174	$ 138,049,455

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

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

The following summarizes activity in long-term debt for the year ended December 31, 2018:

	January 1, 2018	Additions	Refunding, Payments or Amortization	December 31, 2018
Cosumnes project revenue bonds	$ 146,640,000	$ -0-	$ (14,140,000)	$ 132,500,000
Unamortized premiums - net	20,330,450	-0-	(3,075,995)	17,254,455
Total long-term debt	$ 166,970,450	$ -0-	$ (17,215,995)	$ 149,754,455

The annual debt service requirements to maturity for Bonds are as follows at December 31, 2019:

Year	Principal	Interest	Total
2020	$ 8,710,000	$ 6,039,750	$ 14,749,750
2021	10,900,000	5,604,250	16,504,250
2022	11,450,000	5,059,250	16,509,250
2023	1,845,000	4,486,750	6,331,750
2024	13,115,000	4,394,500	17,509,500
2025-2029 (combined)	69,240,000	11,848,000	81,088,000
2030	5,535,000	276,750	5,811,750
Total	$ 120,795,000	$ 37,709,250	$ 158,504,250

Proceeds from the 2015 Series Bonds were used to refund previously issued 2006 Bonds that provided financing for the Project. The 2015 Series Bonds, payable through 2030, are secured solely by a pledge of and lien on the trust estate under the Indenture which includes revenues from the PPA and investment income from funds established under the Indenture. The Agency has pledged future net revenues to repay $120.8 million for 2015 Series Bonds at December 31, 2019 and $132.5 million at December 31, 2018. Annual principal and interest payments on the 2015 Series Bonds required approximately 11.7 percent and 13.8 percent of the Agency's net revenues for 2019 and 2018, respectively. The total principal and interest remaining to be paid on the 2015 Series Bonds is $158.5 million and $176.8 million at December 31, 2019 and 2018, respectively. Debt service payments are made semi-annually on January 1 and July 1. Principal and interest paid was $18.3 million and $21.3 million for 2019 and 2018, respectively. Total gross revenues were $157.4 million and $154.4 million for 2019 and 2018, respectively.

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

Terms of Debt Indenture. The debt indenture contains a provision that in an event of default, the holders of the majority of the debt outstanding are entitled to declare the outstanding amounts due immediately.

NOTE 6. INSURANCE PROGRAMS

The Agency purchases commercial property and casualty insurance coverage at levels consistent with coverages on similar facilities. The policies' deductible dollar amounts vary depending on the type of coverage. Excess liability coverage for most claims against the Agency is $100.0 million and property is covered under an all-risk policy to replacement value. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims, and $1.0 million for property claims. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7. FAIR VALUE MEASUREMENTS

SGAS No. 72, ***"Fair Value Measurement and Application"*** (GASB No. 72), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Agency utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB No. 72 are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the Agency's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are disclosed below. All of the Agency's investments are valued using Level 2 inputs.

- LAIF - uses the fair value of the pool's share price multiplied by the number of shares held. This pool can include a variety of investments such as U.S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, and other investments. The fair values of the securities are generally based on quoted and/or observable market prices.

The following table identifies the level within the fair value hierarchy that the Agency's financial assets and are accounted for on a recurring basis as of December 31, 2019 and 2018, respectively. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures (Level 2)

	December 31,	
	2019	2018
Investments reported as Cash and Cash Equivalents:		
LAIF	$ 12,535,263	$ 13,336,304
Total fair value investments	$ 12,535,263	$ 13,336,304

NOTE 8. COMMITMENTS

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

Operation and Maintenance Agreement. Ethos serves as the Project Operator and is responsible for the primary operation, repair, overhaul and maintenance services of the Project. The Agency pays for such services according to the terms of this agreement and provides, at no cost to Ethos, fuel, water, and power not already provided for in other agreements. At December 31, 2019, the minimum annual commitment to Ethos under this agreement was approximately $4.0 million.

Ground Lease Agreement. The Agency leases land from SMUD under the Ground Lease Agreement expiring December 2040. The minimum lease payment increases by three percent annually and the rate is renegotiated based on the average Consumer Price Index every five years. At December 31, 2019, the Agency's annual minimum lease payment was approximately $0.2 million.

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

NOTE 9. CONTINGENCIES

General Contingencies. In the normal operation of business, the Agency is party to various claims, legal actions and complaints. Management and the Agency's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the Agency.