

# **Sacramento Municipal Utility District Financing Authority**



**Financial Statements**  
and Independent Auditors' Report  
December 31, 2022 and 2021

**SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY**  
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## Independent Auditors' Report

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

### Opinion

We have audited the accompanying financial statements of the Sacramento Municipal Utility District Financing Authority, a component unit of the Sacramento Municipal Utility District, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Sacramento Municipal Utility District Financing 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 the Sacramento Municipal Utility District Financing Authority as of December 31, 2022 and 2021, 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 the Sacramento Municipal Utility District Financing 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.

### Emphasis of Matter

As discussed in Note 3, the Sacramento Municipal Utility District Financing Authority adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to the prior period presented. Our opinion is not modified with respect to this matter.

### 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 the Sacramento Municipal Utility District Financing 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 the Sacramento Municipal Utility District Financing 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 the Sacramento Municipal Utility District Financing 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  
February 24, 2023

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

**Using this Financial Report**

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

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

**Overview of the Financial Statements**

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2022 and 2021. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

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

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

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

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

**Nature of Operations**

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

On October 26, 2021 the Agency entered into Assignment and Assumption Agreements (the Agreements) with the Central Valley Financing Authority (CVFA), Sacramento Cogeneration Authority (SCA), and Sacramento Power Authority (SPA). The Agreements transfer the assets and obligations, including ownership of the Carson Power Plant (Carson), Procter and Gamble Power Plant (Procter and Gamble), Campbell Power Plant (Campbell) and McClellan Power Plant (McClellan), (assigned Power Plants), to the Agency as of November 1, 2021.

Carson which began commercial operations in 1995, is comprised of a 68 MW natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. Procter and Gamble which began commercial operations in 1997, is comprised of a 145 MW natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. Campbell which began commercial operations in 1997, is a 183 MW natural gas-fired combined-cycle cogeneration plant consisting of a combustion turbine generator (CTG) and a steam turbine generator (STG). McClellan is a 72 MW simple cycle Combustion Turbine and has been operating since 1986.

SMUD purchases all of the electricity produced by the Project and the assigned Power Plants pursuant to the Power Purchase Agreements (PPA) between SMUD and the Agency and the assigned Power Plants. 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 2022, the Agency's plant operator, Ethos Energy Power Plant Services, LLC (Ethos), continued to perform quarterly offline gas turbine water washes and inspections as part of standard maintenance protocols at the Project and at the assigned Power Plants. These outages and inspections have been an integral part of the Project's and the assigned Power Plants' successful performances which include ratings from the Institute of Electrical and Electronics Engineers (IEEE) for availability and reliability.

The Project obtained an IEEE Availability rating of 59.90 percent. The abnormally low rating was due to a fault in the stator ground to the STG discovered during the plant's performance testing conducted after the double major outage on June 5, 2022. The stator failure put the plant as unavailable through August 3; however, the plant was able to be configured to run in a 2x0 configuration (without the STG) during the major heat wave event in early September. The STG remains out of service as of December 31, 2022. The Agency obtained an IEEE Reliability rating of 100 percent and an overall capacity factor of 22.70 percent. The plant completed CTG #3 major overhaul as well as major capital project upgrades to the Heat Recovery Steam Generators #2 and #3.

Carson obtained an IEEE Availability rating of 90.52 percent, an IEEE Reliability rating of 99.94 percent, and a successful call-up ratio for the simple cycle unit of 100 percent. The plant completed CTG (engine 185-117) major overhaul of the Hot Gas Path Section.

Procter and Gamble obtained an IEEE Availability rating of 94.29 percent, an IEEE Reliability rating of 99.86 percent and a successful call-up ratio for the simple cycle unit of 100 percent. The plant completed Chiller 1A replacement.

A Lease Engine Program extension of 3 years was negotiated with General Electric (GE), at no cost to the Agency, due to previous engine repair delays at GE's repair shop. The Lease Engine Program covers engines at Carson and Procter and Gamble.

Campbell obtained an IEEE Availability rating of 99.99 percent, an IEEE Reliability rating of 99.99 percent and a unit capacity factor of 62.87 percent.

McClellan obtained an IEEE Availability rating of 95.39 percent, an IEEE Reliability rating of 99.31 percent and an overall capacity factor of 0.56 percent.

## **FINANCIAL POSITION**

The following table summarizes the financial position as of December 31 (in thousands).

### CONDENSED STATEMENT OF NET POSITION

	<u>2022</u>	<u>2021 *</u>	<u>2020</u>
Assets			
Electric utility plant - net	\$ 309,606	\$ 309,574	\$ 207,058
Current assets	109,011	133,673	60,107
Noncurrent assets	682	789	892
Total assets	<u>419,299</u>	<u>444,036</u>	<u>268,057</u>
Deferred outflows of resources	<u>3,258</u>	<u>3,268</u>	<u>1,829</u>
Total assets and deferred outflows of resources	<u>\$ 422,557</u>	<u>\$ 447,304</u>	<u>\$ 269,886</u>
Liabilities			
Long-term debt - net	\$ 95,553	\$ 99,421	\$ 113,152
Current liabilities	44,332	49,507	36,819
Noncurrent liabilities	15,215	14,760	-0-
Total liabilities	<u>155,100</u>	<u>163,688</u>	<u>149,971</u>
Net position			
Net investment in capital assets	207,660	194,185	84,835
Restricted	2,264	5,725	5,450
Unrestricted	57,533	83,706	29,630
Total net position	<u>267,457</u>	<u>283,616</u>	<u>119,915</u>
Total liabilities and net position	<u>\$ 422,557</u>	<u>\$ 447,304</u>	<u>\$ 269,886</u>

\* Includes the assets and obligations of CVFA, SCA and SPA as a result of the transfer of operations on November 1, 2021 and restated in 2022 due to the implementation of GASB 87, Leases.

## **TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES**

Total assets in 2022 decreased \$24.7 million or 5.6% over 2021, primarily due to the following:

- A decrease of \$24.9 million in unrestricted cash and cash equivalents primarily due to a \$35.0 million distribution to Member.
- A decrease of \$3.7 million in restricted cash is primarily due to a lower reserve for long-term debt due within one year.
- An increase of \$3.8 million in power sales to Member receivable is primarily due to the fuel portion of the PPA billings in December.
- A decrease of \$2.0 million in materials and supplies primarily due to the issuance of inventory used for the CTG #3 major overhaul.
- An increase of \$2.2 million in prepayments primarily due to advance payments for the CTG #2 major overhaul at the Project and the CTG overhaul at Campbell scheduled to be performed in 2023.

Total assets in 2021 increased \$176.0 million or 65.6% over 2020, primarily due to the transfer of operations and ownership of the assigned Power Plants on November 1, 2021. The Agency recognized \$111.3 million in electric utility plant - net, \$38.0 million in unrestricted cash and cash equivalents, \$17.3 million in power sales to Member receivables, \$11.3 million in materials and supplies, and \$4.0 million in other assets as the result of the transfer (see Note 4).

## **TOTAL LIABILITIES & NET POSITION**

Total liabilities in 2022 decreased \$8.6 million or 5.2% over 2021, primarily due to the following:

- A decrease of \$13.5 million in long-term debt primarily due to a \$9.6 million reduction to portion of long-term debt due within one year.
- An increase of \$10.9 million in accounts payable primarily due to a \$8.8 million increase in capital expenses and a \$2.0 million increase in reimbursable expenses due to Ethos at December 31, 2022.
- A decrease of \$6.2 million in payable due to Member primarily due to the fuel portion of the PPA billings in December.

Net position in 2022 decreased \$16.2 million or 5.7% over 2021, primarily due to a \$35.0 million distribution to Member offset by a \$13.5 million increase to net investment in capital assets portion of net assets resulting from a reduction in long-term debt.

Total liabilities in 2021 increased \$13.7 million or 9.1% over 2020, primarily due to the transfer of operations and ownership of the assigned Power Plants and the implementation of GASB 87, Leases (GASB 87). The Agency recognized \$3.3 million in accounts payable, \$8.5 million in payable due to Member, and \$8.6 million in accrued decommissioning as a result of the transfer (see Note 4). The Agency recognized \$6.1 million lease liability and accrued interest in 2021 as a result of the implementation of GASB 87.

Net position in 2021 increased \$163.7 million or 136.5% over 2020, primarily due to the transfer of operations of the assigned Power Plants in 2021.

## **RESULTS OF OPERATIONS**

The following table summarizes the operating results for the years ended December 31 (in thousands).

### CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2022	2021 *	2020
Operating revenues	\$ 115,823	\$ 143,050	\$ 141,874
Operating expenses	(94,436)	(137,234)	(137,415)
Operating income	21,387	5,816	4,459
Interest income	579	51	179
Interest on debt	(3,051)	(3,386)	(3,669)
Lease interest	(74)	(78)	-0-
Other income (expense)	-0-	-0-	(1)
Change in net position			
before distributions and special item	18,841	2,403	968
Distributions to Member	(35,000)	-0-	-0-
Special item	-0-	161,298	-0-
Change in net position	(16,159)	163,701	968
Net position - beginning of year	283,616	119,915	118,947
Net position - end of year	<u>\$ 267,457</u>	<u>\$ 283,616</u>	<u>\$ 119,915</u>

\* Includes the assets and obligations of CVFA, SCA and SPA as a result of the transfer of operations on November 1, 2021 and restated in 2022 due to the implementation of GASB 87, Leases.

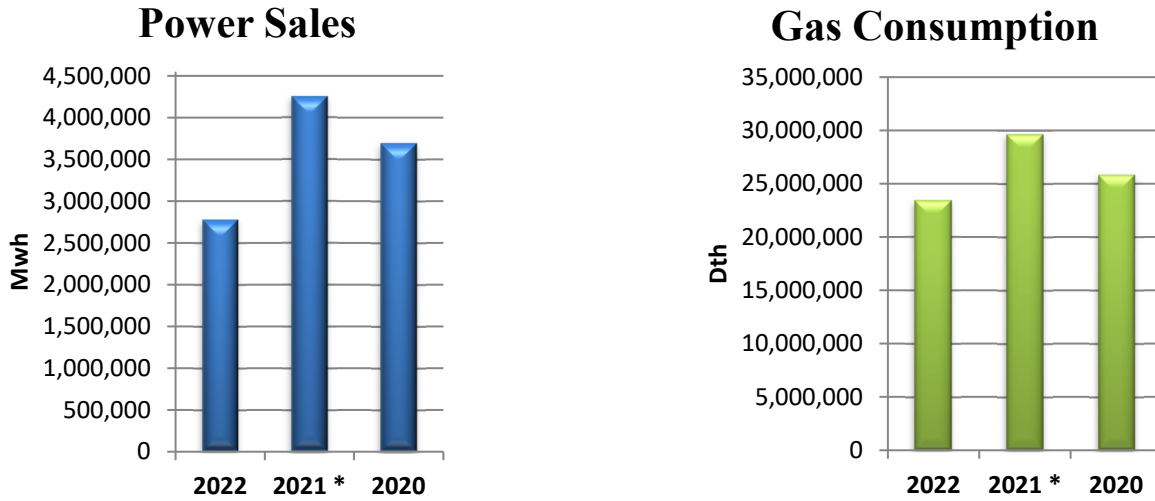


**OPERATING REVENUES**

Total operating revenues were \$115.8 million for 2022, a decrease of \$27.2 million or 19.0 percent over 2021. The power megawatt hour (MWh) sales decreased 34.6 percent and gas dekatherm (Dth) consumption decreased 21.1 percent compared to 2021. 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 and capital costs. In 2022, less revenue was needed due to lower fuel usage and higher gas sales by Member as a result of the Project’s STG unplanned outage, offset by higher operator reimbursable costs, capital expenses, overhaul costs and other operator costs.

Total operating revenues were \$143.1 million for 2021, an increase of \$1.2 million or 1.0 percent over 2020. The power MWh sales increased 15 percent and gas Dth consumption increased 14.8 percent. The increase in operating revenues is primarily due to the transfer of operations and ownership of the assigned Power Plants on November 1, 2021. The Agency recognized \$1.8 million in steam sales and digester gas revenues as a result of the transfer of operations.

The following charts show power sales and gas consumption in 2022, 2021, and 2020.



\* Includes Power Sales and Gas Consumption of CVFA, SCA and SPA for November and December as a result of the transfer of operations on November 1.

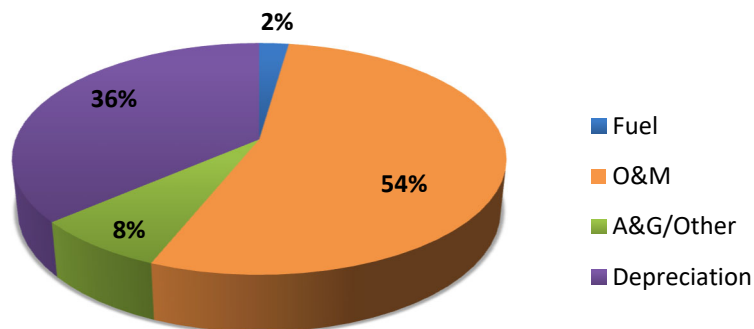
## **OPERATING EXPENSES**

Total operating expenses were \$94.4 million for 2022, a decrease of \$42.8 million or 31.2 percent over 2021, primarily due to the following:

- A decrease of \$96.5 million in fuel expense primarily due to the fault in the stator ground to the STG at the Project resulting from the STG being offline for most of year.
- An increase of \$19.3 million in operations expense, \$13.4 million in maintenance expense, \$3.6 million in administrative and general expense, and \$17.3 million in depreciation and amortization expenses primarily due to the Agency operating the assigned Power Plants for 12 months in 2022 compared to 2 months in 2021. The increase in maintenance expense is due to the major overhaul of the STG and CTG #3 at the Project.

The following chart illustrates 2022 operating expenses by expense classification and percentage of the total.

### **Operating Expenses by Category**



Total operating expenses were \$137.2 million for 2021, a decrease of \$0.2 million or 0.13 percent over 2020, primarily due to the following:

- A decrease of \$6.6 million in fuel expense due to lower fuel prices of \$21.8 million, offset by higher fuel volume of \$15.2 million. The increase in volume is a combination of the Agency's and the assigned Power Plants.
- An increase of \$3.7 million in operations expense primarily due to the higher operator reimbursables as a result of the transfer of operations.
- An increase of \$1.5 million in depreciation and amortization expense primarily due to the unitization of the Zero Liquid Discharge Upgrade at the Project and the implementation of GASB 87.

### **Requests for Information**

For more information about the Sacramento Municipal Utility District Financing Authority, visit our website at [www.smud.org](http://www.smud.org) or contact us at [customerservices@smud.org](mailto:customerservices@smud.org).

**SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY**  
**STATEMENTS OF NET POSITION**

	December 31,	
	2022	2021 (restated)
<b>ASSETS</b>		
<b>ELECTRIC UTILITY PLANT</b>		
Plant in service	\$ 957,039,131	\$ 946,971,480
Lease assets	6,341,350	6,341,350
Less accumulated depreciation and amortization	(678,033,514)	(645,557,842)
Plant in service - net	285,346,967	307,754,988
Construction work in progress	24,258,810	1,818,920
Total electric utility plant - net	309,605,777	309,573,908
<b>RESTRICTED ASSETS</b>		
Debt service funds	4,507,714	8,254,654
Less current portion	(4,507,714)	(8,254,654)
Total restricted assets	-0-	-0-
<b>CURRENT ASSETS</b>		
Cash and cash equivalents:		
Unrestricted cash and cash equivalents	36,453,677	61,375,152
Restricted cash and cash equivalents	4,507,714	8,254,654
Receivables:		
Power sales to Member	42,391,487	38,597,316
Steam sales	1,334,540	1,550,821
Accrued interest and other	214,490	19,614
Materials and supplies	17,483,658	19,489,211
Prepayments	6,520,884	4,281,645
Regulatory costs recovered within one year	104,416	104,416
Total current assets	109,010,866	133,672,829
<b>NONCURRENT ASSETS</b>		
Regulatory costs for future recovery	678,702	783,118
Other	3,693	6,328
Total noncurrent assets	682,395	789,446
TOTAL ASSETS	419,299,038	444,036,183
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized bond losses	1,191,631	1,492,952
Deferred asset retirement obligation outflow	2,066,481	1,774,505
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,258,112	3,267,457
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 422,557,150	\$ 447,303,640

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY  
STATEMENTS OF NET POSITION**

	December 31,	
	2022	2021 (restated)
<b>LIABILITIES AND NET POSITION</b>		
<b>LONG-TERM DEBT - net</b>	\$ 95,553,307	\$ 99,420,892
<b>CURRENT LIABILITIES</b>		
Accounts payable	20,255,970	9,392,167
Lease liability due within one year	280,026	271,788
Payable due to Member	19,632,858	25,786,053
Long-term debt due within one year	1,845,000	11,450,000
Accrued interest on debt	2,243,375	2,529,625
Accrued interest on leases	74,259	77,480
Total current liabilities	44,331,488	49,507,113
<b>NONCURRENT LIABILITIES</b>		
Accrued decommissioning	9,756,365	9,020,763
Lease liability	5,458,892	5,738,918
Total noncurrent liabilities	15,215,257	14,759,681
<b>TOTAL LIABILITIES</b>	155,100,052	163,687,686
<b>NET POSITION</b>		
Net investment in capital assets	207,660,183	194,185,262
Restricted	2,264,339	5,725,029
Unrestricted	57,532,576	83,705,663
<b>TOTAL NET POSITION</b>	267,457,098	283,615,954
<b>COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)</b>		
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 422,557,150	\$ 447,303,640

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,	
	2022	2021 (restated)
<b>OPERATING REVENUES</b>		
Power sales to Member	\$ 105,955,881	\$ 141,244,680
Gas sales to Member	343,221	435,925
Steam sales	8,665,424	1,334,572
Other	858,893	34,912
Total operating revenues	115,823,419	143,050,089
<b>OPERATING EXPENSES</b>		
Fuel	2,142,506	98,592,034
Operations	35,225,130	15,921,191
Maintenance	15,606,915	2,248,540
Administrative and general	7,031,906	3,383,959
Depreciation and amortization	34,324,718	16,984,094
Regulatory amounts collected in rates	104,416	104,416
Total operating expenses	94,435,591	137,234,234
<b>OPERATING INCOME</b>	21,387,828	5,815,855
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	579,311	50,971
Interest on debt	(3,051,736)	(3,386,296)
Lease interest	(74,259)	(77,480)
Total non-operating revenues (expenses)	(2,546,684)	(3,412,805)
<b>CHANGE IN NET POSITION BEFORE DISTRIBUTIONS AND SPECIAL ITEM</b>		
Distributions to Member	(35,000,000)	-0-
<b>SPECIAL ITEM</b>		
Net position from transferred operations (Note 4)	-0-	161,298,200
Total special item	-0-	161,298,200
CHANGE IN NET POSITION	(16,158,856)	163,701,250
NET POSITION - BEGINNING OF YEAR	283,615,954	119,914,704
NET POSITION - END OF YEAR	\$ 267,457,098	\$ 283,615,954

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,	
	2022	2021 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from power sales to Member	\$ 102,504,931	\$ 146,864,388
Receipts from steam sales and other	9,740,598	887,893
Payments to Member	(18,822,279)	(105,755,862)
Payments to vendors	(45,060,738)	(16,460,345)
Net cash provided by operating activities	48,362,512	25,536,074
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Distribution to Member	(35,000,000)	-0-
Cash received from transfer of operations	-0-	37,998,934
Net cash provided by (used in) noncapital financing activities	(35,000,000)	37,998,934
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Construction expenditures	(25,556,844)	(992,552)
Repayment of long-term debt	(11,450,000)	(10,900,000)
Interest payments on long-term debt	(5,059,250)	(5,604,250)
Lease payments	(349,268)	(330,644)
Net cash used in capital and related financing activities	(42,415,362)	(17,827,446)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	384,435	56,472
Net cash provided by investing activities	384,435	56,472
Net increase (decrease) in cash and cash equivalents	(28,668,415)	45,764,034
Cash and cash equivalents - beginning of the year	69,629,806	23,865,772
Cash and cash equivalents - end of the year	\$ 40,961,391	\$ 69,629,806
<b>CASH AND CASH EQUIVALENTS INCLUDED IN:</b>		
Unrestricted cash and cash equivalents	\$ 36,453,677	\$ 61,375,152
Restricted cash and cash equivalents	4,507,714	8,254,654
Cash and cash equivalents - end of the year	\$ 40,961,391	\$ 69,629,806

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,	
	2022	2021 (restated)
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 21,387,828	\$ 5,815,855
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	34,324,718	16,984,094
Regulatory amortization	104,416	104,416
Asset retirement obligation amortization	443,626	57,783
Changes in operating assets and liabilities:		
Receivables	(3,577,890)	4,702,192
Other assets	(231,051)	(1,467,039)
Payables and accruals	(4,089,135)	(661,227)
Net cash provided by operating activities	\$ 48,362,512	\$ 25,536,074
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL</b>		
<b>AND RELATED FINANCING ACTIVITIES</b>		
Net amortization of debt related (expenses) and premiums	\$ 1,721,264	\$ 1,945,454
Net plant received from transfer of operations	-0-	111,271,467
Asset retirement obligation acquired from transfer of operations	-0-	8,633,060
Construction expenditures included in accounts payable	9,707,161	894,410

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

**SACRAMENTO MUNICIPAL UTILITY DISTRICT FINANCING AUTHORITY**  
**NOTES TO 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. 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 (MW) natural gas-fired combined cycle generation plant. The Project is situated on approximately 38 acres of land adjacent to SMUD's decommissioned nuclear power plant. The land is owned by SMUD and leased to the Agency.

On October 26, 2021, the Agency entered into Assignment and Assumption Agreements (the Agreements) with the Central Valley Financing Authority (CVFA), Sacramento Cogeneration Authority (SCA), and Sacramento Power Authority (SPA). The Agreements transfer the assets and obligations, including ownership of the Carson Power Plant (Carson), Procter and Gamble Power Plant (Procter and Gamble), Campbell Power Plant (Campbell) and McClellan Power Plant (McClellan), (assigned Power Plants), to the Agency as of November 1, 2021 (see Note 4).

Carson, previously owned and operated by CVFA, a JPA formed by SMUD and the Sacramento Regional County Sanitation District (SRCSD), began commercial operations in 1995 and is comprised of a 68 MW natural gas-fired combined cycle cogeneration facility and a 42 MW natural gas-fired simple cycle peaking plant. Carson is situated on approximately ten acres of land adjacent to the SRCSD sewage treatment plant. The land is owned by SRCSD and leased to the Agency.

Procter and Gamble, previously owned and operated by SCA, a JPA formed by SMUD and the Agency, began commercial operations in 1997 and is comprised of a 145 MW natural gas-fired combined cycle plant and a 50 MW natural gas-fired simple cycle peaking plant which was subsequently added and began commercial operations in 2001. Procter and Gamble is situated on approximately eight acres of land owned by the Agency, which is adjacent to The Procter & Gamble Manufacturing Company (P&G) plant in Sacramento.

Campbell, previously owned and operated by SPA, a JPA formed by SMUD and the Agency, began commercial operations in 1997 and is a 183 MW natural gas-fired combined-cycle cogeneration plant consisting of a combustion turbine generator and a steam turbine generator. Campbell is situated on approximately six acres of land which is owned by SMUD and leased to the Agency.

McClellan, previously owned and operated by SPA, is a 72 MW simple cycle combustion turbine and has been operating since 1986. McClellan is located on the United States Air Force property at the former McClellan Air Force Base in Sacramento. The land is leased by SMUD and subleased to the Agency.

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

Pursuant to the Power Purchase Agreements (PPA) with SMUD and the Agency, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project and assigned Power Plants. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, water and other costs paid by SMUD on the Agency's behalf. The Agency paid SMUD \$11.8 million in 2022 and \$101.4 million in 2021.



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

The Agency sells steam to P&G pursuant to a Steam Sales Agreement, which was assigned to SCA from SMUD.

SMUD is entitled to all rights and property of the Project and the assigned Power Plants in the event of termination of the JPA agreement. Neither MID nor SRCSD has any 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 because of the extent of its operational and financial relationships with SMUD.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**Leases.** The Agency implemented Statement of Governmental Accounting Standards (SGAS) No. 87, “*Leases*” (GASB No. 87) in 2022 (see Note 3). Leases are contracts that convey control of the right to use another entity’s nonfinancial asset as specified for a period of time in an exchange or exchange-like transaction without the transfer of ownership of the asset. The lease term is the period of time where there is a noncancellable right to use the underlying asset. The Agency only has lessee contracts.

For lessee contracts, lease assets and liabilities are reported at present value using the Agency’s incremental borrowing rate in the Statements of Net Position. The lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. The amortization of the discount for lessee contracts is recorded as Accrued interest on leases in the Statements of Net Position with the offset to Lease interest expense in the Statements of Revenues, Expenses and Changes in Net Position.

**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 and assigned Power Plants.

**Steam Sales Receivable.** The Agency records a steam sales receivable for amounts due from Procter & Gamble Manufacturing Company for the sale and delivery of steam.

**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.

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

**Regulatory Deferrals.** As a regulated entity, the Agency’s financial statements are prepared in accordance with GASB Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board 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.

**Deferred Outflow of Resources.** A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

**Gains and Losses on Bond.** 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.

**Asset Retirement Obligation (ARO).** Under SGAS No. 83, "*Certain Asset Retirement Obligations*," the Agency has a legal obligation to decommission the Carson facility. The Agency records the ARO as Accrued decommissioning and a corresponding Deferred asset retirement obligation outflows in the Statements of Net Position. The Deferred asset retirement obligation outflows is amortized over the remaining useful life of the Carson facility and included as Operating Expenses in the Statements of Revenues, Expenses and Changes in Net Position (see Note 8).

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

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

**Operating Revenues.** Power sales to Member are recorded as revenues when the electricity is delivered. Gas sales to Member, Steam sales and rent income on subleased property are recorded when earned.

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

**Distributions to Member.** Amounts paid to SMUD from surplus funds are recorded as Distributions to Member.

**Special Item.** The transferred net positions of the assigned Power Plants are reported as a special item.

**Subsequent Events.** Subsequent events for the Agency have been evaluated through February 24, 2023, which is the date that the financial statements were available to be issued.

**Reclassification.** Certain amounts in the 2021 Financial Statements have been reclassified in order to conform to the 2022 presentation.

**Recent Accounting Pronouncements, adopted.** In April 2022, GASB issued SGAS No. 99, "*Omnibus 2022*" (GASB No. 99). This statement addresses a variety of topics and is effective for the Agency in 2022, 2023, or 2024 depending on the requirement. The Agency incorporated the clarifications related to leases contained in GASB No. 99 that were effective in early 2023, during its implementation of GASB No. 87 (see Note 3). The Agency is currently assessing the financial impact of adopting the remaining topics in this statement that are effective in 2023 and 2024.

**Recent Accounting Pronouncements, not yet adopted.** 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 2022, GASB issued SGAS No. 100, *“Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62”* (GASB No. 100), to enhance accounting and financial reporting requirements for accounting changes and error corrections. The statement defines accounting changes and sets forth requirements for reporting changes and error corrections in the financial statements. In addition, the statement contains requirements for disclosure in notes to financial statements of information about accounting changes and error corrections. Furthermore, for periods that are earlier than those included in the financial statements, information presented in required supplementary information and supplementary information should be restated for error corrections, but not for changes in accounting principles. This statement is effective for the Agency in 2024. The Agency is currently assessing the financial statement impact of adopting this statement.

### **NOTE 3. ACCOUNTING CHANGE**

In June 2017, GASB issued GASB No. 87, 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. The Agency implemented GASB No. 87 in 2022, retroactive to the beginning of 2021. The Agency has assessed whether its leases meet the requirements of GASB No. 87. The Agency only has lessee contracts. The implementation impacted the Statements of Net Position when the liabilities and assets were recorded. The implementation also impacted the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows as lease expense was also recorded. Net Position was reduced by \$0.2 million for 2021 due to the restatement.

The Agency has restated amounts of the affected balances within the financial statements for the period ended December 31, 2021 as follows:

#### STATEMENTS OF NET POSITION

	<u>December 31,</u>	
	<u>2021 (restated)</u>	<u>2021</u>
Electric Utility Plant		
Lease assets	\$ 6,341,350	\$ -0-
Less accumulated depreciation and amortization	(645,557,842)	(645,198,955)
Current Liabilities		
Lease liability due within one year	271,788	-0-
Accrued interest on leases	77,480	-0-
Noncurrent Liabilities		
Lease liability	5,738,918	-0-
Net Position		
Net investment in capital assets	194,185,262	194,213,505
Unrestricted	83,705,663	83,783,143

#### STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<u>Year Ended December 31,</u>	
	<u>2021 (restated)</u>	<u>2021</u>
Operating Expenses		
Operations	\$ 15,921,191	\$ 16,251,835
Depreciation and amortization	16,984,094	16,625,207
Operating Income	5,815,855	5,844,098
Non-Operating Revenues (Expenses)		
Lease interest	(77,480)	-0-
Change in Net Position Before Distributions and Special Item	2,403,050	2,508,773
Change in Net Position	163,701,250	163,806,973
Net Position - End of Year	283,615,954	283,721,677

#### STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2021 (restated)</u>	<u>2021</u>
Cash Flows from Operating Activities		
Payments to vendors	\$ (16,690,989)	\$ (17,021,633)
Cash Flows from Capital and Related Financing Activities		
Lease payments	(330,644)	-0-
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	5,815,855	5,844,098
Depreciation and amortization	16,984,094	16,625,207

#### NOTE 4. ASSIGNMENT AND ASSUMPTION AGREEMENTS

The Agreements between the Agency and CVFA, SCA and SPA, transferred the operation and ownership of the assigned Power Plants to the Agency for operational and administrative efficiencies. On November 1, 2021, CVFA, SCA and SPA transferred assets and obligations to the Agency and ceased operations. The transfer meets the definition of a transfer of operations under GASB Statement No. 69, *“Government Combinations and Disposals of Government Operations”* (GASB No. 69). In accordance with GASB No. 69, the Agency reported 2021 operations of the assigned Power Plants as of November 1, 2021. The calendar year of 2020 has not been restated and therefore only includes the Agency’s information. As a result of the transfer, the Agency recognized the following assets, liabilities, and net position:

	<u>CVFA</u>	<u>SCA</u>	<u>SPA</u>	<u>Total</u>
<b>Transferred Assets</b>				
Electric utility plant - net				
Plant in service - net	\$ 27,114,106	\$ 44,021,749	\$ 40,060,087	\$ 111,195,942
Construction in process	<u>13,008</u>	<u>-0-</u>	<u>62,517</u>	<u>75,525</u>
Total electric utility plant - net	27,127,114	44,021,749	40,122,604	111,271,467
<b>Current assets</b>				
Unrestricted cash and cash equivalents	5,267,217	21,015,704	11,716,013	37,998,934
Receivables:				
Power sales to Member	3,937,967	8,771,735	4,544,597	17,254,299
Steam sales	447,292	621,938	-0-	1,069,230
Accrued interest and other	594	2,945	1,461	5,000
Material and supplies	2,346,458	4,282,052	4,631,954	11,260,464
Prepayments	<u>422,946</u>	<u>618,053</u>	<u>411,288</u>	<u>1,452,287</u>
Total current assets	12,422,474	35,312,427	21,305,313	69,040,214
<b>Noncurrent assets</b>				
Other	<u>1,406</u>	<u>703</u>	<u>1,055</u>	<u>3,164</u>
Total noncurrent assets	1,406	703	1,055	3,164
<b>Deferred outflows of resources</b>				
Deferred ARO outflow	<u>1,444,585</u>	<u>-0-</u>	<u>-0-</u>	<u>1,444,585</u>
Total deferred outflows of resources	1,444,585	-0-	-0-	1,444,585
 Total Transferred Assets	 <u>\$ 40,995,579</u>	 <u>\$ 79,334,879</u>	 <u>\$ 61,428,972</u>	 <u>\$ 181,759,430</u>
<b>Transferred Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 1,625,640	\$ 713,301	\$ 1,010,217	\$ 3,349,158
Payable due to Member	1,623,164	3,613,961	3,232,421	8,469,546
Other liabilities	<u>9,466</u>	<u>-0-</u>	<u>-0-</u>	<u>9,466</u>
Total current liabilities	3,258,270	4,327,262	4,242,638	11,828,170
<b>Noncurrent liabilities</b>				
Accrued decommissioning	<u>8,633,060</u>	<u>-0-</u>	<u>-0-</u>	<u>8,633,060</u>
Total noncurrent liabilities	8,633,060	-0-	-0-	8,633,060
 Total Transferred Liabilities	 <u>\$ 11,891,330</u>	 <u>\$ 4,327,262</u>	 <u>\$ 4,242,638</u>	 <u>\$ 20,461,230</u>
 Net Position of Transferred Operations	 <u>\$ 29,104,249</u>	 <u>\$ 75,007,617</u>	 <u>\$ 57,186,334</u>	 <u>\$ 161,298,200</u>

## NOTE 5. ELECTRIC UTILITY PLANT AND RELATED OPERATING AGREEMENTS

The Agency had the following electric utility plant activity during 2022:

	Balance January 1, <u>2022</u>	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, <u>2022</u>
Nondepreciable electric utility plant:				
Construction work in progress	\$ 1,818,920	\$ 34,356,587	\$ (11,916,697)	\$ 24,258,810
Land	<u>772,000</u>	<u>-0-</u>	<u>-0-</u>	<u>772,000</u>
Total nondepreciable electric utility plant	2,590,920	34,356,587	(11,916,697)	25,030,810
Depreciable electric utility plant:				
Generation	946,199,480	11,916,697	(1,849,046)	956,267,131
Lease assets - Land	6,341,350	-0-	-0-	6,341,350
Less: accumulated depreciation and amortization	<u>(645,557,842)</u>	<u>(34,324,718)</u>	<u>1,849,046</u>	<u>(678,033,514)</u>
Total electric utility plant - net	<u>\$ 309,573,908</u>	<u>\$ 11,948,566</u>	<u>\$ (11,916,697)</u>	<u>\$ 309,605,777</u>

The Agency had the following electric utility plant activity during 2021:

	Balance January 1, <u>2021</u>	Additions	Adjustments/ Transfers/ Disposals	Balance December 31, <u>2021 (restated)</u>
Nondepreciable electric utility plant:				
Construction work in progress	\$ -0-	\$ 1,962,487	\$ (143,567)	\$ 1,818,920
Land	<u>-0-</u>	<u>-0-</u>	<u>772,000</u>	<u>772,000</u>
Total nondepreciable electric utility plant	-0-	1,962,487	628,433	2,590,920
Depreciable electric utility plant:				
Generation	390,507,984	143,567	555,547,929	946,199,480
Lease assets - Land	-0-	6,341,350	-0-	6,341,350
Less: accumulated depreciation and amortization	<u>(183,449,762)</u>	<u>(16,984,094)</u>	<u>(445,123,986)</u>	<u>(645,557,842)</u>
Total electric utility plant - net	<u>\$ 207,058,222</u>	<u>\$ (8,536,690)</u>	<u>\$ 111,052,376</u>	<u>\$ 309,573,908</u>

The Agency leases land from SMUD and SRCSD for the Project and assigned Power Plants. Lease terms range from 30 to 35 years including options to extend the lease term after completion of the initial contracted term. The likelihood that the renewal options will be exercised has been evaluated and it has been determined that the lease agreements will be renewed with reasonable certainty. The agreements allow for periodic increases to the lease payments. The interest rates range between 2.0 percent to 2.1 percent based on the AAA Muni Curve with the number of years to maturity that corresponds to the lease term, plus an additional credit spread to account for a different credit rating and other factors. As of December 31, 2022, and December 31, 2021, assets recorded under leases were \$6.3 million and accumulated depreciation associated with the leases was \$0.7 million and \$0.4 million, respectively. The Agency recognized amortization expense of \$0.4 million for both 2022 and 2021, which are included in Depreciation and amortization on the Statements of Revenues, Expenses and Changes in Net Position. There were no payments recorded in the current period that were not included in the measurement of the lease liability and there were no lease impairments as of December 31, 2022 and 2021.

The following table summarizes the lease principal and interest payments as of December 31, 2022:

Year	Principal	Interest	Total
2023	\$ 280,026	\$ 71,206	\$ 351,232
2024	288,525	67,774	356,299
2025	297,290	64,226	361,516
2026	306,331	60,558	366,889
2027	315,657	56,767	372,424
2028-2032 (combined)	1,564,126	224,074	1,788,200
2033-2037 (combined)	1,587,700	121,658	1,709,358
2038-2042 (combined)	1,099,263	16,600	1,115,863
Total	\$ 5,738,918	\$ 682,863	\$ 6,421,781

#### NOTE 6. 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, 2022 and 2021, \$5.6 million and \$13.9 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 128 percent and 129 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, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Agency had money market funds of \$4.5 million and \$8.3 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, 2022 and 2021.

**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, 2022 and 2021.



The following schedules present credit risk by type of security held at December 31, 2022 and 2021. The credit ratings listed are from Standard & Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit Rating	December 31,	
		2022	2021
Cash and Cash Equivalents:			
Deposits	N/A	\$ 5,867,512	\$ 14,129,496
LAIIF	Not Rated	30,579,453	47,245,656
Money market funds	AAAm	<u>4,514,426</u>	<u>8,254,654</u>
Total cash and cash equivalents		<u>\$ 40,961,391</u>	<u>\$ 69,629,806</u>

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

	December 31,	
	2022	2021
Cash and Cash Equivalents:		
Debt service funds	\$ 4,507,714	\$ 8,254,654
Unrestricted cash and cash equivalents	<u>36,453,677</u>	<u>61,375,152</u>
Total cash and cash equivalents	<u>\$ 40,961,391</u>	<u>\$ 69,629,806</u>

#### NOTE 7. LONG-TERM DEBT

The Agency issued \$193.3 million of 2015 Cosumnes Project Revenue Refunding Bonds (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,	
	2022	2021
2015 Cosumnes project revenue refunding bonds, fixed rates		
5.00%, 2023-2030	\$ 89,735,000	\$ 101,185,000
Unamortized premium - net	<u>7,663,307</u>	<u>9,685,892</u>
Total long-term debt	97,398,307	110,870,892
Less: amounts due within one year	<u>(1,845,000)</u>	<u>(11,450,000)</u>
Total long-term debt - net	<u>\$ 95,553,307</u>	<u>\$ 99,420,892</u>

The following summarizes long-term debt activity for the year ended December 31, 2022:

	January 1, 2022	Additions	Refunding, Payments or Amortization	December 31, 2022
Cosumnes project revenue bonds	\$ 101,185,000	\$ -0-	\$ (11,450,000)	\$ 89,735,000
Unamortized premiums - net	<u>9,685,892</u>	<u>-0-</u>	<u>(2,022,585)</u>	<u>7,663,307</u>
Total long-term debt	<u>\$ 110,870,892</u>	<u>\$ -0-</u>	<u>\$ (13,472,585)</u>	<u>\$ 97,398,307</u>

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

	January 1, 2021	Additions	Refunding, Payments or Amortization	December 31, 2021
Cosumnes project revenue bonds	\$ 112,085,000	\$ -0-	\$ (10,900,000)	\$ 101,185,000
Unamortized premiums - net	<u>11,967,421</u>	<u>-0-</u>	<u>(2,281,529)</u>	<u>9,685,892</u>
Total long-term debt	<u>\$ 124,052,421</u>	<u>\$ -0-</u>	<u>\$ (13,181,529)</u>	<u>\$ 110,870,892</u>

The annual debt service requirements to maturity for Bonds are as follows at December 31, 2022:

Year	Principal	Interest	Total
2023	\$ 1,845,000	\$ 4,486,750	\$ 6,331,750
2024	13,115,000	4,394,500	17,509,500
2025	14,270,000	3,738,750	18,008,750
2026	13,630,000	3,025,250	16,655,250
2027	13,065,000	2,343,750	15,408,750
2028-2030 (combined)	<u>33,810,000</u>	<u>3,017,000</u>	<u>36,827,000</u>
Total	<u>\$ 89,735,000</u>	<u>\$ 21,006,000</u>	<u>\$ 110,741,000</u>

Proceeds from the Bonds were used to refund previously issued 2006 Bonds that provided financing for the Project. The 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 \$89.7 million for the Bonds at December 31, 2022 and \$101.2 million at December 31, 2021. Annual principal and interest payments on the Bonds required approximately 14.3 percent and 11.5 percent of the Agency's net revenues for 2022 and 2021, respectively. The total principal and interest remaining to be paid on the Bonds is \$110.7 million and \$127.3 million at December 31, 2022 and 2021, respectively. Debt service payments are made semi-annually on January 1 and July 1. Principal and interest paid was \$16.5 million for both 2022 and 2021. Total net revenues were \$115.3 million and \$143.2 million for 2022 and 2021, 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 8. ACCRUED DECOMMISSIONING**

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

The Agency's ground lease agreement with the SRCSD for Carson requires to restore the premises to its original condition upon termination of the contract. In 2018 a study to determine the current value of the asset retirement obligation was conducted by an external contractor who specializes in decommissioning studies. The expected costs and scope of work were based on the 2018 cost estimate and assumes a contractor will be responsible for the work and that decommissioning would take place between 2025 and 2027. The result of this study was used to determine the balance of the ARO and the deferred outflows at January 1, 2018. The Agency used the annual All Urban Consumer Price Index to adjust this obligation for inflation in 2022. At December 31, 2022, the remaining useful life of the Carson's assets is three years.

#### **NOTE 9. INSURANCE PROGRAMS**

The Agency purchases commercial property and casualty insurance coverage at levels consistent with coverages on similar facilities. The policies' deductible dollar amounts vary depending on the type of coverage. Excess liability coverage for most claims against the Agency is \$140.0 million and property is covered under an all-risk policy to replacement value. Generally, the maximum risk that the Agency would be exposed to is limited to \$0.25 million for most casualty claims and \$5.0 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 10. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

The following table identifies the level within the fair value hierarchy that the Agency’s financial assets are accounted for on a recurring basis as of December 31, 2022 and 2021, 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,	
	2022	2021
Investments reported as Cash and Cash Equivalents:		
LAIF	\$ 30,579,453	\$ 47,245,656
Total fair value investments	<u>\$ 30,579,453</u>	<u>\$ 47,245,656</u>

**NOTE 11. COMMITMENTS**

**Natural Gas Interconnection and Supply Agreements.** Pursuant to the Natural Gas Interconnection and Supply Agreements, SMUD supplies all the natural gas requirements of the Project and the assigned Power Plants. The Agency pays for the actual supply, storage and transportation costs for the fuel supplied to the Project and the assigned Power Plants as specified in the agreements for 30 years following acceptance. The agreements will be in effect for Carson through October 2025, for Procter and Gamble through March 2027, for Campbell through December 2027 and for the Project through September 2039.

**Operation and Maintenance Agreements.** Ethos serves as the Operator and is responsible for the primary operation, repair, overhaul and maintenance services of the Project and the assigned Power Plants. The Agency pays for such services according to the terms of the agreements and provides, at no cost to Ethos, fuel, water, and power not already provided for in other agreements. At December 31, 2022, the minimum annual commitment to Ethos was approximately \$11.9 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.

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

**NOTE 12. 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.