Central Valley Financing Authority

Financial Statements

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

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

Independent Auditors' Report

To the Board of Directors of
Central Valley Financing Authority

We have audited the accompanying financial statements of Central Valley Financing Authority, a component unit of Sacramento Municipal Utility District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Central Valley Financing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to Central Valley Financing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Central Valley Financing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Valley Financing Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Baker Tilly US, LLP

Madison, Wisconsin
February 19, 2021

CENTRAL VALLEY FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
As of and For the Years Ended December 31, 2020 and 2019

Using this Financial Report

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

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

Overview of the Financial Statements

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2020 and 2019. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

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

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

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

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

Nature of Operations

The Agency is a joint powers authority formed by the Sacramento Municipal Utility District (SMUD) and the Sacramento Regional County Sanitation District (SRCSD) (collectively, Members). The Agency was formed for the purpose of owning and operating the Carson Cogeneration Project (Project) and related facilities for electric power generation. The Project, which began commercial operation in 1995, is comprised of a 65 megawatt (MW) natural gas-fired combined cycle plant and a 42 MW natural gas-fired simple cycle peaking plant.

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

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

Financial & Operational Highlights

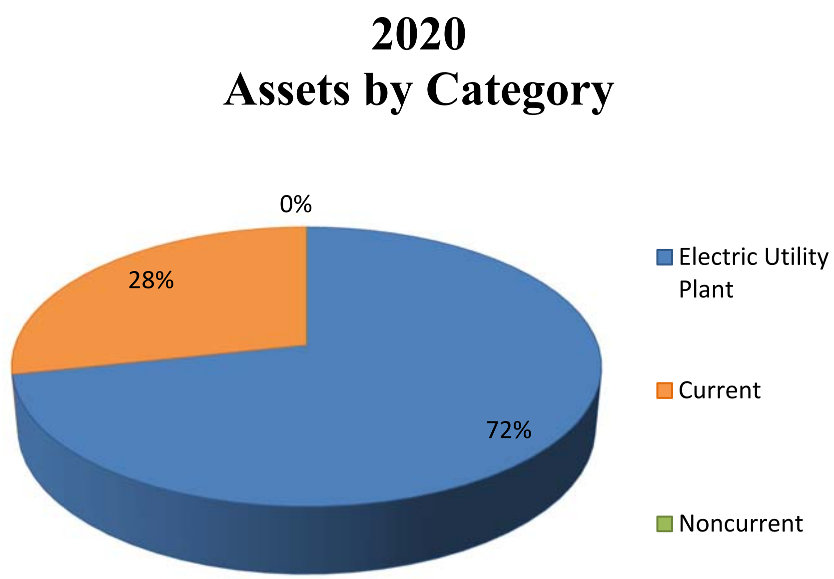
In 2020, the Agency's operator, Ethos Energy Power Plant Services, LLC, continued implementation of a normal six-week cycle of gas turbine water washes and inspections as part of standard maintenance protocols. These outages and inspections have been an integral part of the Agency's successful performance,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

FINANCIAL POSITION

Statements of Net Position Summary
(Dollars in thousands)

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

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



2020 Compared to 2019

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

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

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

LIABILITIES & NET POSITION

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

2019 Compared to 2018

ASSETS & DEFERRED OUTFLOWS OF RESOURCES

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

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

LIABILITIES & NET POSITION

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

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

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

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

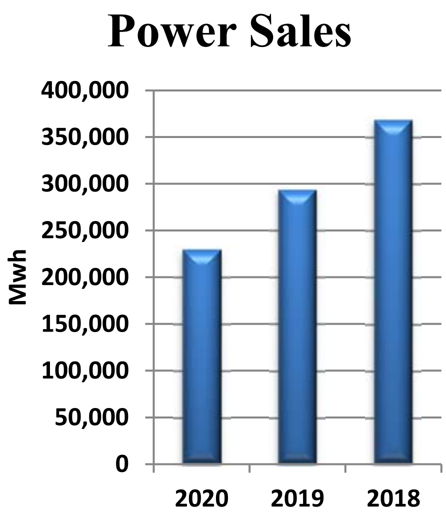
2020 Compared to 2019

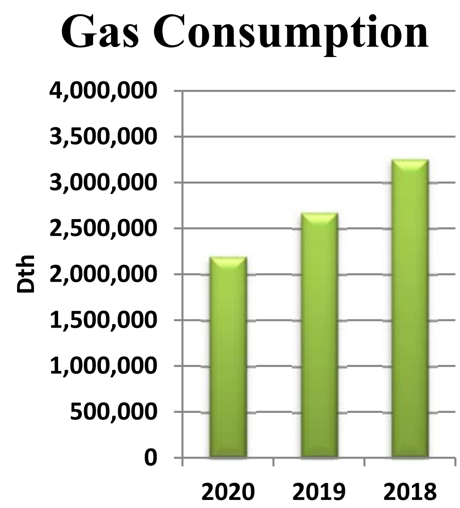
OPERATING REVENUES

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

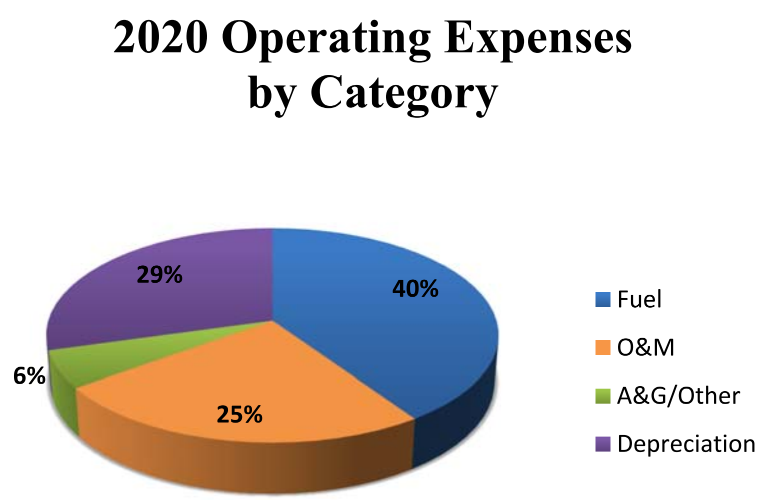
The Agency saw a decrease in power sales and gas consumption as a result of the Member's entrance into the California Independent System Operator's Energy Imbalance Market (EIM) in April 2019. The EIM provided the Member with access to a larger more cost effective energy market resulting in a reduction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

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





OPERATING EXPENSES



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

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

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

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

INTEREST ON DEBT

Interest on debt decreased due to defeasance of the 2009 Series Bonds in 2019.

2019 Compared to 2018

RESULTS OF OPERATIONS

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

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

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

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

Requests for Information

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

CENTRAL VALLEY FINANCING AUTHORITY
STATEMENTS OF NET POSITION

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

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

CENTRAL VALLEY FINANCING AUTHORITY
STATEMENTS OF NET POSITION

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

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

CENTRAL VALLEY FINANCING AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31, 2020	Years Ended December 31, 2019
OPERATING REVENUES		
Power sales to Member	$ 14,314,043	$ 22,056,380
Gas sales to Member	1,578,710	1,104,687
Steam sales	530,661	529,534
Other	175,223	167,863
Total operating revenues	16,598,637	23,858,464
OPERATING EXPENSES		
Fuel	8,930,372	8,161,066
Operations	5,267,937	5,510,917
Maintenance	144,960	4,648,766
Administrative and general	1,245,270	1,191,648
Depreciation	6,483,892	6,481,963
Regulatory amounts collected in rates	-0-	52,034
Total operating expenses	22,072,431	26,046,394
OPERATING LOSS	(5,473,794)	(2,187,930)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	46,994	114,342
Interest on debt	-0-	(534,654)
Other income	952	-0-
Total non-operating revenues (expenses)	47,946	(420,312)
CHANGE IN NET POSITION	(5,425,848)	(2,608,242)
NET POSITION - BEGINNING OF YEAR	38,724,147	41,332,389
NET POSITION - END OF YEAR	$ 33,298,299	$ 38,724,147

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

CENTRAL VALLEY FINANCING AUTHORITY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2020	Years Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from power sales to Member	$ 15,752,183	$ 25,450,091
Receipts from steam sales	512,382	498,953
Other receipts	286,562	1,237,573
Payments to Member	(11,457,441)	(10,297,558)
Payments to vendors	(3,861,328)	(10,506,978)
Net cash provided by operating activities	1,232,358	6,382,081
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction refund	36,334	9,954
Construction expenditures	(536,430)	-0-
Repayment of long-term debt	-0-	(10,590,000)
Interest payments on long-term debt	-0-	(765,075)
Net cash used in capital and related financing activities	(500,096)	(11,345,121)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	45,802	134,534
Net cash provided by investing activities	45,802	134,534
Net increase (decrease) in cash and cash equivalents	778,064	(4,828,506)
Cash and cash equivalents - beginning of the year	4,311,056	9,139,562
Cash and cash equivalents - end of the year	$ 5,089,120	$ 4,311,056
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (5,473,794)	$ (2,187,930)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,483,892	6,481,963
Regulatory amortization	-0-	52,034
Asset retirement obligation amortization	325,921	300,785
Other income	952	-0-
Changes in operating assets and liabilities:		
Receivables	(47,510)	3,328,153
Other assets	(127,832)	(34,154)
Payables and accruals	70,729	(1,558,770)
Net cash provided by operating activities	$ 1,232,358	$ 6,382,081
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Net amortization of debt related expenses	$ -0-	$ (41,110)

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

NOTE 1. ORGANIZATION AND OPERATIONS

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

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

Pursuant to the Power Purchase Agreement (PPA) with SMUD, SMUD purchases, on a "take-or-pay" basis, all capacity, energy and environmental attributes of the Project. The Agency is obligated to reimburse SMUD for the actual costs of providing general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf. The Agency was charged $8.5 million in 2020 and $7.1 million in 2019 for general and administrative services, fuel costs, and other costs paid by SMUD on the Agency's behalf.

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

SMUD is entitled to all rights and property in the Project in the event of termination of the JPA agreement. SRCSD has no obligation to make contributions or advances to the Agency. The JPA agreement will remain in effect until terminated by a supplemental written agreement of the parties; provided, that in no event shall the JPA agreement terminate while any contracts between the Agency and either of the parties or other parties are in effect. SRCSD nor SMUD has any obligation or liability to the Agency beyond that specifically provided for in the JPA agreement or the Project agreements.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Prepayments. The Agency pays for property insurance, leases and permits annually in advance. These prepayments are recognized as expenses in the month the actual costs are incurred.

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

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

Revenues, Expenses and Changes in Net Position. In September 2019, the Agency defeased all outstanding bonds and the related regulatory asset on the bond refunding was written off.

Gains and Losses on Bond Refundings. Gains and losses resulting from bond refundings are included in Deferred Outflows and Deferred Inflows of Resources and amortized as a part of Interest on Debt, over the shorter of the life of the refunded debt or the new debt using the effective interest method, in the Statements of Revenues, Expenses and Changes in Net Position. In September 2019, the Agency defeased all outstanding bonds and the related loss on bond refunding was written off.

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements, adopted. In June 2018, GASB issued SGAS No. 89, ***"Accounting for Interest Cost Incurred before the End of a Construction Period"*** (GASB No. 89). The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. This statement is effective for the Agency in 2021. The

Agency has assessed the financial statement impact of adopting the new statement, and since the Agency has no borrowings for construction, this statement has no impact on the Agency

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

In May 2020, GASB issued SGAS No. 95, ***"Postponement of the Effective Dates of Certain Authoritative Guidance"*** (GASB No. 95). The primary objective of this statement is to provide temporary relief to governments and other stakeholders as a result of the COVID-19 pandemic. GASB No. 95 postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This statement is effective for the Agency in 2020. The Agency will postpone the implementation of GASB No. 87, *Leases*.

Recent Accounting Pronouncements, not yet adopted. In June 2017, GASB issued SGAS No. 87, ***"Leases"*** (GASB No. 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the Agency in 2022. The Agency is currently assessing the financial statement impact of adopting this statement.

In March 2020, GASB issued SGAS No. 94, ***"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"*** (GASB No. 94). The primary objective of this Statement is to provide guidance for accounting and financial reporting related to public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the Agency in 2023. The Agency is currently assessing the financial impact of adopting this statement but does not expect it to be material.

In May 2020, GASB issued SGAS No. 96, ***"Subscription-Based Information Technology Arrangements"*** (GASB No. 96). This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The statement (1) defines a SBITA as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB No. 87, *Leases*, as amended. This statement is effective for the Agency in 2023. The Agency is currently assessing the financial statement impact of adopting this statement.

NOTE 3. ACCRUED DECOMMISSIONING

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

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

NOTE 4. ELECTRIC UTILITY PLANT

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

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

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

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

NOTE 5. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

At December 31, 2020 and 2019, $1.0 million and $0.8 million of the Agency's bank balances were uninsured, respectively. The bank balance is also, per a depository pledge agreement between the Agency and the Agency's bank, collateralized at 134 percent and 131 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by Federal Deposit Insurance Corporation) at December 31, 2020 and 2019, respectively.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Agency places no limit on the amounts invested in any one issuer for federal agency securities. The Agency had no investments subject to this risk at December 31, 2020 and 2019.

Interest Rate Risk. This is the risk that investments are exposed to fair value losses arising from increasing interest rates. Though the Agency has restrictions as to the maturities of some of the investments, it does not have a formal policy for interest rate risk. The Agency had no investments subject to this risk at December 31, 2020 and 2019.

The following schedules present credit risk by type of security held at December 31, 2020 and 2019. The credit ratings listed are from Standard & Poor's. N/A is defined as not applicable to the rating disclosure requirements.

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

	Credit Rating	December 31, 2020	December 31, 2019
Cash and Cash Equivalents:			
Deposits	N/A	$ 1,233,392	$ 1,001,129
LAIF	Not Rated	3,855,728	3,309,927
Total cash and cash equivalents		$ 5,089,120	$ 4,311,056

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

	December 31, 2020	December 31, 2019
Cash and Cash Equivalents:		
Unrestricted funds	$ 5,089,120	$ 4,311,056
Total cash and cash equivalents	$ 5,089,120	$ 4,311,056

NOTE 6. LONG-TERM DEBT

The Agency issued $48.9 million of 2009 Series Cogeneration project revenue bonds (Bonds) in August 2009 with interest rates ranging from 2.25 percent to 5.25 percent, maturing July 2020. The Agency did not have outstanding bonds at December 31, 2020.

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

	January 1, 2019	Defeasance, Payments or Amortizations	December 31, 2019
Cogeneration project revenue bonds	$ 10,590,000	$ (10,590,000)	$ -0-
Unamortized premium/(discounts) - net	89,811	(89,811)	-0-
Total long-term debt	$ 10,679,811	$ (10,679,811)	$ -0-

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

NOTE 7. INSURANCE PROGRAMS

The Agency purchases commercial property and casualty insurance coverage at levels consistent with coverages on similar facilities. The policies' deductible dollar amounts vary depending on the type of coverage. Excess liability coverage for most claims against the Agency is $140.0 million and property is covered under an all-risk policy to replacement value. Generally, the maximum risk that the Agency would be exposed to is limited to $0.3 million for most casualty claims and $2.5 million for property claims. No claims have exceeded the limits of property or liability insurance in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

The following table identifies the level within the fair value hierarchy that the Agency's financial assets are accounted for on a recurring basis as of December 31, 2020 and 2019, respectively. As required by GASB No. 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

Recurring Fair Value Measures (Level 2)

	December 31,	
	2020	2019
Investments reported as Cash and Cash Equivalents:		
LAIF	$ 3,855,728	$ 3,309,927
Total fair value investments	$ 3,855,728	$ 3,309,927

NOTE 9. COMMITMENTS

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

Natural Gas Interconnection and Supply Agreement. Pursuant to the Natural Gas Interconnection and Supply Agreement, SMUD supplies all of the natural gas requirements of the Project. The Agency pays for the actual supply, storage and transportation costs for the fuel supplied to the Project as specified in this agreement through October 2025.

Operation and Maintenance Agreement. Ethos serves as the Project Operator and is responsible for the primary operation, repair, overhaul and maintenance services of the Project. The Agency pays for such services according to the terms of this agreement and provides, at no cost to Ethos, fuel, water, and power not already provided for in other agreements. At December 31, 2020, the minimum annual commitment to Ethos under this agreement was approximately $1.8 million.

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

NOTE 10. CONTINGENCIES

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