



May 12, 2015  
DPG 15-136

U.S. Nuclear Regulatory Commission  
Document Control Desk  
Washington, DC 20555

Docket No. 50-312  
Rancho Seco Nuclear Generating Station  
License No. DPR-54

Docket No. 72-11  
Rancho Seco Independent Spent Fuel Storage Installation  
License No. SNM-2510

#### **ANNUAL FINANCIAL REPORT**

Attention: Jack Parrott and Chris Allen

In accordance with 10 CFR 50.71(b) and 10 CFR 72.80(b), we are submitting the 2014 Annual Financial Report for the Sacramento Municipal Utility District. If you or members of your staff have questions requiring additional information or clarification, please contact me at (916) 732-4817.

Sincerely,

A handwritten signature in black ink that appears to read "Dan A. Tallman". Below the signature, the date "5/12/15" is written in a smaller, slanted font.

Dan A. Tallman  
Assistant Superintendent, Rancho Seco Assets

(DT/BG)  
Enclosure  
Cc: NRC, Region IV

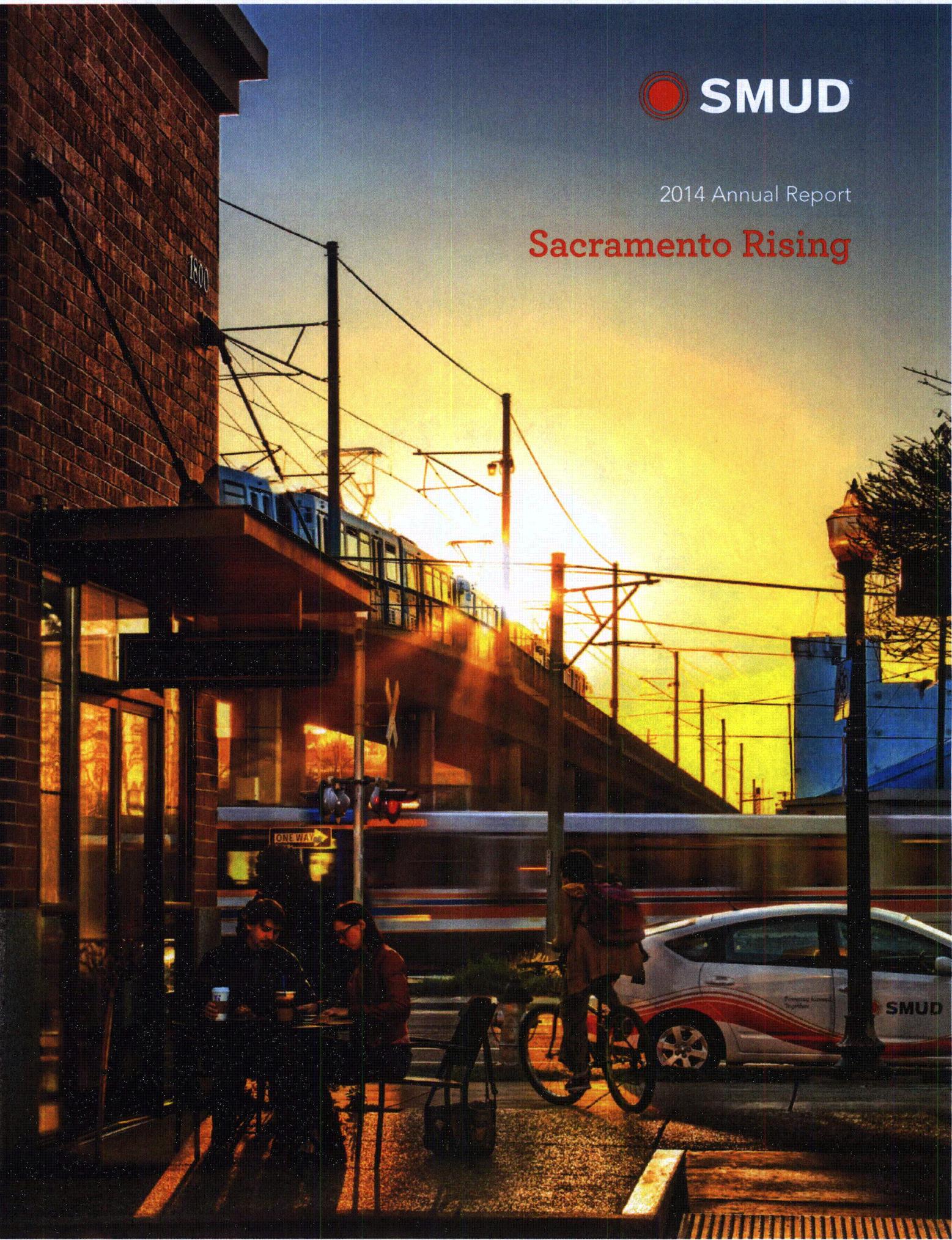
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2014 Annual Report

## Sacramento Rising

1800



# SMUD | Overview 2014

Service Area Population

1.46 million

Total Authorized Budget

\$1.47 billion

Employees (year end)

2,071

Record Peak Demand

3,299 megawatts  
(July 24, 2006)

Number of Customers (year end)

614,143

Credit Rating

AA- Standard & Poor's  
Aa3 Moody's  
AA- Fitch

## Executive Management

### Arlen Orchard

CEO &  
General Manager

### Laura Lewis

Chief Legal Officer

### James A. Tracy

Chief Financial Officer

### Paul Lau

Chief Grid Strategy  
& Operations Officer

### Gary King

Chief Workforce Officer

### Frankie McDermott

Chief Generation &  
Grid Assets Officer

### Nicole Howard

Chief Customer Officer

### Michael Gianunzio

Chief Legislative &  
Regulatory Officer

### Noreen Roche-Carter

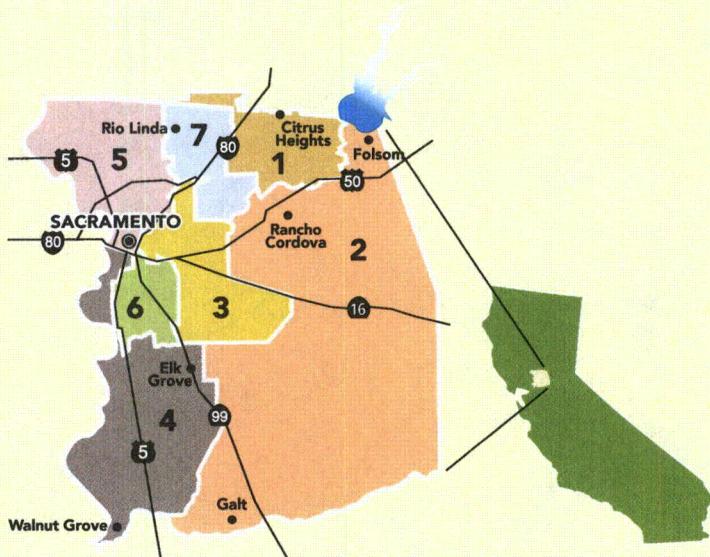
Treasurer

### Sandra Moorman

Director, Accounting  
& Controller

## SMUD service area and Board member wards

The Sacramento Municipal Utility District generates, transmits and distributes electricity to a 900-square-mile territory that includes California's capital city, Sacramento County and a small portion of Placer County. As a municipal utility, SMUD is governed by a seven-member Board of Directors selected by the voters to staggered four-year terms. The SMUD Board of Directors determines policy and appoints the chief executive officer/general manager, who is responsible for SMUD's day-to-day operations.



## SMUD Board of Directors

Renée Taylor  
Ward 1

Gregg Fishman  
Ward 3

Dave Tamayo  
Ward 6

Nancy Bui-Thompson  
Ward 2  
(Vice President 2015)

Genevieve Shiroma  
Ward 4  
(President 2014)

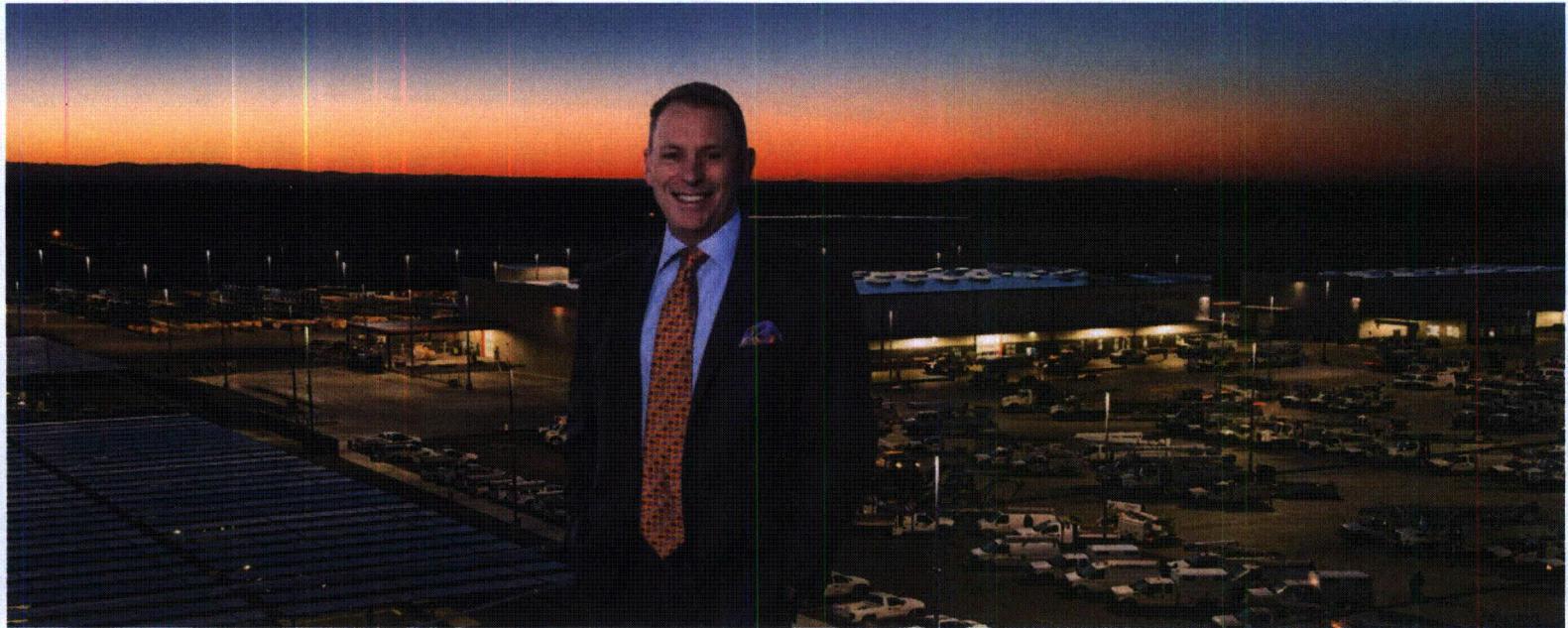
Bill Slaton  
Ward 7

Rob Kerth  
Ward 5  
(President 2015)



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and Community Relations ©2015 SMUD



The sun rises behind CEO & General Manager Arlen Orchard at SMUD's East Campus – Operations Center.

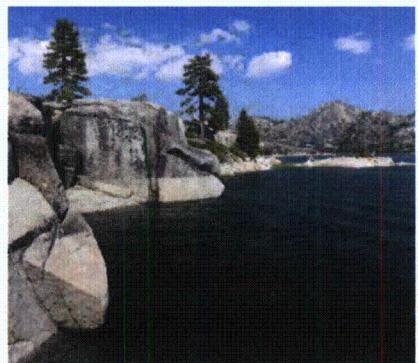
## CEO/General Manager's letter

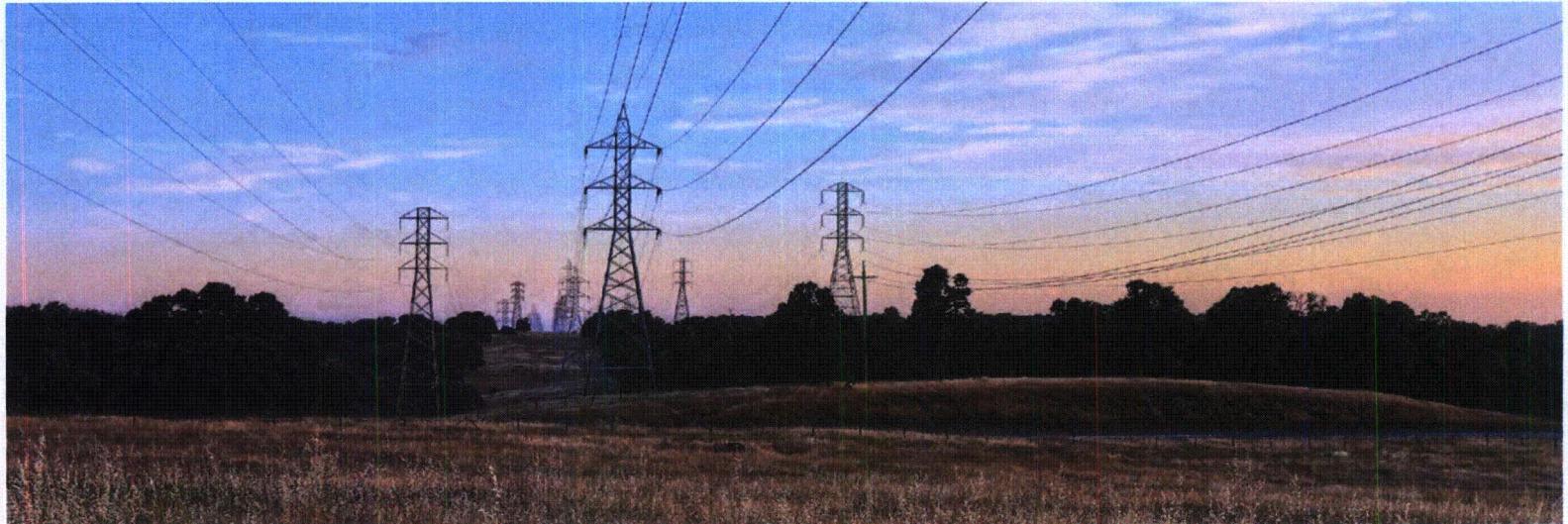
As SMUD turned the calendar on a successful 2014, Sacramento's economy turned the corner on a debilitating recession. This is great news. A strong SMUD is well positioned and eager to assist in building a more prosperous future for residents and businesses across the entire region.

Besides improving the prospects of many of our customers who have been struggling to make ends meet, the economic upswing gives SMUD a chance to help shape exciting projects such as the sports and entertainment complex downtown. And with the construction industry beginning to bounce back, we have an opportunity to incorporate more energy efficient features into homes and buildings. Particularly here in California's state capital, there's a commitment to clean power that dovetails nicely with SMUD's actions and leadership.

SMUD's financial house is in good order. Net income in 2014 exceeded our target by a substantial margin. We were able to put an extra \$40 million into a trust fund for retiree medical benefits. In upgrading SMUD's credit worthiness to AA- from A+, Fitch Ratings cited our solid finances, competitive rates and a diverse energy resource mix. Even with a 2.5-percent rate increase in both 2014 and 2015, SMUD's electric rates remain among the lowest in the state.

In July, federal regulators issued a new operating license for SMUD's Upper American River Project that assures the continued generation of carbon-free hydroelectricity for the next 50 years. As part of the new license, SMUD will be upgrading facilities that serve thousands of visitors to the Crystal Basin Recreation Area each year. We also agreed to increase stream flows that will improve fish habitat and enhance whitewater rafting.





## CEO/General Manager's letter Continued

It was a year of transition at SMUD, where the seven-member Board of Directors welcomed three new members in 2014. In April, I replaced John Di Stasio as CEO and general manager. Thanks in no small part to the strong foundation established by my predecessor and the Board of Directors, the transition proceeded smoothly. The biggest priority moving forward is making sure that SMUD is prepared for the changes coming our way in the utility industry.

From an organization-wide effort to provide stronger customer service to performing due diligence on the Iowa Hill pumped-storage project and studying the feasibility of building a new transmission line that would import power from the Pacific Northwest, SMUD took concrete steps in 2014 to prepare for the changes ahead.

The past year was not without its challenges. The King Fire in El Dorado County damaged some of SMUD's hydroelectric facilities, but inspired work across all departments helped restore virtually all generation within two weeks.

I'm pleased to report that for the 13th straight year, SMUD was the state's top-ranked electric utility in J.D. Power's customer satisfaction survey. Our employees raised more than \$350,000 for local charities and donated more than 10,000 hours of their time for volunteer activities. SMUD also made progress in our ongoing effort to ensure the safety of our employees and customers.

On a personal level, it's a great honor to lead the organization I've worked for since 1990. SMUD's value to the community it serves is deep and far reaching, and we're doing everything in our power to make that relationship even stronger in the years and decades to come.



Arlen Orchard

CEO/General Manager

## 2014: Year in review

By the usual measuring sticks – financial health, customer satisfaction, safety, reliability and environmental stewardship – SMUD met or exceeded its targets in 2014. SMUD got the basics right, in other words.

Net income for the year was \$83 million higher than anticipated. The amount of SMUD's power coming from renewable resources climbed to 30 percent. SMUD met its goals for limiting the frequency and duration of power outages. New work practices were established to improve the safety of employees and customers. Once again, SMUD was the state's top-rated electric utility in customer satisfaction.

Once again, SMUD was the state's top-rated electric utility in customer satisfaction.

These accomplishments took place during a period of transition. The seven-member SMUD Board of Directors welcomed three new members, and General Counsel Arlen Orchard assumed the reins of CEO and general manager following John Di Stasio's retirement.

If there's an underlying theme to SMUD's activities in 2014, it's that simply getting the basics right is no longer enough. Accordingly, to meet the needs of increasingly discerning customers, SMUD is improving its traditional way

### How our rates compare

SMUD's residential rates are approximately 28 percent lower than neighboring PG&E's.

Monthly Average Residential Electric Bill @ 750kWh per month.  
Effective Jan. 1, 2015

Utility	Monthly Bill
<b>SMUD</b>	<b>\$ 93.93</b>
Roseville	\$ 113.95
LA. Dept. of Water and Power	\$ 120.53
Modesto	\$ 136.63
Southern California Edison	\$ 143.94
PG&E	\$ 154.44
San Diego Gas & Electric	\$ 166.62

of doing business. Orchard rolled out a "SMUD 3.0" vision in 2014 aimed at keeping SMUD ahead of the transformation that's sweeping the industry.

These changes will encompass a wide range of areas, including customer expectations, new technologies, third-party entrants, data analytics and how a low-carbon landscape will affect operations through 2020 and beyond.

Fortunately, it looks as though SMUD will be serving a region on the rebound following a prolonged recession. Though electricity sales remained relatively flat due in part to the effectiveness of SMUD's energy-efficiency programs, the Sacramento region's economy once again looks promising. The downtown arena project is one of the most ambitious ventures in Sacramento history, and the housing sector is springing to life.

## Year in review Continued

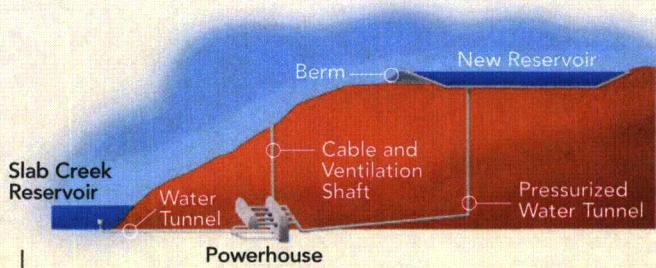
**SMUD did more than just make sure the lights stayed on in 2014. A review of an eventful year:**

### STRONG FINANCIAL RESULTS

Despite a drought that curtailed SMUD's hydroelectric generation, net income exceeded SMUD's financial goals by approximately \$83 million. Exceeding its financial goals helped SMUD maintain its solid credit ratings. Fitch Ratings upgraded SMUD's credit worthiness to AA- in late 2014.

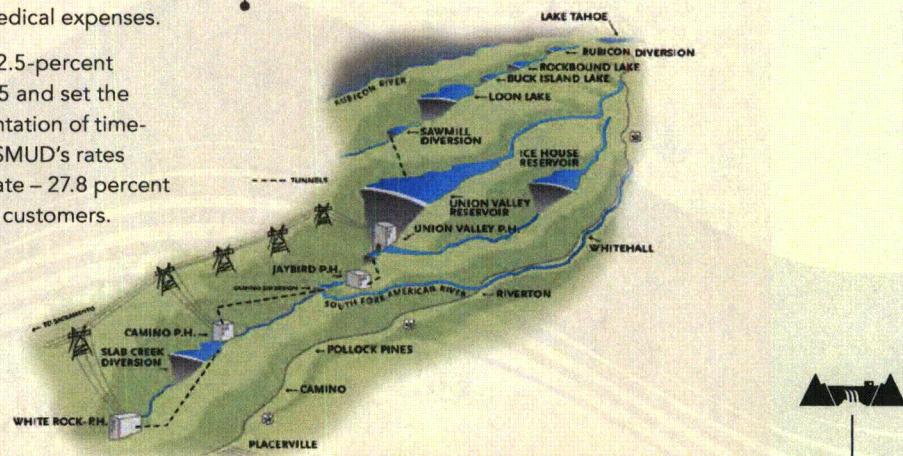
SMUD received a litigation settlement of \$53.1 million from the U.S. Department of Energy for renegeing on a promise made decades ago to provide a permanent site for the storage of spent nuclear fuel at Rancho Seco. The payoff allowed SMUD to contribute \$40 million to its trust for future retiree medical expenses.

In 2013, the SMUD Board approved 2.5-percent rate increases for both 2014 and 2015 and set the foundation for the eventual implementation of time-of-use rates. Even with the increase, SMUD's rates remained among the lowest in the state – 27.8 percent lower than PG&E's among residential customers.



### IOWA HILL STUDY CONTINUES

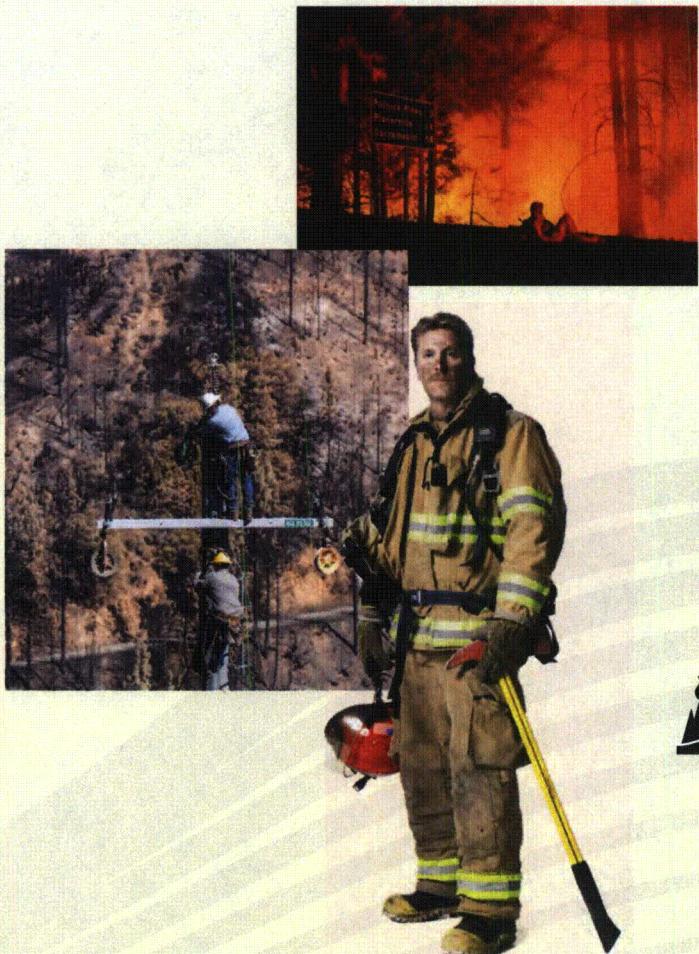
The new Upper American River Project license included approval from federal and state agencies for SMUD to build a pumped-storage facility at Iowa Hill. Should the SMUD Board give the project final approval, a reservoir would be built on top of Iowa Hill above the existing Slab Creek reservoir. The two reservoirs would be connected by tunnels and a 400-megawatt powerhouse and would help SMUD integrate more solar and wind power into its energy supply.



### HYDROELECTRIC LICENSE RENEWED

The Federal Energy Regulatory Commission issued SMUD a new license for the Upper American River Project (UARP), assuring a sustainable supply of hydroelectricity for the next 50 years. The Upper American River Project is a system of 11 reservoirs and eight powerhouses in neighboring El Dorado County that provides up to 15 percent of SMUD's power in a normal water year.

The UARP relicensing completes an agreement signed in 2007 with more than a dozen stakeholders, including El Dorado County, the U.S. Forest Service, recreation advocates and environmentalists. In addition to guaranteeing the continued supply of clean, low-cost electricity, SMUD agreed in the terms of the new license to increase water flows for fishing and rafting and to upgrade campgrounds and bike trails for the thousands of visitors who use the Crystal Basin Recreation Area.



## DROUGHT AND WILDFIRE

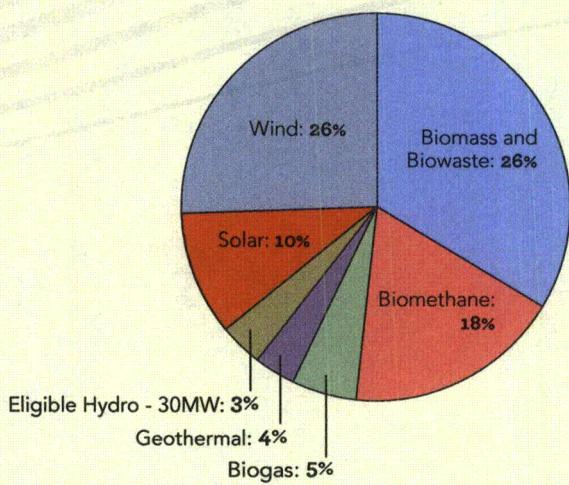
Receiving an extension of the UARP license was some of the best news SMUD received in 2014. But nature threw a couple of major punches SMUD's way in the form of drought and wildfire.

The water year that ended in September 2014 was one of the driest ever for SMUD's hydroelectric system. Rainfall was just 65 percent of the historical average, and runoff into the three main storage reservoirs was 48 percent of normal. SMUD needed to use money from reserve funds to make up for the \$37 million in power that needed to be purchased as a result of the diminished hydro generation.

The drought conditions fueled the King Fire near Pollock Pines that burned almost 100,000 acres in September. The blaze caused about \$5 million of damage to the Upper American River Project hydro facilities. SMUD employees raised about \$5,000 to assist El Dorado County residents who lost homes and outbuildings in the fire.



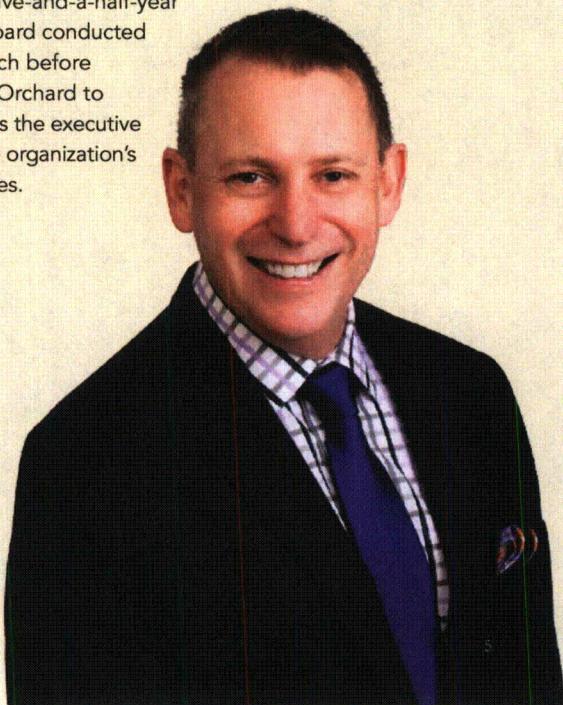
**SMUD'S RENEWABLE SUPPLY  
BY RESOURCE TYPE 2014**



## BOARD SELECTS NEW CEO/GM

John Di Stasio stepped down as SMUD's CEO and general manager in April following a highly successful five-and-a-half-year run. The SMUD Board conducted a nationwide search before appointing Arlen Orchard to replace Di Stasio as the executive responsible for the organization's day-to-day activities.

**Arlen Orchard**



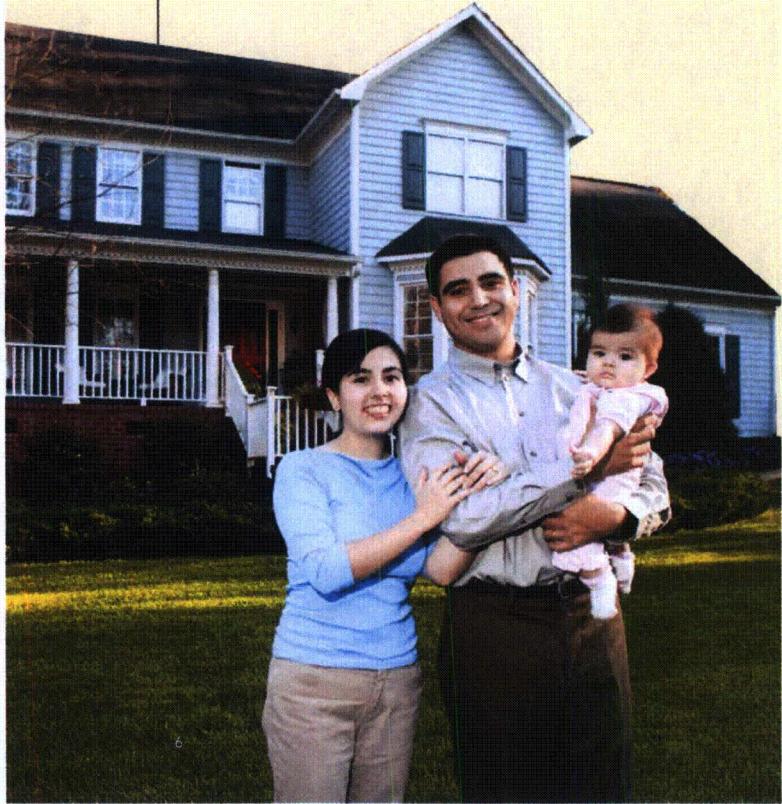
## Year in review Continued



### SATISFIED CUSTOMERS

For the 13th straight year, SMUD was the top California utility in J.D. Power's residential customer satisfaction survey. SMUD's score jumped 14 points from 2013, with the biggest improvements coming in communications and price. SMUD's score was the second-highest of large utilities nationwide.

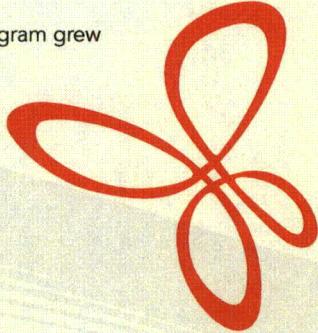
Earlier in the year, in the J.D. Power survey of commercial customer satisfaction, SMUD had the highest score of any utility in the nation.



### COMMUNITY SPIRIT

SMUD employees raised more than \$350,000 for local charities and volunteered more than 10,000 hours of their time in 2014. Their goodwill was recognized when SMUD received the 2014 Exceptional Community Support Award from Community Link Capital Region, a non-profit organization founded in 1939.

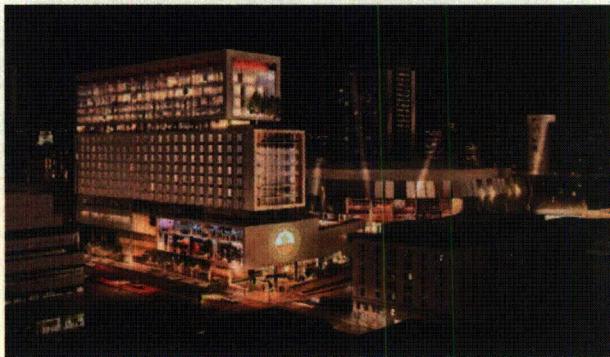
The SMUD volunteer program grew by more than 50 percent in the past year.



### BIG TRANSMISSION PROJECT

In its final meeting of 2014, the SMUD Board approved the planning phase of the joint development of a new transmission line with the Western Area Power Administration. The project would increase SMUD's capacity to transmit electricity to and from the Pacific Northwest.



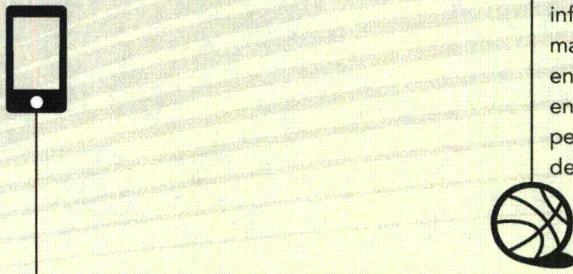


Artistic rendering courtesy of the Sacramento Kings

#### DOWNTOWN ARENA

Downtown Sacramento will have a dramatically different look and atmosphere when the \$477 million Entertainment and Sports Center (ESC) project is completed in late 2016. Besides providing a 17,500-seat facility for Sacramento's National Basketball Association team, the Kings, the new arena will serve as the catalyst for additional downtown construction. An ancillary development will consist of a 16-story tower that includes hotel rooms, office space, retail shops and condominium units.

SMUD is providing the city and Kings officials with information about what it will take to power the massive project and offering expertise concerning energy efficiency, building design and renewable energy measures. In August, SMUD crews performed extensive electrical work during the demolition of part of the Downtown Plaza.

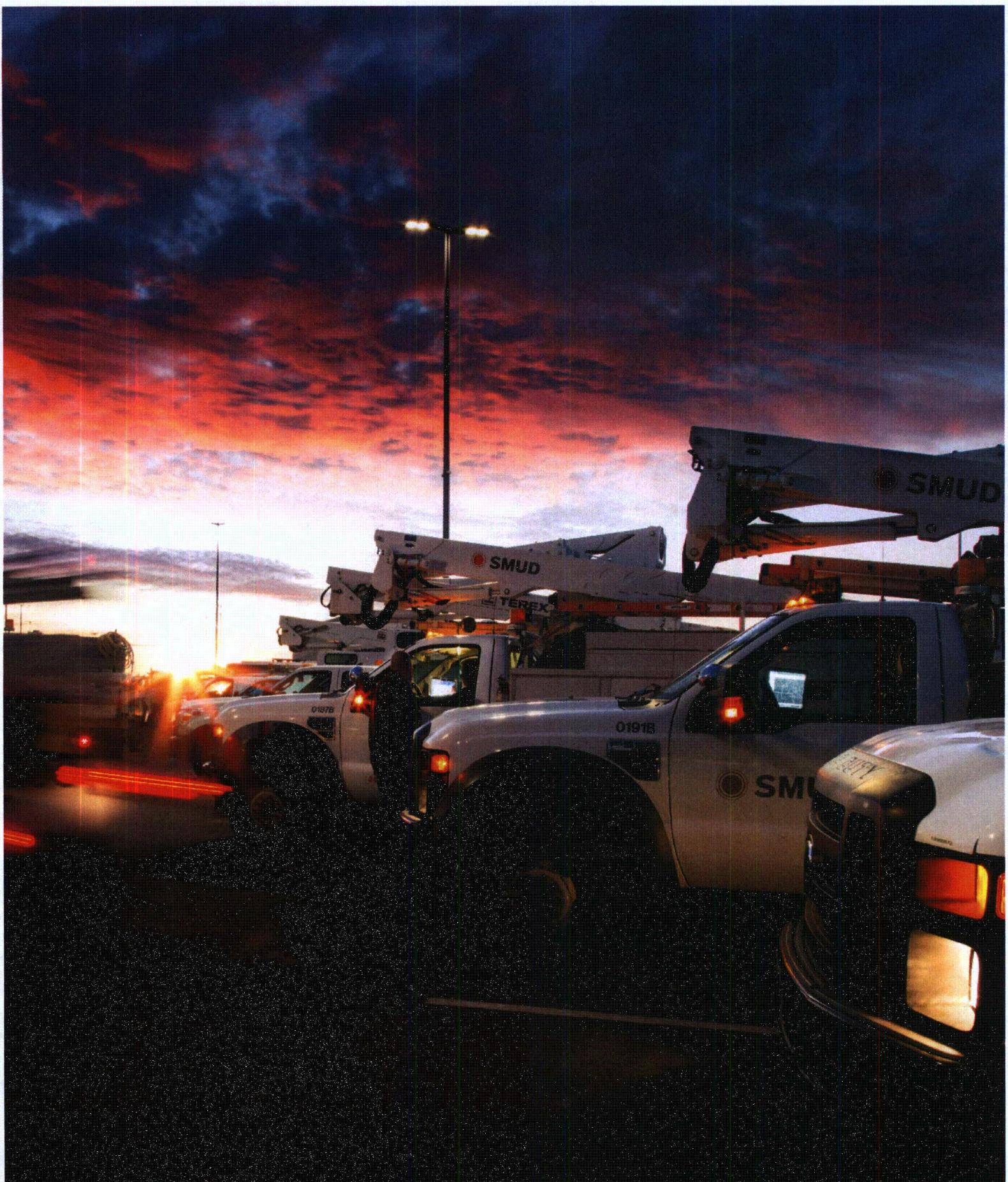


#### SMARTER REPORTING OF OUTAGES

In December, SMUD rolled out an option enabling customers to report power outages from smartphones.

The mobile application is one of many tools SMUD has been developing to create additional customer value. Additional web enhancements are planned in 2015, along with improvements to the automated answering system for outages; new billing and payment options; self-service loans for energy-efficient upgrades; and an expanded SolarShares® program.





Work at SMUD's East Campus – Operations Center begins early each morning

## Region on the rebound

From a downtown arena project to improved employment numbers, the capital region's economy got its groove back in 2014. For many residents and businesses, the recovery from recession came not a day too soon.

Almost \$500 million in public and private funding is being invested in the Entertainment and Sports Center in downtown Sacramento (see pages 10-11), and the Sacramento Republic FC has bought land in the long-dormant rail yards to build a 20,000-seat soccer stadium. UC Davis is moving forward with plans to build a World Food Center to promote agriculture and sustainability.

The news for individuals was similarly encouraging. For the first time since mid-2006, the Sacramento region's seasonally adjusted annual unemployment rate was below the statewide average. The unemployment rate for the six-county region in November was 7.6 percent, one point below the state average and 1.6 percentage points below the region's rate 12 months earlier. All five of the region's largest business sectors experienced job growth in 2014. And median home prices in Sacramento County climbed 6 percent in 2014. In December, sales volume grew 3.5 percent compared to December 2013.

The rebound's effect on SMUD shouldn't be judged narrowly by customer growth or electricity sales. SMUD added 3,958 customers in 2014, and sales for the year were relatively flat.

"Flat growth" will most likely continue as more residential and business customers tap into SMUD's energy efficiency programs.

An improved economic climate gives SMUD additional opportunities to assist customers in implementing energy solutions that reduce their bills and help develop a more sustainable energy supply that improves air quality.

## SMUD added 3,958 customers in 2014.

Economic development is one of the SMUD Board's key values. Of course, one of the best ways to foster economic growth is to keep electric rates among the lowest in the state. The difference between SMUD's rates and those of neighboring utilities pumps an extra \$400 million into the regional economy each year.

Additionally, SMUD offers a wide range of rebates and incentives for businesses looking to improve their energy efficiency; an economic development rate option to energy-intensive businesses that create at least 50 new jobs; commercial loan programs for energy efficiency building equipment; incentives for small businesses to participate in SMUD's competitive bid process; and a "Savings By Design" program that encourages high performance building design and construction.

## Sacramento's changing face: Entertainment and Sports Center

SMUD helped break ground in 2014 on a \$477 million construction project that will reshape downtown Sacramento for decades to come.

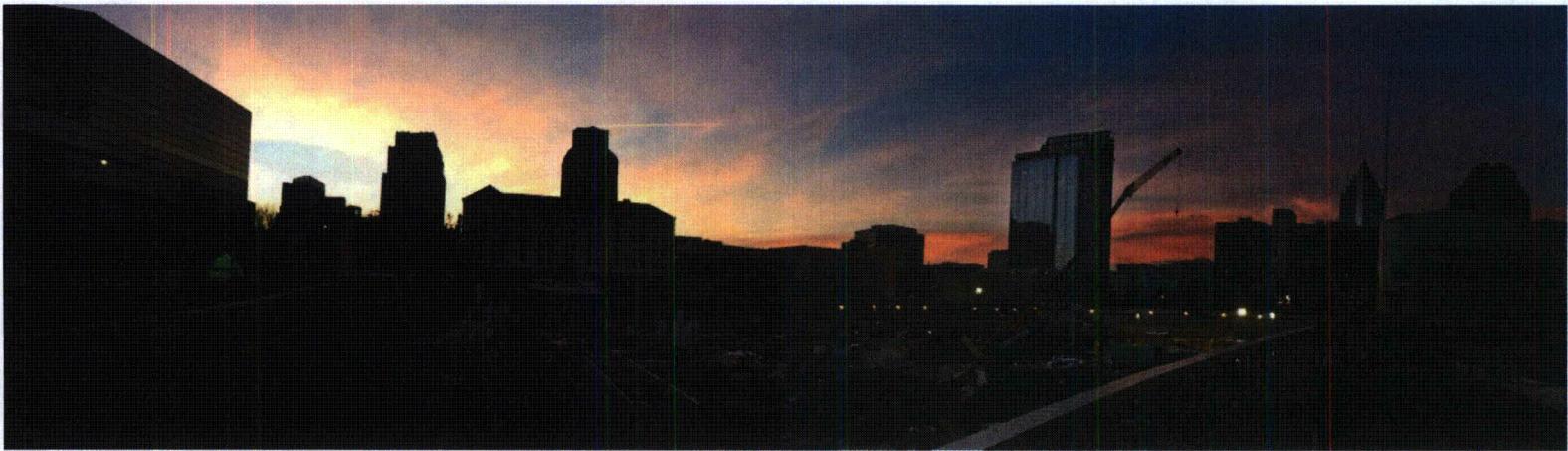
The Entertainment and Sports Center (ESC), the new home of Sacramento's National Basketball Association team, is the centerpiece of a larger downtown development project that will include 1.5 million square feet of office and retail space, up to 550 new residential units, and 250 hotel rooms. SMUD is working with designers of both the arena and the ancillary projects to ensure maximum reliability and energy efficiency.

*Artistic rendering courtesy of  
the Sacramento Kings*

In August and October, SMUD decommissioned and removed three transformer vaults near the Downtown Plaza site to make room for new electrical infrastructure. Plans are in place for the 17,500-seat ESC to incorporate two electrical circuits to mitigate the effects of any power outages by allowing a near-immediate switch from one circuit to the other.

One of the more innovative aspects of the ESC is the expected installation of LED lighting above the basketball court and throughout the building. With LED lights and dual electrical circuits, any outage time would be measured in seconds rather than minutes since LED lights restrike immediately following the switch to a second feeder. The inclusion of LED lighting would be a first for a newly constructed U.S. sports facility.





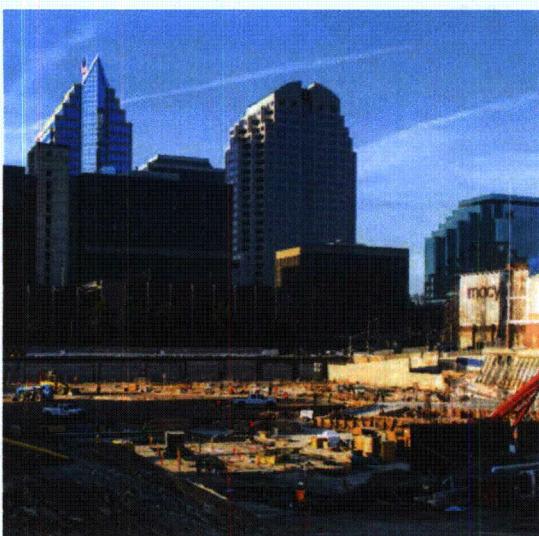
SMUD is pursuing the construction of an offsite photovoltaic array that would meet almost all of the arena's energy needs with renewable solar power. SMUD would sell renewable energy to the arena on a per-kilowatt hour basis. SMUD also is working with project architects to help the ESC achieve Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council.

While the NBA's Sacramento Kings will be the primary tenant, the ESC is expected to attract a wide array of events, including ice shows and concerts. In late 2014, the National Collegiate Athletic Association selected Sacramento to be one of the sites of the first and second rounds

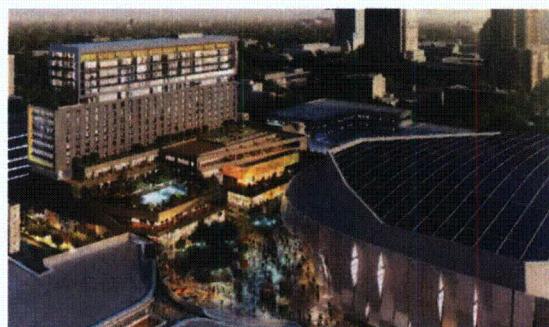
**SMUD also is working with project architects to help the ESC achieve Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council.**

of the 2017 NCAA Division I Men's Basketball Tournament. "March Madness" basketball hasn't been held in Sacramento since 2007.

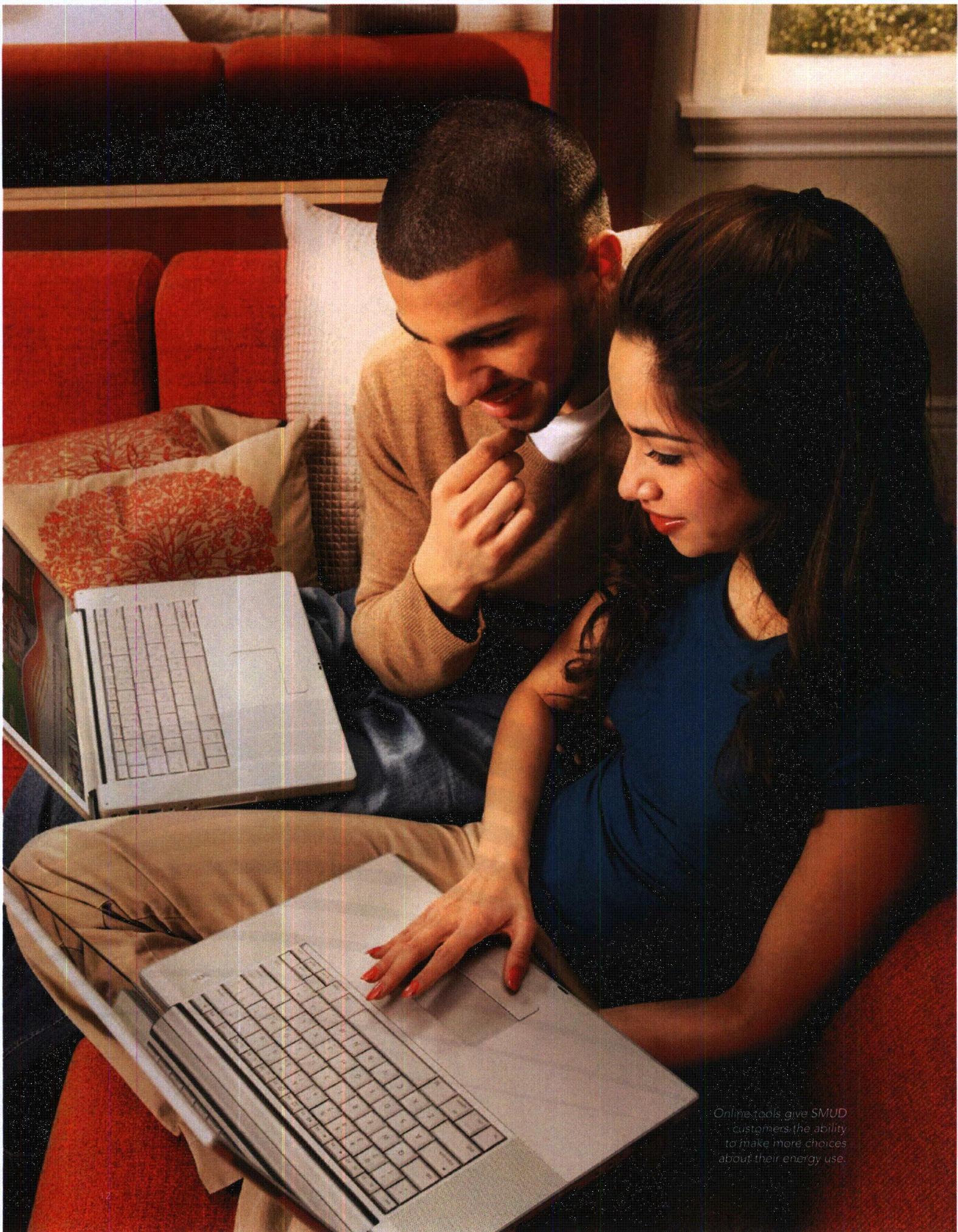
The ESC is scheduled to open in late 2016.



*Construction on the Entertainment and Sports Center began in 2014.*



*Artistic rendering courtesy of the Sacramento Kings*



Online tools give SMUD  
customers the ability  
to make more choices  
about their energy use.

## Better serving the customers of today and tomorrow

SMUD has always cared about its customers, who reciprocate by consistently rating their utility as the state's best.

But the monopoly model of providing reliable and affordable electricity needs to be expanded to reflect the lightning-fast changes taking place in the energy world and other industries. While reliable and affordable electricity are still critical, customers now expect the same level of customization from their utility that they expect from any business. The baseline for utility performance is shifting.

### **SMUD introduced changes in 2014 that make energy efficiency loans simpler for customers to manage.**

To meet the current and future energy needs of a revitalized Sacramento region, SMUD's customer excellence effort kicked into high gear in 2014. The objective is to better understand each segment of SMUD customers, deliver exactly what they need, and meet their expectations in ways that make the best use of SMUD's resources.

For instance, customers told SMUD they'd like to better understand their energy use.

With a new online tool in the "My Account" portal on smud.org, they now have more information about their energy patterns than ever before. By simply clicking on "Bill & Usage Comparison," they can compare their monthly electric bills for the last two years and see how weather, rates and days in the billing cycle will affect their bills.

"My Energy Tools" is an online repository that helps customers better manage their energy use. The "Home Energy Analysis" provides a 10-minute virtual inspection of the customer's home or business and offers specific ways to save money by reducing energy costs.

SMUD also introduced changes in 2014 that make energy efficiency loans simpler for customers to manage. SMUD offers a competitive interest rate for both secured and unsecured loans, and the loan terms have been extended from 10 to 15 years.

More improvements are coming in 2015. SMUD will implement flexible payment options and will develop comprehensive energy efficiency solutions for all customer groups. The goal is to ensure that SMUD remains the best choice for the Sacramento region's diverse customers and communities – no matter what the future may hold.

## UARP license renewed

It took SMUD staff more than a dozen years to complete the work – leg and paper – needed to obtain a new license to operate the Upper American River Project.

The effort and wait were worth it.

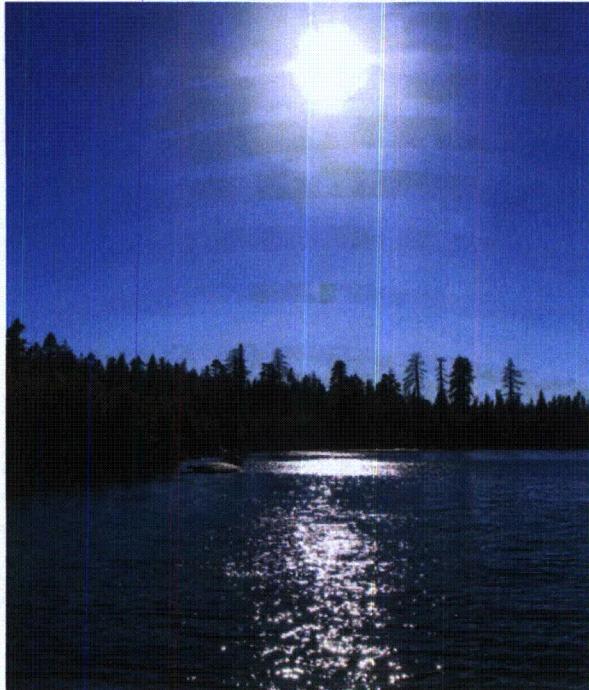
In July, SMUD received word that the Federal Energy Regulatory Commission had approved a 50-year license for operating the UARP, a system of 11 reservoirs and eight powerhouses in El Dorado County that provides the Sacramento region with clean, inexpensive hydroelectricity.

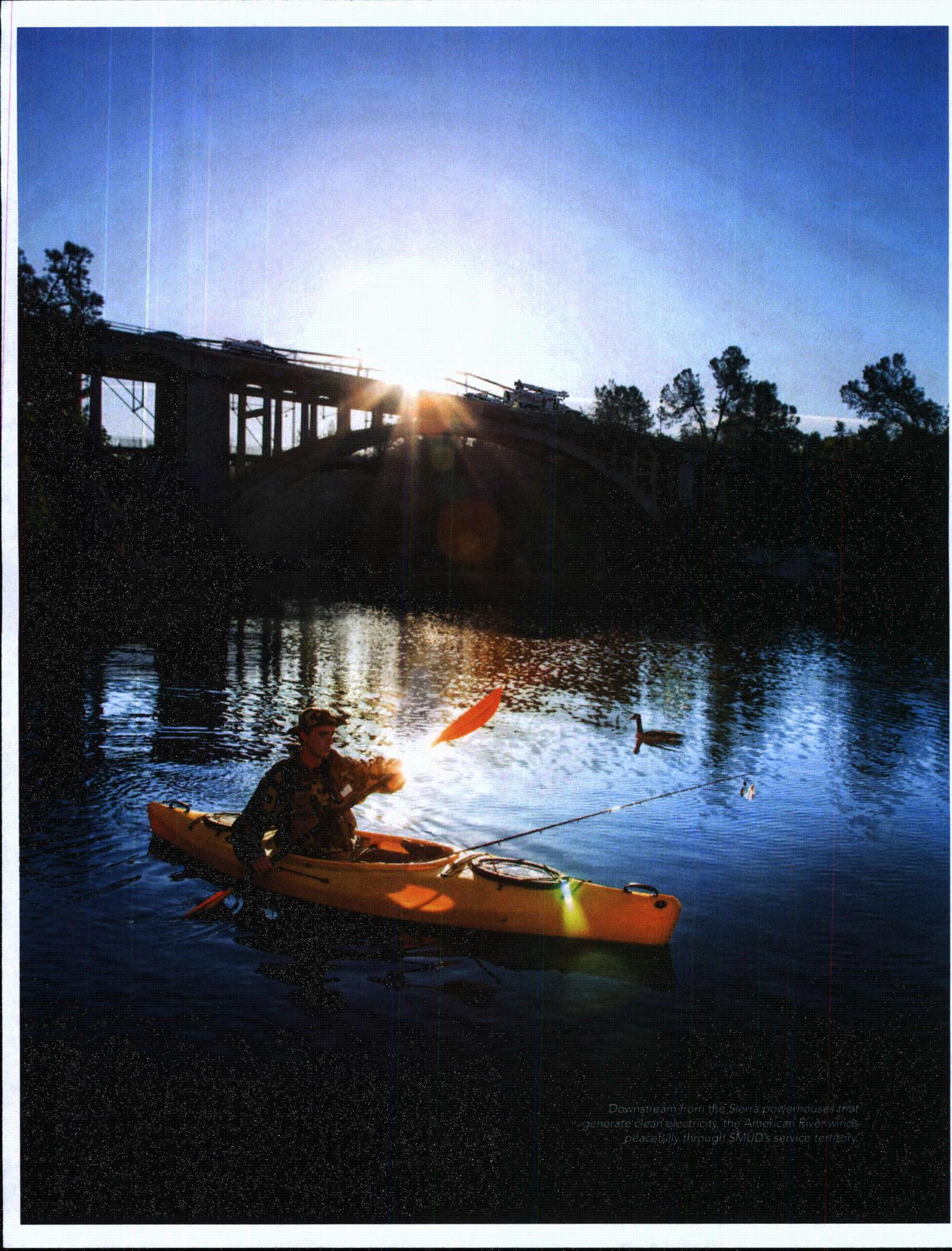
Since the UARP is located in the Eldorado National Forest, the new operating license reflects public priorities. More water will bypass powerhouses, improving fish habitat

and whitewater rafting. SMUD will stock between 25,000 and 50,000 pounds of trout each year to the three main reservoirs – Union Valley, Loon Lake and Ice House. Additionally, SMUD committed more than \$150 million over the next 20 years to upgrade and expand the outdoor facilities in the adjoining Crystal Basin Recreation Area.

UARP's hydroelectricity is a critical resource for meeting peak demand and stabilizing the grid. Although large hydroelectric systems are not counted in the state's regulatory definition of renewable energy, UARP generation emits no greenhouse gases and greatly lessens the region's carbon footprint.

SMUD was in its first decade of operation and looking for a long-term source of generation when the UARP was built in the late 1950s. The original operating license expired in 2007, at which point SMUD operated the system under annual extensions of the original license until the final approval came in July.





*Downstream from the Sierra powerhouses that generate clean electricity, the American River winds peacefully through SMUD's service territory.*

## Securing a sustainable energy future

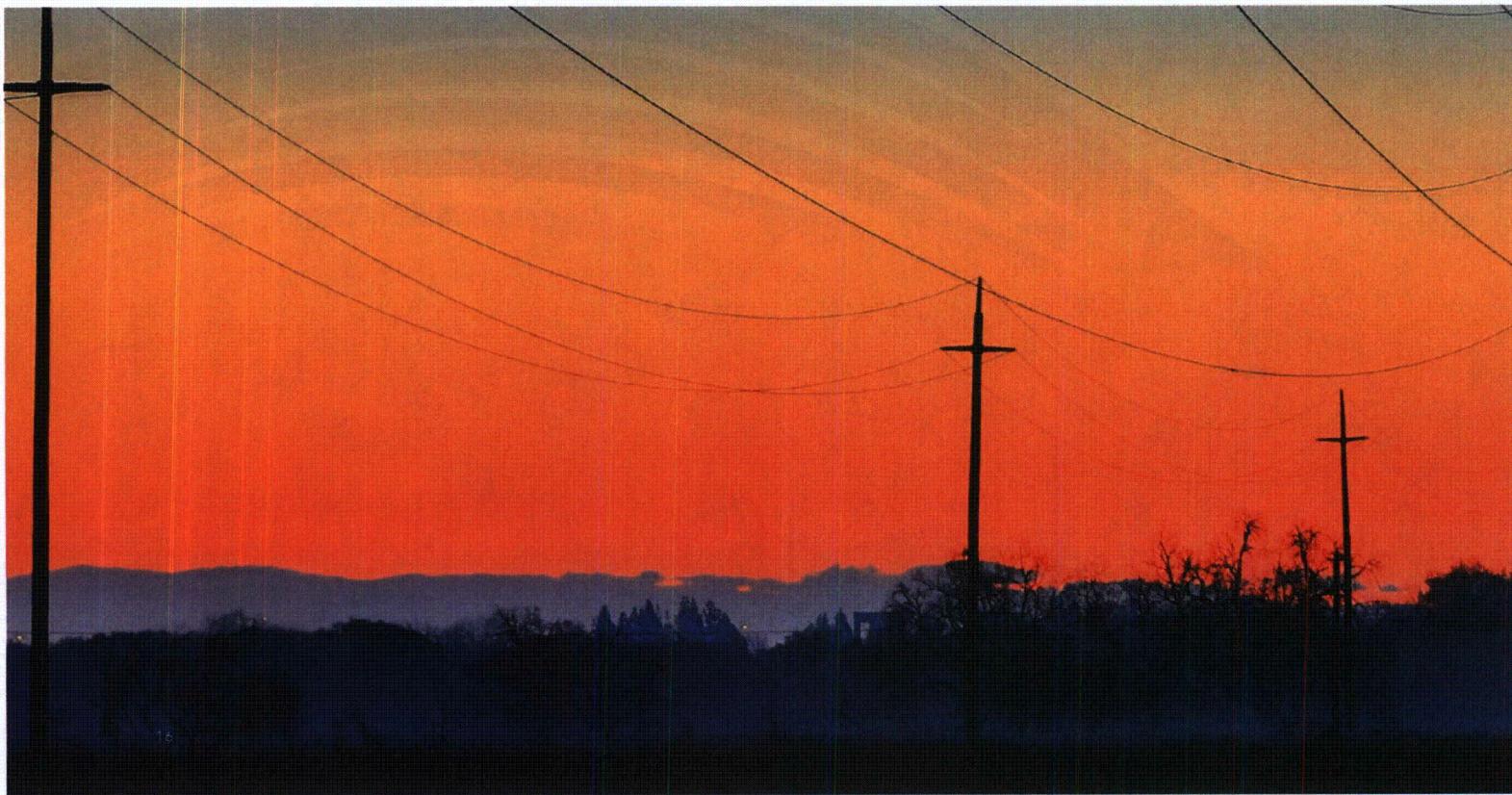
Reliable and affordable electricity is essential to any thriving economy, and Sacramento's revitalization will continue to depend on SMUD's ability to deliver one of modern society's indispensable resources.

Factor in California's ambitious clean energy goals, and it's clear that SMUD has to look far and wide, so to speak, for strategies and solutions.

That's exactly what SMUD did in 2014 by studying two major projects that could provide the Sacramento region with sustainable power for decades to come: A pumped-storage facility in the Sierra Nevada and a 500-kilovolt transmission line that would import clean power from the Pacific Northwest.

The federal operating license for SMUD's Upper American River Project approves the construction of a pumped-storage facility at Iowa Hill outside the El Dorado County community of Camino. If the project is ultimately approved by the SMUD Board, a new reservoir would be constructed above Slab Creek Reservoir. During off-peak hours, when power is abundant and inexpensive, water would be pumped up from Slab Creek to the new reservoir for storage.

During peak hours, water would be released from the new reservoir to flow down into a 400-megawatt powerhouse situated underground next to Slab Creek Reservoir.



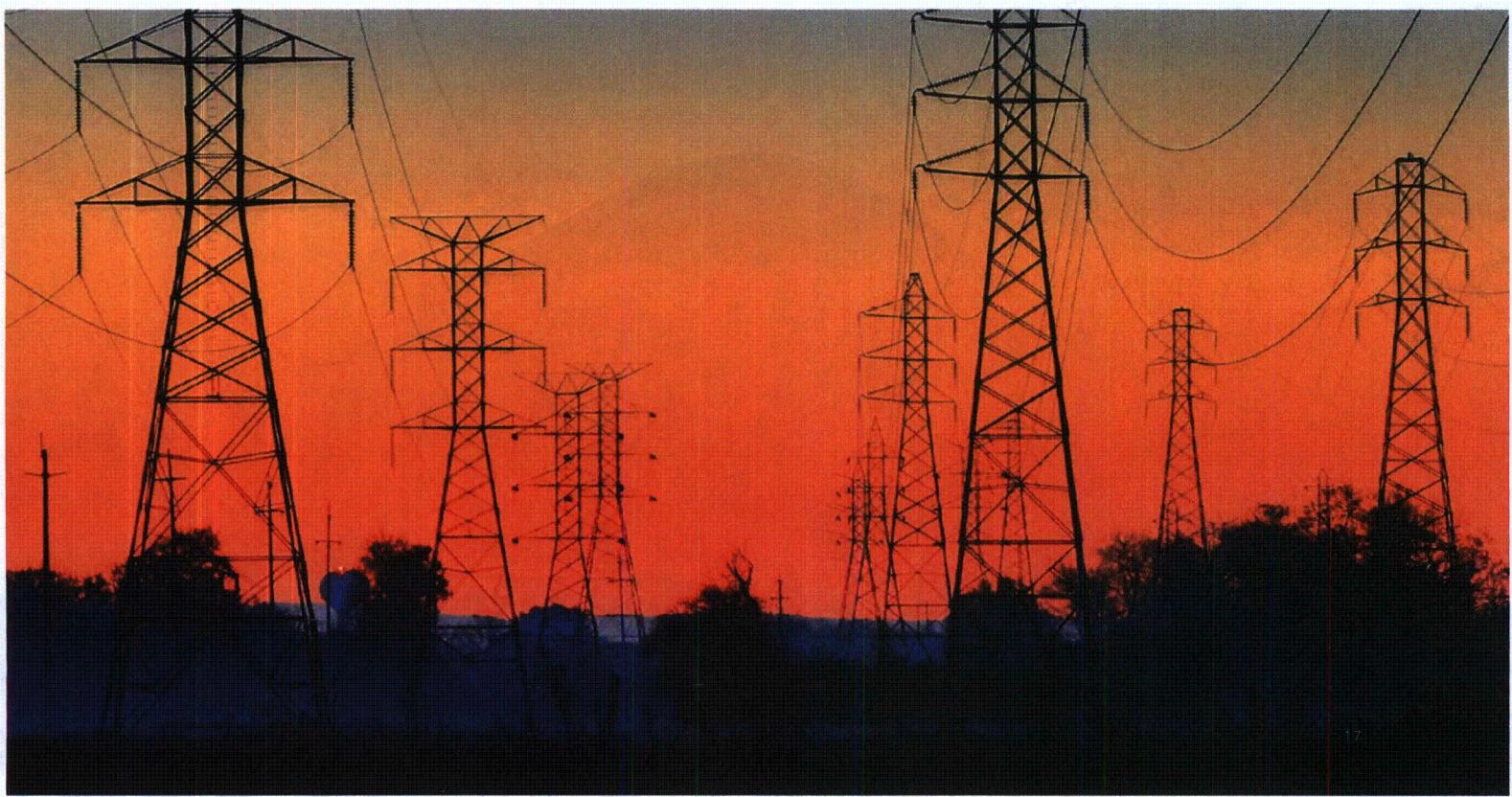
The system would allow SMUD to use the water over and over again. Iowa Hill would also help SMUD integrate intermittent resources such as wind and solar into its power supply.

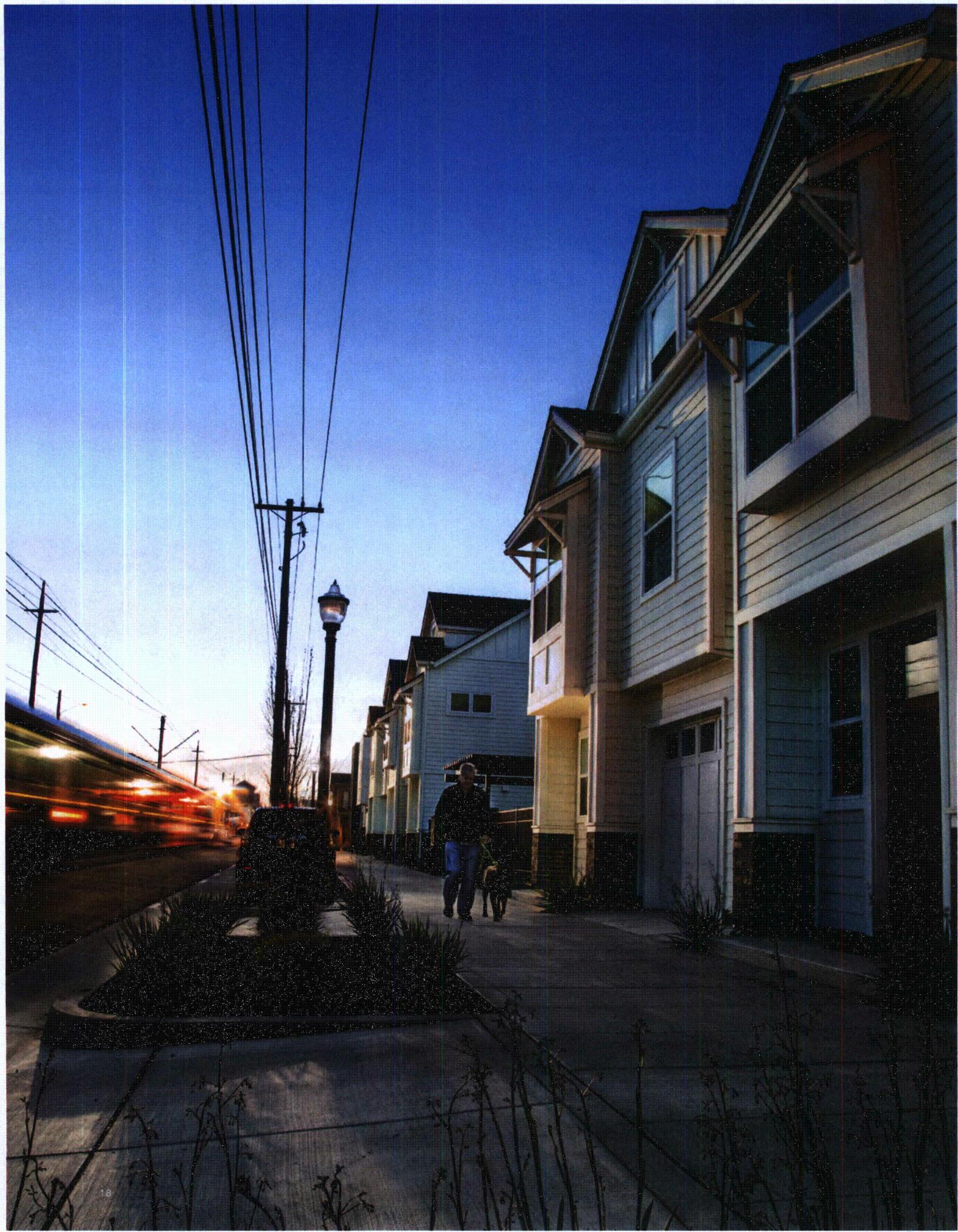
In 2014, SMUD oversaw core drilling near the Iowa Hill site to determine whether the construction is feasible. Results thus far are positive.

Also in 2014, the SMUD Board approved the planning phase for the joint development of a new transmission line with the Western Area Power Administration. The 500-kV line would extend 45 miles and connect the California-Oregon Transmission Project and Western's O'Banion substation in Sutter County.

Among other benefits, the project would increase the reliability of SMUD's system when a great share of its energy comes from renewable sources. The planning phase of the project dubbed "SAC500" is expected to take up to four years. The project timeline targets a completion date in 2023.

SMUD is also developing plans to expand the Solano Wind Project to add nearly 53 megawatts of wind power to its renewable energy mix. An additional 16 turbines would be constructed on a 700-acre parcel purchased from PG&E in 2014 and would be operational in 2020.





## Neighborhood of the future

SMUD recently participated in a midtown housing project that provides a fascinating glimpse into the future – and why innovation and technology are so vital to the new way of doing business.



At 2500 R Street, 34 new homes are among the first in the nation to use the latest smart-grid technology. Each house has its own lithium-ion battery that stores electricity and backs up the rooftop solar panels. An automated home energy management system controls the home's smart thermostats as well as the solar and battery functions. In the event of a power outage, the energy storage system keeps electricity flowing to essential lights and appliances.

During the morning and afternoon hours, the solar panels pump electricity into the battery and the resident buys power from SMUD at the off-peak discount rate.

Later, during the late-afternoon and early-evening peak hours, residents are able to sell their stored solar power to SMUD – at three times the price they paid for the off-peak power.

The 2500 R Street project is an example of residential energy storage tied directly with solar generation.

In today's electric industry, battery storage is one of the most exciting – and potentially transformative – technologies on the horizon.

Energy storage can supply power when the sun doesn't shine and the wind doesn't blow. This helps balance supply and demand across the electric grid.



A closet-sized box contains a battery, inverter and controls for the rooftop solar panels.

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**FINANCIAL STATEMENTS**

## 5 YEAR SUMMARY (Unaudited)

<b>Operating Statistics (i)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Customers at year-end	<b>614,143</b>	610,185	604,053	599,826	597,097
<b>KWH Sales (thousands)</b>					
Sales to customers –					
Residential	<b>4,639,175</b>	4,651,219	4,640,238	4,587,205	4,486,241
Commercial, industrial & other	<b>5,858,785</b>	5,795,408	5,814,531	5,797,808	5,798,569
Subtotal	<b>10,497,960</b>	10,446,627	10,454,769	10,385,013	10,284,810
Sales of surplus power	<b>1,906,263</b>	2,072,396	2,442,090	2,492,975	1,836,957
Total	<b>12,404,223</b>	12,519,023	12,896,859	12,877,988	12,121,767
<b>Revenues (thousands of dollars)</b>					
Sales to customers –					
Residential	<b>\$ 594,644</b>	\$ 572,701	\$ 569,210	\$ 559,424	\$ 526,860
Commercial, industrial & other	<b>711,208</b>	696,439	695,379	692,959	669,489
Subtotal	<b>1,305,852</b>	1,269,140	1,264,589	1,252,383	1,196,349
Sales of surplus power	<b>84,158</b>	78,316	60,033	70,370	59,493
Sales of surplus gas	<b>82,104</b>	52,814	48,679	88,202	59,998
Total (ii)	<b>\$1,472,114</b>	<b>\$1,400,270</b>	<b>\$1,373,301</b>	<b>\$1,410,955</b>	<b>\$1,315,840</b>
Average kWh sales per residential customer	<b>8,545</b>	8,634	8,699	8,652	8,497
Average revenue per residential kWh sold (cents)	<b>12.92</b>	12.47	12.38	12.33	11.91
Power supply (thousands of kWh)					
Hydroelectric	<b>765,190</b>	1,018,659	1,425,443	2,823,979	1,926,783
Cogeneration	<b>5,919,981</b>	5,880,239	5,276,572	4,762,183	5,468,825
Windpower	<b>211,359</b>	237,410	230,149	221,067	236,352
Photovoltaic	<b>5</b>	51	295	1,627	1,952
Purchases	<b>5,963,656</b>	5,846,971	6,440,277	5,599,183	5,013,814
Net system peak demand – 1 hour (kW)	<b>3,003,000</b>	3,014,000	2,954,000	2,840,000	2,990,000
Employees at year-end	<b>2,071</b>	2,073	2,028	2,034	2,064
<b>Financial Statistics (thousands of dollars)</b>					
Operating revenues	<b>\$1,529,344</b>	<b>\$1,428,395</b>	<b>\$1,382,274</b>	<b>\$1,360,008</b>	<b>\$1,323,288</b>
Operating expenses –					
Purchased and interchanged power	<b>316,082</b>	273,596	241,847	237,360	255,523
Operation and maintenance	<b>817,179</b>	794,728	735,201	744,446	733,377
Depreciation and amortization	<b>184,810</b>	180,718	165,460	169,987	162,708
Regulatory amounts collected in rates	<b>5,401</b>	6,140	10,574	10,047	4,704
Total operating expenses	<b>1,323,472</b>	<b>1,255,182</b>	<b>1,153,082</b>	<b>1,161,840</b>	<b>1,156,312</b>
Operating income	<b>205,872</b>	173,213	229,192	198,168	166,976
Other income	<b>79,125</b>	22,441	57,319	12,797	3,843
Income before interest charges	<b>284,997</b>	195,654	286,511	210,965	170,819
Interest charges	<b>121,931</b>	125,956	126,453	140,837	140,069
Change in net position					
before extraordinary income	<b>\$ 163,066</b>	<b>\$ 69,698</b>	<b>\$ 160,058</b>	<b>\$ 70,128</b>	<b>\$ 30,750</b>
Extraordinary income	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 134</b>	<b>\$ 3</b>
Change in net position	<b>\$ 163,066</b>	<b>\$ 69,698</b>	<b>\$ 160,058</b>	<b>\$ 70,262</b>	<b>\$ 30,753</b>
Funds available for revenue bond debt service	<b>\$ 424,262</b>	\$ 437,414	\$ 521,627	\$ 472,367	\$ 336,451
Revenue bond debt service (iii)	<b>\$ 190,702</b>	\$ 176,270	\$ 160,757	\$ 167,271	\$ 170,318
Revenue bond debt service coverage ratio (iii)	<b>2.22</b>	2.48	3.24	2.82	1.98
Electric utility plant – net	<b>\$3,331,965</b>	\$ 3,322,977	\$ 3,339,709	\$ 3,248,294	\$ 3,004,216
Capitalization					
Long-term debt	<b>\$2,881,701</b>	\$ 3,075,802	\$ 3,091,405	\$ 3,012,935	\$ 3,156,447
Net Position	<b>\$1,009,771</b>	<b>\$ 846,705</b>	<b>\$ 777,007</b>	<b>\$ 616,949</b>	<b>\$ 546,687</b>

i Financial information is consolidated (except the debt service information).

ii Prior to the net deferral/transfer of revenues to/from the Rate Stabilization Fund and

net deferral/recognition of Public Good, Senate Bill 1, and Assembly Bill 32 revenues.

iii Includes senior and subordinate bond debt service.

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**INDEPENDENT AUDITORS' REPORT****To the Board of Directors of Sacramento Municipal Utility District, Sacramento, California****Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Sacramento Municipal Utility District and its blended component units, which comprise the Consolidated Statements of Net Position as of December 31, 2014 and 2013, and the related Consolidated Statements of Revenues, Expenses and Changes in Net Position, and Consolidated Statements of Cash Flows for the years then ended and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Sacramento Municipal Utility District's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Municipal Utility District'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Municipal Utility District and its blended component units at December 31, 2014 and 2013, and the changes in their financial position and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*continued*

## **INDEPENDENT AUDITORS' REPORT *continued***

### ***Other Matter***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of Sacramento Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento Municipal Utility District's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin

February 20, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**Using this Financial Report**

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

SMUD maintains its accounting records in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to accounting for contributions of utility property in aid of construction.

**Overview of the Financial Statements**

The following discussion and analysis of the financial performance of SMUD provides an overview of the financial activities for the years ended December 31, 2014 and 2013. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes, which follow this section.

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

The Consolidated Statements of Revenues, Expenses and Changes in Net Position report all of SMUD's revenues and expenses for the periods shown.

The Consolidated 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 the consolidated financial statements provide additional detailed information to support the financial statements.

**Nature of Operations**

Under provisions of California's Municipal Utility District Act, the citizens of Sacramento voted in 1923 to form their own electric utility – SMUD. The independently run community-owned utility began operations on December 31, 1946 and is not subject to regulation or oversight by the California Public Utilities Commission (CPUC). It is now the sixth largest community-owned electric utility in the nation.

Governed by an elected board of directors (Board), SMUD has the rights and powers to fix rates and charges for commodities and services it furnishes, incur indebtedness, and issue bonds or other obligations. SMUD is responsible for the acquisition, generation, transmission and distribution of electric power to its service area with a population of approximately 1.4 million – most of Sacramento County and small, adjoining portions of Placer and Yolo counties. Its purpose is to provide solutions for meeting customers' electrical energy needs with a vision of empowering customers with solutions and options that increase energy efficiency, protect the environment, reduce global warming, and lower the cost to serve the region.

The Board has independent authority to set SMUD's rates and charges. Changes in rates require a public hearing and formal action by the Board. In August 2013, the Board approved a 2.5 percent rate increase effective January 1, 2014, and an additional 2.5 percent rate increase effective January 1, 2015. The rate increases were designed to achieve a fixed charge ratio of at least 1.5. The Board also approved the gradual convergence of the residential two tier rate structure between 2014 and 2017, resulting in a single tier rate structure in 2017. On a system-wide basis, the rate tier convergence is expected to be revenue neutral in preparation for moving to time of use rates in 2018.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Even with these increases, SMUD's rates continue to remain amongst the lowest in the state. In 2014, the average system rate was 27.7 percent below the nearest investor owned utility's (IOU's) average rate. As a result of the extensive analysis of new rate designs, SMUD was recognized as a statewide leader in rate design by the Governor's Office, the CPUC, the U.S. Department of Energy (DOE), IOUs, and the academic community.

SMUD's business strategy focuses on planning to service its customers in a forward looking manner, addressing current regulatory and legislative issues, and potential competitive forces. This includes ensuring financial stability by establishing rates that provide acceptable cash coverage of all fixed charges on a consolidated basis, taking into consideration the impact of capital expenditures and other factors on cash flow.

**Financial & Operational Highlights**

In 2014, the Board appointed a new General Manager (GM), Arlen Orchard, who is the Chief Executive Officer (CEO) of SMUD and responsible for SMUD's overall management and operation. The GM and CEO's executive vision is to increase emphasis on meeting increased customer expectations, data governance and management, and improved operational efficiencies. Significant accomplishments in 2014 include Fitch upgrading SMUD's credit rating from A+ to AA- and the renewal of several letters of credit resulting in reduced credit support costs, SMUD being recognized by its residential customers as the top California utility for the thirteenth consecutive year by J.D. Power and ranked first among midsize utilities in the West for business customer satisfaction, and FERC issuing a new license for SMUD's hydro facilities.

In July 2014, FERC issued a new fifty year license for the Upper American River Project (UARP), which includes authority to build the Iowa Hill pumped-storage project. The UARP consists of three relatively large storage reservoirs and eight powerhouses containing eleven turbines. The UARP is one of SMUD's lowest cost power sources. In addition to providing clean hydroelectric power and operational flexibility, it provides habitat for fish and wildlife and a variety of recreational opportunities, including camping, fishing, boating, hiking, horseback riding, mountain biking, and cross-country skiing. The combined capacity of the UARP is approximately 673 MW and represents about 15 percent of SMUD's average annual retail energy requirements. The Iowa Hill pumped-storage project is a proposed 3 unit, 400 MW variable speed powerhouse. The first phase of the geotechnical exploration plan and most of the required permitting was completed in 2014. SMUD's other power generation facilities include 3 MW of solar photovoltaic installations, 102 MW Solano Wind Project, five local gas-fired power plants with total capacity of approximately 1012 MW. In addition SMUD has several power purchase agreements to help meet its power requirements.

As part of the hydro relicensing process, SMUD entered into long-term contracts to provide certain services to four different government agencies – U.S. Department of Interior Bureau of Land Management, U.S. Department of Agriculture Forest Service, El Dorado County, and the California Department of Parks and Recreation. The aggregate present value of all contract payments of \$56.1 million was recorded as a Noncurrent Liability at December 31, 2014.

The impact of the drought continued to plague California in 2014. SMUD experienced a third year of below average precipitation, which reduced its hydroelectric generation from the UARP by more than 50 percent. Reserve funds have been established to help absorb higher energy costs when hydroelectric production is down and to serve as a buffer against unexpected financial developments. In April 2014 and 2013, \$24.3 million and \$6.6 million, respectively, were transferred from the Hydro Rate Stabilization Fund (HRSF) to revenue as a result of the lower precipitation. The balance of the HRSF at December 31, 2014 and 2013 was \$3.1 million and \$27.4 million, respectively. SMUD's mitigation efforts have protected its rate payers from rate volatility due to higher

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

operating costs; however, if the drought continues and reserves are not adequate to cover all costs, SMUD will apply a hydroelectric rate surcharge of up to 4 percent to customers' electric bills. SMUD also has a long-term agreement with the Western Area Power Administration (WAPA) to purchase power generated by the Central Valley Project, a series of federal hydroelectric facilities operated by the U.S. Bureau of Reclamation (USBR). SMUD uses the Rate Stabilization Fund (RSF) to offset any excess or deficits in WAPA energy deliveries. As a result of the drought, WAPA's deliveries fell short by about 27 percent and in December 2014, \$11.8 million was transferred from the RSF due to the lower energy deliveries. In December 2013, \$1.8 million was transferred to the RSF due to excess energy deliveries. At December 31, 2014 and 2013, the balance of the RSF was \$42.3 million and \$54.1 million, respectively.

In September 2014, the UARP facilities were threatened by the King Fire that burned approximately 98,000 acres of forested area in El Dorado County, including lower elevation areas of the UARP. Damage to the UARP was limited relative to the magnitude of the fire. Power generation was interrupted for one week while transmission lines were de-energized, causing SMUD to incur substitute power costs. SMUD incurred over \$4.0 million of costs related to the fire and cleanup and is actively pursuing insurance claims, as well as federal and state disaster relief, if made available.

**Decommissioning**

During 2014, SMUD made significant progress toward completing the Decommissioning Plan for its Rancho Seco nuclear facility, which was shut down in 1989. The plan consists of two phases that allow SMUD to terminate its possession-only license. Phase I of the decommissioning was completed at the end of 2008. Phase II consists of a storage period for the Class B and Class C radioactive waste overseen by the existing facility staff, followed by shipment of the waste for disposal, and then complete termination of the possession-only license. SMUD also established and funded an external decommissioning trust fund as part of its assurance to the Nuclear Regulatory Commission (NRC) to pay for the cost of decommissioning. In September 2013, SMUD entered into a contract with the operator of a low-level radioactive waste facility located in Andrews, Texas. Shipment of the previously stored Class B and Class C radioactive waste was completed in November 2014. The disposal and shipment costs were funded from the decommissioning trust fund in an amount over \$22.0 million. At December 31, 2014 and 2013, the balance of the decommissioning trust fund was \$8.3 million and \$31.1 million, respectively. The Accrued Decommissioning balance in the Consolidated Statements of Net Position includes \$152.1 million and \$169.1 million for costs related to Rancho Seco as of December 31, 2014 and 2013, respectively.

As part of the Decommissioning Plan, the nuclear fuel and Greater Than Class C (GTCC) radioactive waste is being stored in a dry storage facility constructed by SMUD and licensed separately by the NRC. The DOE, under the Nuclear Waste Policy Act of 1982, was responsible for permanent disposal of used nuclear fuel and GTCC radioactive waste and SMUD contracted with the DOE for removal and disposal of that waste. In 1998, SMUD filed suit against the DOE for breach-of-contract because the DOE never provided a permanent waste disposal site. In September 2014, SMUD received \$53.1 million following the signing of a final judgment by the U.S. Court of Federal Claims for costs incurred from 1992 through 2003 as a result of the DOE's failure to provide a disposal site for spent fuel from the Rancho Seco nuclear power plant. This amount is included in Other Income-Net in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**Employee Relations and Benefits**

Effective January 1, 2013, SMUD began operating under a new five year memorandum of understanding (MOU) with both of its collective bargaining units, the International Brotherhood of Electrical Workers Local Union 1245 and the Organization of SMUD Employees.

SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. In July 2014, SMUD exercised the option to prepay an annual lump sum payment to PERS. Of the total \$22.5 million contribution made, \$11.2 million is included as a prepaid asset at December 31, 2014 and the \$11.3 million was recorded as an expense in 2014.

SMUD provides postemployment healthcare benefits (OPEB) to all employees who retire from SMUD and their dependents in accordance with SMUD policy and MOUs. These benefits are funded through the PERS California Employer's Retiree Benefit Trust, an agent multiple-employer plan. SMUD opted to make an additional \$40.0 million contribution to the trust in 2014. This contribution was in excess of the actuarial required contribution, increasing SMUD's funded level to 25.6 percent. The balance of the OPEB asset at December 31, 2014 and 2013 was \$77.7 million and \$36.7 million, respectively.

**Developments in the Energy Market**

New developments in the energy market at both the federal and state level kept SMUD on high alert as it continued to monitor and address the potential impacts on the organization. Legislation at the federal level include the Executive Order "Improving Critical Infrastructure Security" on cyber security, the Energy Policy Act of 1992 related to federal regulation of transmission access that includes FERC Order 1000, the North American Electric Reliability Corporation reliability standards, anti-market manipulation rules, and greenhouse gas emissions. Legislation at the state level include Assembly Bill 32 Global Warming Solutions Act of 2006 (AB 32) establishing the cap-and-trade program for carbon allowances, renewable portfolio standards, Senate Bill 1 (SB-1) solar program, SB-2 1X the California Renewable Energy Resources Act that codifies the Renewable Portfolio Standards target, the Delta Reform Act of 2009 that impacts hydro generation, and the California Independent System Operator's development of the energy imbalance market.

**Significant Accounting Policies**

In accordance with GASB Statement No. 62, "*Regulated Operations*," the Board has taken regulatory actions for ratemaking that result in the deferral of expense and revenue recognition. These actions result in regulatory assets and liabilities. SMUD has regulatory assets that cover costs related to decommissioning, Transmission Agency of Northern California (TANC) operations, USBR, derivative financial instruments, SB-1 solar investments, and debt issuance costs. As of December 31, 2014 and 2013, total regulatory assets were \$203.6 million and \$192.2 million, respectively. SMUD also has regulatory credits that cover costs related to contributions in aid of construction, the RSF and HRSF, AB 32 carbon allowances, grant revenues, TANC, and precipitation hedges. As of December 31, 2014 and 2013, total regulatory credits were \$368.9 million and \$403.2 million, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

## FINANCIAL POSITION

Condensed Consolidated Statements of Net Position	December 31,		
	2014	2013	2012
(millions of dollars)			
<b>Assets</b>			
Electric Utility Plant – net	\$ 3,332	\$ 3,323	\$ 3,340
Restricted and Designated Assets	137	174	233
Current Assets	1,073	1,062	911
Noncurrent Assets	819	784	862
Total Assets	\$ 5,361	\$ 5,343	\$ 5,346
Deferred Outflows of Resources	192	149	223
Total Assets and Deferred Outflows of Resources	<u>\$ 5,553</u>	<u>\$ 5,492</u>	<u>\$ 5,569</u>
<b>Liabilities</b>			
Long-Term Debt – net	\$ 2,882	\$ 3,076	\$ 3,092
Current Liabilities	661	589	643
Noncurrent Liabilities	355	289	342
Total Liabilities	\$ 3,898	\$ 3,954	\$ 4,077
Deferred Inflows of Resources	646	691	715
Net Position:			
Net Investment in Capital Assets	485	345	412
Restricted	127	116	127
Unrestricted	397	386	238
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 5,553</u>	<u>\$ 5,492</u>	<u>\$ 5,569</u>

## ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

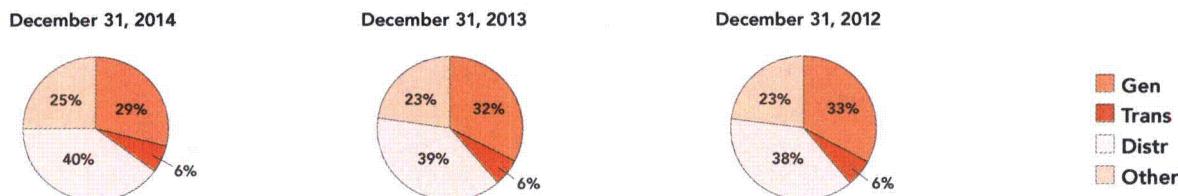
**Electric Utility Plant – net**

**2014 compared to 2013** As of December 31, 2014 SMUD has invested approximately \$3,332.0 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation. Net Electric Utility Plant makes up about 60 percent of SMUD's Total Assets and Deferred Outflow of Resources, which is about one percent less than 2013. In 2014, SMUD capitalized approximately \$199.0 million of additions to electric utility plant in the Consolidated Statements of Net Position. The additions were primarily due to distribution line work, hardware and software upgrades, and purchase of land for additional wind capacity and replacement of bulk substations. These additions were offset by the retirement of the UARP recreational facilities and some photovoltaic assets.

**2013 compared to 2012** SMUD has invested approximately \$3,323.0 million in electric utility plant assets and construction work in progress (CWIP) after accumulated depreciation at December 31, 2013. Electric Utility Plant – net makes up about 62 percent of SMUD's Total Assets, which is the same percentage as the previous year. In 2013, SMUD capitalized approximately \$171.0 million of additions to electric utility plant in SMUD's Consolidated Statements of Net Position. The additions were primarily due to distribution line work, hardware and software upgrades, the East Campus Operations Center, and distribution and transmission substation upgrades and modifications.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following charts show the breakdown of Electric Utility Plant – net by major plant category – Generation (Gen), Transmission (Trans), Distribution (Distr), and Other:



### Restricted and Designated Assets

**2014 compared to 2013** SMUD's restricted and designated assets are comprised of debt service reserves, nuclear decommissioning trust funds, rate stabilization reserves, and other third party agreements or Board actions. These assets decreased by \$37.4 million during 2014. The decrease was partially due to a transfer of \$36.2 million from the RSF (including the HRSF) as a result of lower precipitation and lower energy deliveries from WAPA. In addition, there was a decrease of \$22.9 million in the nuclear decommissioning fund mainly due to payments made for the shipment of the low level radioactive waste to a permanent waste disposal facility. These decreases were offset by \$11.0 million increase in the component units' overhaul and maintenance reserve and \$13.7 million in the current portion of these assets.

**2013 compared to 2012** SMUD's restricted and designated assets decreased by \$58.7 million during 2013. The decrease was due to \$28.7 million related to the component units' overhaul and operating funds, \$14.5 million in the nuclear decommissioning fund, \$11.0 million in the revenue bond reserves due to the refunding of Series R03 and S03, and \$4.8 million in the RSF (including the HRSF) as a result of lower precipitation and higher energy deliveries from Western. These decreases were offset by a \$0.3 million increase in the escrow fund.

### Current Assets

**2014 compared to 2013** Current assets remained relatively flat in 2014 compared to 2013 with a one percent increase of \$12.2 million. The unrestricted investments increased by \$91.3 million along with a total increase of \$8.9 million in the current portion of regulatory costs and prepaid gas, inventories, and credit support collateral deposits. These increases were offset by decreases of \$59.0 million in unrestricted cash and cash equivalents, \$13.7 million in restricted and designated cash and cash equivalents and investments, \$12.7 million in net receivables, and \$2.6 million in the current portion of investment and hedging derivative instruments, and prepayments.

**2013 compared to 2012** Current assets increased by \$141.1 million in 2013 primarily due to increases in the following: \$249.5 million in unrestricted investments, \$32.5 million in the current portion of restricted and designated cash and \$10.6 million in the current portion of prepayments. This is partially offset by decreases in the following: \$71.5 million in unrestricted cash and cash equivalents, \$71.4 million in net receivables, \$5.0 million in the current portion of regulatory costs, and \$5.0 million in credit support collateral deposits.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**Noncurrent Assets**

**2014 compared to 2013** Total noncurrent assets increased by \$35.0 million mainly due to a \$40.0 million additional contribution to the OPEB trust fund.

**2013 compared to 2012** Total noncurrent assets decreased by \$69.0 million mainly due to the following decreases: \$30.2 million in regulatory costs for future recovery, \$25.0 million in gas, power and other prepaid costs, \$10.5 million in hedging derivative instruments, and \$3.3 million in net energy efficiency loans.

**Deferred Outflows of Resources**

**2014 compared to 2013** Total deferred outflows of resources increased \$42.7 million due to a \$49.7 million increase in the fair value of hedging derivative instruments, offset by \$7.0 million amortization of bond losses.

**2013 compared to 2012** Total deferred outflows of resources decreased \$73.6 million due to \$61.9 million in the fair value of hedging derivative instruments and \$11.7 million in unamortized bond losses.

**LIABILITIES AND DEFERRED INFLOWS OF RESOURCES**

**Long-term debt – net**

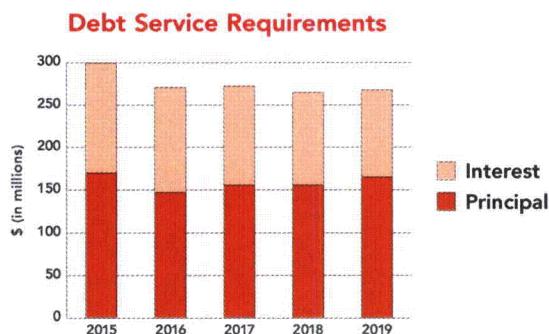
**2014 compared to 2013** SMUD's long-term debt includes the component units' debt and consists of a variety of financial instruments, including interest rate swap agreements, subordinated electric revenue bonds and variable rate bonds. Proceeds from the bonds provide financing for various capital improvement projects, component unit capital projects, and the prepayment of a 20 year supply of natural gas.

In December 2014, SMUD redeemed \$8.7 million of 2004 Series T Bonds. The redemption resulted in a current accounting gain of \$23 thousand, which is included in Interest on Debt. Redeeming the bonds will reduce the aggregate future debt service payments by \$11.0 million.

**2013 compared to 2012** In May 2013, SMUD issued \$118.6 million of 2013 Series B Electric Revenue Refunding Bonds. The proceeds from the issuance along with \$6.7 million of available funds were used to refund \$141.5 million of the outstanding 2003 Series R and 2004 Series T revenue bonds through a legal defeasance. In August 2013, SMUD issued \$57.8 million of 2013 Series C Electric Revenue Refunding Bonds. The proceeds from the issuance along with \$4.3 million of available funds were used to refund \$65.9 million of the outstanding 2003 Series S bonds through a legal defeasance.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

The following table shows SMUD's future debt service requirements through 2019 as of December 31, 2014:



As of December 31, 2014, SMUD's bonds had an underlying rating of "AA-" from Standard & Poor's, "AA-" from Fitch, and "A1" from Moody's. SMUD's bonds were upgraded by Fitch from A+ to AA- in December 2014. Some of SMUD's bonds are insured and are rated by the rating agencies at the higher of the insurer's rating or SMUD's underlying rating.

**Current Liabilities**

**2014 compared to 2013** Current liabilities increased by \$72.0 million during 2014. Current portion of long-term debt increased \$32.8 million mainly due to a \$29.9 million early call of a component unit's bonds. In addition, there was a \$38.7 million increase in investment and hedging derivative instruments.

**2013 compared to 2012** Current liabilities decreased by \$59.0 million during 2013. The decrease is primarily due to the following: investment and hedging derivative instruments maturing within one year of \$77.5 million, \$11.5 million in customer deposits and other, and \$3.7 million in accounts payable. These decreases were partially offset by \$18.4 million increase in long-term debt due within a year and \$13.5 million in accrued decommission costs.

**Noncurrent Liabilities**

**2014 compared to 2013** Noncurrent liabilities increased by \$65.7 million during 2014. The increase was mainly due to a \$56.1 million liability associated with the new hydro license and \$18.4 million in investment and hedging derivative instruments.

**2013 compared to 2012** Noncurrent liabilities decreased by \$48.0 million during 2013. The decrease was due to \$14.0 million in accrued decommissioning costs, \$14.9 million in investment derivative instruments, \$8.3 million due to affiliated entity, \$6.2 million due to USBR, and \$7.8 million in self-insurance. These decreases were offset by a \$3.2 million increase in hedging derivative instruments.

**Deferred Inflows of Resources**

**2014 compared to 2013** Total deferred inflows of resources decreased \$45.2 million due to a transfer of \$36.2 million from the RSF (including the HRSF) as a result of lower precipitation and lower energy deliveries from WAPA and the amortization of \$10.0 million for the Solano Phase 3 wind facilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**2013 compared to 2012** Total deferred inflows of resources decreased \$24.0 million due to a decrease of \$18.6 million in financing obligations and \$9.0 million in accumulated increase in fair value of hedging derivatives. These decreases were offset by a \$3.6 million increase in regulatory credits.

## RESULTS OF OPERATIONS

## Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position

	December 31,		
	2014	2013	2012
		(millions of dollars)	
Operating revenues	\$ 1,529	\$ 1,428	\$ 1,382
Operating expenses	(1,323)	(1,255)	(1,153)
Operating income	206	173	229
Other revenues	79	22	57
Interest charges	(122)	(125)	(126)
Change in net position	163	70	160
Net position – beginning of year	847	777	617
Net position – end of year	<u>\$ 1,010</u>	<u>\$ 847</u>	<u>\$ 777</u>

**Operating Revenues**

**2014 compared to 2013** Operating revenues increased \$100.9 million in 2014, of which \$36.7 million includes the 2.5 percent rate increase that went into effect January 1, 2014. As of December 31, 2014, the number of customers had increased approximately one percent to 614,143 at a slightly higher average revenue per kilowatt hour as compared to the end of 2013.

SMUD transferred \$24.3 million from the RSF in 2014 compared to a transfer of \$1.8 million to the RSF in 2013. SMUD also transferred \$11.9 million and \$6.6 million from the HRSF in 2014 and 2013, respectively.

Wholesale revenues are comprised of both surplus gas and energy sales which are part of the operational strategy in managing fuel and energy costs. In 2014, surplus gas sales were higher than 2013 by \$29.3 million due to higher gas prices and more gas sold. Energy sales were also higher in 2014 by \$5.8 million as compared to 2013 due to higher prices offset by lower volume.

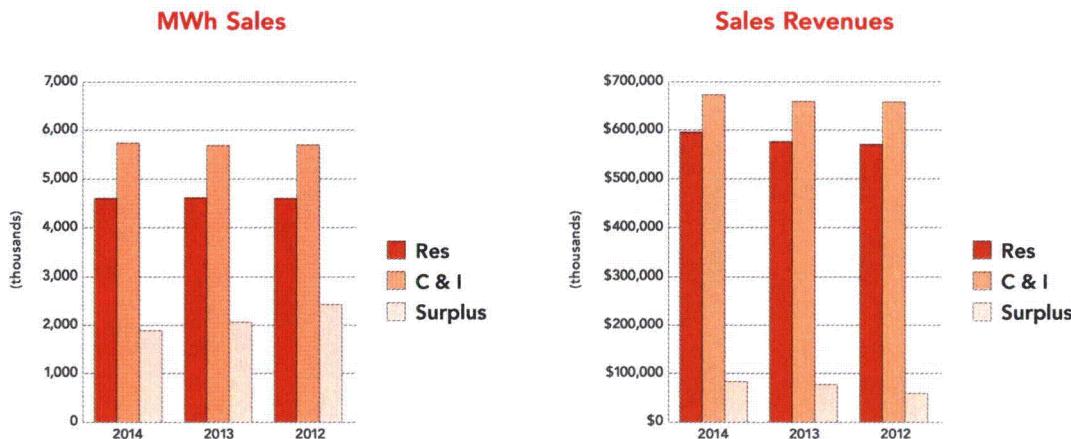
**2013 compared to 2012** Operating revenues were \$1,428.4 million in 2013, an increase of \$46.1 million from 2012. Sales to retail customers were \$1,252.4 million in 2013, an increase of \$6.9 million, which was about 1 percent higher than 2012. The number of customers increased from 604,053 in 2012 to 610,185 at the end of 2013, at an average revenue per kilowatt hour that remained flat.

SMUD transferred \$1.8 million to the RSF in 2013 as compared to a \$0.6 million transfer to the fund in 2012. SMUD also transferred \$6.6 million from the HRSF during 2013 as compared to a \$6.4 million transfer from the fund in 2012. Additionally, SMUD spent more than it collected in SB-1 revenues and has recorded a regulatory asset of \$7.7 million.

Wholesale revenues are composed of both surplus gas and energy sales. In 2013, surplus gas sales were \$52.8 million as compared to \$48.7 million in 2012. Surplus gas sales were 8 percent higher and the average sales price was higher than the previous year. Surplus energy sales in 2013 were \$18.3 million higher than in 2012 as a result of higher prices offset by lower volumes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following charts show the megawatt hour (MWh) sales, and sales revenue for the past three years by surplus energy sales (Surplus), commercial and industrial (C&I) and residential (Res) customers.

**Operating Expenses**

**2014 compared to 2013** Operating expenses increased \$68.3 million compared to 2013 mainly due to the impact of the drought on hydro generation. The reduction in hydro generation contributed significantly to the \$42.5 million increase in purchased power expense, which is about 16 percent higher than in 2013. Production costs, which include depletion, were higher by \$14.3 million. Net fuel costs for generation is included in production costs and was \$37.0 million lower than 2013 mainly due to a 14 percent reduction in the average net fuel price.

**2013 compared to 2012** Operating expenses were \$1,255.2 million in 2013, an increase of \$102.1 million from 2012. Purchased power expense was \$31.7 million higher in 2013, mainly due to higher average prices offset by lower volume as compared to 2012. Approximately 9 percent less energy was purchased in 2013 at prices that averaged 24 percent higher than in 2012.

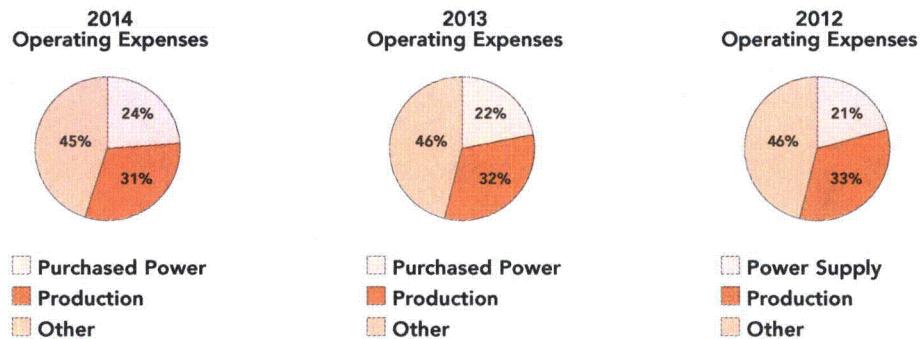
In 2013, net fuel costs for generation, a component of production costs, were approximately \$257.2 million (inclusive of ineffective hedges reported as investment expense), or \$12.6 million lower than 2012. Fuel usage increased 10 percent primarily due to higher production at the component unit generation plants. Average net fuel prices were lower by 14 percent in 2013 as compared to 2012.

Depreciation expense increased by \$15.3 million due to higher depreciation related to software and hardware, general structures and improvements, Solano Wind plant, and distribution assets. The \$4.4 million decrease in regulatory amounts collected in rates is due to the final year of amortization of North City Substation remediation obligations offset by higher decommissioning costs.

Administrative, general, and customer expenses were \$14.6 million higher in 2013 than in 2012, mainly due to higher expense in various customer programs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The following charts show the breakdown of operating expenses:



#### Other Revenues and (Expenses)

**2014 compared to 2013** Other revenues were \$56.7 million higher in 2014 most of which was attributable to the \$53.1 million settlement related to the Rancho Seco nuclear waste disposal litigation. Other changes include lower investment expense of \$13.2 million due to ineffective hedges, offset by \$5.0 million lower revenues associated with grants.

**2013 compared to 2012** Other revenues were \$38.9 million lower in 2013 as compared to 2012. Interest income is lower by \$29.7 million mainly due to the Fru-Con settlement related to the Cosumnes Power Plant litigation. Grant revenue net of pass through expenditures is lower by \$13.0 million due to lower costs from grant programs, and other income – net was lower by \$4.8 million. In addition, there was a \$12.6 million decrease in investment expense related to ineffective hedges.

## CONSOLIDATED STATEMENTS OF NET POSITION

<b>Assets</b>	December 31,	
	<b>2014</b>	<b>2013</b>
(thousands of dollars)		
<b>Electric Utility Plant</b>		
Plant in service	\$ 5,575,013	\$ 5,353,712
Less accumulated depreciation and depletion	(2,354,642)	(2,166,120)
Plant in service – net	3,220,371	3,187,592
Construction work in progress	111,594	135,385
Total electric utility plant – net	<u>3,331,965</u>	<u>3,322,977</u>
<b>Restricted and Designated Assets</b>		
Revenue bond and debt service reserves	130,430	133,472
Nuclear decommissioning trust fund	8,250	31,137
Rate stabilization fund	45,306	81,474
Other funds	66,752	55,773
Less current portion	(113,805)	(127,524)
Total restricted and designated assets	<u>136,933</u>	<u>174,332</u>
<b>Current Assets</b>		
Unrestricted cash and cash equivalents	237,709	296,679
Unrestricted investments	396,575	305,296
Restricted and designated cash and cash equivalents	37,765	42,425
Restricted and designated investments	76,040	85,099
Receivables – net:		
Retail customers	153,658	152,821
Wholesale	7,837	8,390
Other	26,479	39,464
Regulatory costs to be recovered within one year	20,838	17,668
Investment derivative instruments maturing within one year	39	279
Hedging derivative instruments maturing within one year	9,025	9,879
Inventories	52,626	49,866
Prepaid gas to be delivered within one year	24,893	22,720
Credit support collateral deposits	829	-0-
Prepayments	28,952	30,475
Total current assets	<u>1,073,265</u>	<u>1,061,061</u>
<b>Noncurrent Assets</b>		
Regulatory costs for future recovery	182,793	174,570
Prepaid gas	315,612	340,504
Prepaid power and capacity	140,507	145,362
Investment derivative instruments	-0-	147
Hedging derivative instruments	25,703	25,704
Energy efficiency loans – net	33,173	36,378
Credit support collateral deposits	3,171	-0-
Due from affiliated entity	7,687	-0-
Prepayments and other	110,575	61,568
Total noncurrent assets	<u>819,221</u>	<u>784,233</u>
Total Assets	<u>5,361,384</u>	<u>5,342,603</u>
<b>Deferred Outflows of Resources</b>		
Accumulated decrease in fair value of hedging derivatives	152,033	102,356
Unamortized bond losses	39,830	46,790
Total deferred outflows of resources	<u>191,863</u>	<u>149,146</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,553,247</u>	<u>\$ 5,491,749</u>

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

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**CONSOLIDATED STATEMENTS OF NET POSITION**

<b>Liabilities</b>	December 31,	
	<b>2014</b>	<b>2013</b>
(thousands of dollars)		
<b>Long-Term Debt – net</b>	<b>\$ 2,881,701</b>	<b>\$ 3,075,802</b>
<b>Current Liabilities</b>		
Commercial paper notes	200,000	200,000
Accounts payable	75,147	72,012
Purchased power payable	21,423	19,448
Credit support collateral obligation	160	160
Long-term debt due within one year	170,430	137,600
Accrued decommissioning	7,879	19,759
Interest payable	42,219	44,345
Accrued salaries and compensated absences	37,715	36,089
Investment derivative instruments maturing within one year	12,295	9,063
Hedging derivative instruments maturing within one year	51,727	16,212
Customer deposits and other	42,238	34,512
Total current liabilities	<u>661,233</u>	<u>589,200</u>
<b>Noncurrent Liabilities</b>		
Accrued decommissioning	154,280	158,807
Investment derivative instruments	19,888	15,689
Hedging derivative instruments	100,306	86,144
Due to affiliated entity	-0-	841
Due to U.S. Bureau of Reclamation	-0-	391
Self insurance, unearned revenue and other	80,340	27,213
Total noncurrent liabilities	<u>354,814</u>	<u>289,085</u>
Total Liabilities	<u>3,897,748</u>	<u>3,954,087</u>
<b>Deferred Inflows Of Resources</b>		
Accumulated increase in fair value of hedging derivatives	34,728	35,583
Regulatory credits	368,931	403,197
Financing obligation and other	242,069	252,177
Total deferred inflows of resources	<u>645,728</u>	<u>690,957</u>
<b>Net Position</b>		
Net investment in capital assets	485,358	345,493
Restricted	127,044	115,632
Unrestricted	397,369	385,580
Total Net Position	<u>1,009,771</u>	<u>846,705</u>
<b>Commitments And Contingencies (Notes 16 and 17)</b>		
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><b>\$ 5,553,247</b></u>	<u><b>\$ 5,491,749</b></u>

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

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	<b>Year Ended December 31,</b> <b>2014</b> <b>2013</b>	
	(thousands of dollars)	
<b>Operating Revenues</b>		
Residential	\$ 594,644	\$ 572,701
Commercial and industrial	676,972	663,356
Street lighting and other	34,236	33,083
Wholesale	166,262	131,130
Senate Bill – 1 revenue	(331)	10,711
AB-32 revenue	21,393	12,656
Rate stabilization fund transfers	36,168	4,758
Total operating revenues	<u>1,529,344</u>	<u>1,428,395</u>
<b>Operating Expenses</b>		
Operations:		
Purchased power	316,082	273,596
Production	402,310	388,139
Transmission and distribution	63,475	57,312
Administrative, general and customer	168,353	168,522
Public good	73,315	77,098
Maintenance	98,496	92,573
Depreciation	184,810	180,718
Depletion	11,230	11,084
Regulatory amounts collected in rates	5,401	6,140
Total operating expenses	<u>1,323,472</u>	<u>1,255,182</u>
<b>Operating Income</b>	<u>205,872</u>	<u>173,213</u>
<b>Non-Operating Revenues and Expenses</b>		
Other revenues and (expenses)		
Interest income	7,759	7,457
Investment expense	(8,515)	(21,678)
Revenue – Grants	4,830	16,323
Pass through expenditures – Grants	(1,827)	(8,308)
Other income – net	76,878	28,647
Total other revenues and (expenses)	<u>79,125</u>	<u>22,441</u>
Interest charges		
Interest on debt	123,253	128,959
Allowance for funds used during construction	(1,322)	(3,003)
Total interest charges	<u>121,931</u>	<u>125,956</u>
<b>Change in Net Position</b>	<u>163,066</u>	<u>69,698</u>
Net Position – Beginning of Year	<u>846,705</u>	<u>777,007</u>
Net Position – End of Year	<u>\$1,009,771</u>	<u>\$ 846,705</u>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2014	2013
(thousands of dollars)		
<b>Cash Flows From Operating Activities</b>		
Receipts from retail customers	\$ 1,302,475	\$ 1,264,147
Receipts from surplus power sales	83,758	80,569
Receipts from surplus gas sales	83,203	52,432
Receipts from steam sales	5,474	5,411
Settlement proceeds	53,140	-0-
Other receipts	31,804	19,282
Payments/receipts for credit support collateral	(4,000)	4,900
Issuance/repayment of energy efficiency loans, net	3,611	3,413
Payments to employees – payroll and other	(240,038)	(229,287)
Payments for wholesale power	(314,052)	(274,952)
Payments for gas purchases	(274,791)	(273,386)
Payments to vendors/others	(328,787)	(258,482)
Payments for decommissioning	(18,846)	(15,036)
Net cash provided by operating activities	<u>382,951</u>	<u>379,011</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Repayment of debt	(22,380)	(21,795)
Receipts from federal and state grants	13,103	23,011
Pass through payments for federal and state grants	(2,188)	(9,424)
Interest on debt	(15,128)	(15,977)
Net cash provided used in noncapital financing activities	<u>(26,593)</u>	<u>(24,185)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from Solano Wind Phase 3 financing obligation	-0-	63,147
Construction expenditures	(142,416)	(184,046)
Contributions in aid of construction	11,285	8,523
Net proceeds from bond issues	-0-	353,521
Repayments and refundings of debt	(123,910)	(309,763)
Interest on debt	(118,645)	(118,425)
Net cash used in capital financing activities	<u>(373,686)</u>	<u>(187,043)</u>
<b>Cash Flows From Investing Activities</b>		
Sales and maturities of securities	449,698	199,382
Purchases of securities	(483,049)	(431,509)
Interest and dividends received	7,772	6,313
Investment revenue/expenses, net	(8,572)	(21,677)
Net cash used in investing activities	<u>(34,151)</u>	<u>(247,491)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(51,479)</u>	<u>(79,708)</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>388,540</u>	<u>468,248</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 337,061</u>	<u>\$ 388,540</u>
<b>Cash and cash equivalents included in:</b>		
Unrestricted cash and cash equivalents	\$ 237,709	\$ 296,679
Restricted and designated cash and cash equivalents	37,765	42,425
Revenue bond and debt service reserves (a component of the total of \$130,430 and \$133,742 at December 31, 2014 and 2013, respectively)	61,587	49,436
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 337,061</u>	<u>\$ 388,540</u>

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

**SUPPLEMENTAL CASH FLOW INFORMATION**

A reconciliation of the consolidated statements of cash flows operating activities to operating income is as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	(thousands of dollars)	
Operating income	\$ 205,872	\$ 173,213
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	184,810	180,718
Depletion	11,230	11,084
Regulatory amortization	5,401	6,140
Amortization of advance capacity & other	929	1,972
Amortization of prepaid gas supply	22,720	21,627
Revenue (recognized from) deferred to regulatory credits, net	(33,939)	(16,579)
Settlement proceeds	53,140	-0-
Payments/receipts for credit support collateral, net	(4,000)	4,900
Other receipts/payments	2,756	5,976
Changes in operating assets and liabilities:		
Customer and wholesale receivables	558	1,500
Energy efficiency loans	3,611	3,413
Other assets	(69,997)	(8,417)
Payables and accruals	18,706	8,500
Decommissioning	(18,846)	(15,036)
Net cash provided by operating activities	<u>\$ 382,951</u>	<u>\$ 379,011</u>

The supplemental disclosure of noncash financing and investing activities is as follows:

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	(thousands of dollars)	
Amortization of debt related costs	8,148	6,787
Unrealized holding gain or (loss)	(681)	(389)
Change in valuation of derivative financial instruments	(58,350)	80,593
Amortization of revenue for assets contributed in aid of construction	17,970	16,156
Allowance for funds used during construction	1,322	3,003
Construction costs included in accounts payable	16,588	20,216

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. ORGANIZATION

The Sacramento Municipal Utility District (SMUD) was formed and operates under the State of California Municipal Utility District Act (Act). The Act gives SMUD the rights and powers to fix rates and charges for commodities or services it furnishes, and to incur indebtedness and issue bonds or other obligations.

As a community-owned utility, SMUD is not subject to regulation or oversight by the California Public Utilities Commission.

SMUD is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and small adjoining portions of Placer and Yolo Counties. The Board of Directors (Board) determines SMUD's rates.

SMUD is exempt from payment of federal and state income taxes and, under most circumstances, real and personal property taxes. SMUD is not exempt from real and personal property taxes on assets it holds outside of California. In addition, SMUD is responsible for the payment of a portion of the property taxes associated with its real property in California that lies outside of its service area.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Method of Accounting.** SMUD's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). SMUD's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC), except as it relates to the accounting for contributions of utility property in aid of construction. SMUD's Consolidated 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 the related cash flows. Electric revenues and costs that are directly related to the acquisition, generation, transmission, and distribution of electricity 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**The Financial Reporting Entity.** These Consolidated Financial Statements include SMUD and its component units. Although the component units are legally separate from SMUD, they are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. All significant inter-component transactions have been eliminated in consolidation.

**Component Units.** The component units include the Central Valley Financing Authority (CVFA), the Sacramento Cogeneration Authority (SCA), the Sacramento Power Authority (SPA), the Sacramento Municipal Utility District Financing Authority (SFA), and the Northern California Gas Authority No. 1 (NCGA). The primary purpose of CVFA, SCA, SPA and SFA is to own and operate electric utility plants that supply power to SMUD. The primary purpose of NCGA is to prepay for natural gas and to sell the natural gas to SMUD. SMUD's Board comprises the Commissions that govern these entities (see Note 6).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Plant in Service.** Capital assets are generally defined by SMUD as tangible assets with an initial, individual cost of more than three thousand dollars and an estimated useful life in excess of two years. The cost of additions to Plant in Service and replacement property units is capitalized. Repair and maintenance costs are charged to expense when incurred. When SMUD 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. The costs of removal and the related salvage value, if any, are charged or credited as appropriate to Accumulated Depreciation. SMUD generally computes depreciation on Plant in Service on a straight-line, service-life basis. The consolidated average annual composite depreciation rates for 2014 and 2013 were 3.5 and 3.6 percent, respectively. Depreciation is calculated using the following estimated lives:

Generation	7 to 80 years
Transmission and Distribution	15 to 50 years
Gas Pipeline	5 to 90 years
General	5 to 60 years

**Investments in Joint Power Agency (JPA).** SMUD's investment in the Transmission Agency of Northern California (TANC) is accounted for under the equity method of accounting and is reported as a component of Plant in Service. SMUD's share of the TANC debt service costs and operations and maintenance expense, inclusive of depreciation, is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

SMUD's investment in Balancing Authority of Northern California (BANC) is accounted for under the equity method of accounting. SMUD's share of the BANC operations and maintenance expense is included in Transmission and Distribution expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**Investments in Gas Properties.** SMUD has an approximate 21 percent non-operating ownership interest in the Rosa Unit gas properties in New Mexico of which, SMUD's portion of the extracted gas is transported for use in its component unit natural gas-fired power plants (see Note 6). SMUD uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized as a component of Plant in Service on the Consolidated Statements of Net Position. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. SMUD has purchased proven reserves and has not participated in exploratory drilling. Capitalized costs of producing gas properties, after considering estimated residual salvage values, are depleted by the unit-of-production method based on the estimated future production of the proved developed producing wells. SMUD's investment in gas properties is reported as a component of Plant in Service.

**Restricted and Designated Assets.** Cash, cash equivalents, and investments, which are restricted under terms of certain agreements for payments to third parties or Board actions limiting the use of such funds, are included as restricted assets. When SMUD restricts funds for a specific purpose, and both restricted and unrestricted resources are available for use, it is SMUD's policy to use restricted resources first, then unrestricted resources as they are needed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Restricted Bond Funds.** SMUD's Indenture Agreements (Indenture) requires the maintenance of minimum levels of reserves for debt service on the 1997 Series K Bonds and the 2003 Series R Bonds.

**Nuclear Decommissioning Trust Fund.** SMUD made annual contributions to its Nuclear Decommissioning Trust Fund (Trust Fund) through 2008 to cover the cost of its primary decommissioning activities associated with the Rancho Seco facility. Primary decommissioning excludes activities associated with the spent fuel storage facility after 2008 and most non-radiological decommissioning tasks. SMUD determined early in 2008 that there were enough funds in the trust to complete the radiological decommissioning of the Rancho Seco nuclear plant site, and stopped contributing to the Trust Fund (see Note 12). Interest earnings on the Trust Fund assets are recorded as Interest Income and are accumulated in the Trust Fund.

**Accrued Decommissioning.** SMUD accrues decommissioning costs related to Utility Plant when an obligation to decommission facilities is legally required. Adjustments are made to such liabilities based on estimates by SMUD staff in accordance with FASB ASC 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410). For active plants, such costs are included in the Utility Plant's cost and included as a component of Operating Expense over the Utility Plant's life. Expenditures for decommissioning activities are recorded as reductions to Accrued Decommissioning liability. Changes in the Rancho Seco decommissioning liability estimates arising from inflation, annual accretion, and other changes to the cost assumptions are recorded to Accrued Decommissioning with a corresponding adjustment to the related regulatory deferral. The current portion of the Accrued Decommissioning liability represents SMUD's estimate of actual expenditures in the next year, as set forth in the annual budget.

SMUD has identified potential retirement obligations related to certain generation, distribution and transmission facilities. SMUD's non-perpetual leased land rights generally are renewed continuously because SMUD intends to utilize these facilities indefinitely. Since the timing and extent of any potential asset retirements are unknown, the fair value of any obligations associated with these facilities cannot be reasonably estimated. Accordingly, a liability has not been recorded.

At December 31, 2014 and 2013, SMUD's Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to Rancho Seco was \$152.1 million and \$169.1 million, respectively (see Note 12). The Accrued Decommissioning balance in the Consolidated Statements of Net Position relating to other electricity generation and gas production facilities totaled \$10.1 million and \$9.4 million as of December 31, 2014 and 2013, respectively.

**Cash and Cash Equivalents.** Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less, all investments in the Local Agency Investment Fund (LAIF), and money market mutual 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. SMUD's deposits with LAIF comprise cash representing demand deposits up to \$50.0 million maximum and cash equivalents representing amounts which may be withdrawn once per month after a thirty-day period. The debt instruments and money market mutual funds are reported at amortized cost, which approximates fair value, and the LAIF is reported at the value of its pool shares.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Investments.** SMUD's investments held for more than one year are reported at fair value. Realized and unrealized gains and losses are included in Other Income – net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Premiums and discounts on zero coupon bonds are amortized using the effective interest method. Premiums and discounts on other securities are amortized using the straight-line method, which approximates the effective interest method.

**Electric Operating Revenues.** Electric revenues are billed on the basis of monthly cycle bills and are recorded as revenue when the electricity is delivered. SMUD records an estimate for unbilled revenues earned from the dates its retail customers were last billed to the end of the month. At December 31, 2014 and 2013, unbilled revenues were \$69.1 million and \$73.6 million, respectively.

**Purchased Power Expenses.** A portion of SMUD's power needs are provided through power purchase agreements. Expenses from such agreements, along with associated transmission costs paid to other utilities, are charged to Purchased Power expense on the Consolidated Statements of Revenues, Expenses and Changes in Net Position in the period the power is received. The costs, or credits, associated with energy swap agreements (gas and electricity) or other arrangements that affect the net cost of Purchased Power are recognized in the period in which the underlying power delivery occurs. Contract termination payments and adjustments to prior billings are included in Purchased Power expense once the payments or adjustments can be reasonably estimated.

**Advanced Capacity Payments.** Some long-term agreements to purchase energy or capacity from other providers call for up-front payment. Such costs are generally recorded as an asset and amortized over the length of the contract.

**Credit and Market Risk.** SMUD enters into forward purchase and sales commitments for physical delivery of gas and electricity with utilities and power marketers. SMUD is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, SMUD has a wholesale counterparty risk policy which includes using the credit agency ratings of SMUD's counterparties and other credit services, credit enhancements for counterparties that do not meet an acceptable risk level, and the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. SMUD is also subject to similar requirements for many of its gas and power purchase agreements. SMUD uses a combination of cash, securities and a letter of credit facility to satisfy its collateral requirements to counterparties. SMUD had a \$50 million letter of credit facility to support collateral requirements under SMUD's various energy and natural gas purchase, sale and swap agreements, with \$50 million available at December 31, 2013. The letter of credit facility expired on January 17, 2014, and was not renewed. At December 31, 2014 and 2013, SMUD held \$0.2 million on deposit by counterparties. The amount is recorded as unrestricted cash with an associated current liability. At December 31, 2014 and 2013, SMUD posted cash collateral of \$4.0 million and \$0.0 million, respectively, with counterparties.

**Accounts Receivable and Allowance for Doubtful Accounts.** Accounts Receivable is recorded at the invoiced amount and does not bear interest, except for accounts related to energy efficiency loans. SMUD recognizes an estimate of uncollectible accounts for its receivables related to electric service, energy efficiency loans, and other non-electric billings, based upon its historical experience with collections and current energy market conditions. For large wholesale receivable balances, SMUD determines its bad debt reserves based on the specific credit issues for each account. SMUD records bad debts for its estimated uncollectible accounts related to electric service as a reduction to the related operating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD records bad debts for its estimated uncollectible accounts related to energy efficiency loans and other non-electric billings in Administrative, General and Customer expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The summarized activity of the changes in the allowance for doubtful accounts during 2014 and 2013 is presented below:

	Balance at beginning of Year			Write-offs and (Recoveries)	Balance at end of Year
		Additions	(thousands of dollars)		
<b>Other Non-Electric:</b>					
December 31, 2014	\$ 2,346	\$ 623	\$ 976	\$ 1,993	
December 31, 2013	\$ 1,239	\$ 1,374	\$ 267	\$ 2,346	
<b>Retail Customers:</b>					
December 31, 2014	\$ 4,194	\$ 4,887	\$ 6,064	\$ 3,017	
December 31, 2013	\$ 3,310	\$ 7,530	\$ 6,646	\$ 4,194	
<b>Energy Efficiency Loans:</b>					
December 31, 2014	\$ 2,104	\$ (982)	\$ (205)	\$ 1,327	
December 31, 2013	\$ 2,362	\$ (358)	\$ (100)	\$ 2,104	

**Regulatory Deferrals.** The Board has the authority to establish the level of rates charged for all SMUD services. As a regulated entity, SMUD's financial statements are prepared in accordance with GASB No. 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. SMUD records various regulatory assets and credits to reflect rate-making actions of the Board (See Note 8).

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

**Compensated Absences.** SMUD accrues vacation leave and compensatory time when employees earn the rights to the benefits. SMUD does not record sick leave as a liability until it is taken by the employee, since there are no cash payments for sick leave made when employees terminate or retire. At December 31, 2014 and 2013, the total estimated liability for vacation and other compensated absences was \$23.0 million and \$21.9 million, respectively.

**Public Good.** Public Good expenses consist of non-capital expenditures for energy efficiency programs, low income subsidies, renewable energy resources and technologies, and research and development.

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

**Gains/Losses on Bond Defeasances or Extinguishments.** Gains and losses resulting from bond defeasances or extinguishments that were not financed with the issuance of new debt are included as a component of Interest on Debt in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Allowance for Funds Used During Construction (AFUDC).** SMUD capitalizes, as an additional cost of Construction Work In Progress (CWIP), AFUDC, which represents the cost of borrowed funds used for such purposes. The amount capitalized is determined by a formula prescribed by FERC. The AFUDC rate for 2014 and 2013 was 3.3 percent and 3.5 percent, of eligible CWIP, respectively.

**Derivative Financial Instruments.** SMUD records derivative financial instruments (interest rate swap and gas price swap agreements, certain wholesale sales agreements, certain power purchase agreements and option agreements) at fair value on its Consolidated Statements of Net Position. SMUD does not enter into agreements for speculative purposes. Fair market value is estimated by comparing contract prices to forward market prices quoted by third party market participants and/or provided in relevant industry publications. SMUD is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated. SMUD reports derivative financial instruments with remaining maturities of one year or less and the portion of long-term contracts with scheduled transactions over the next twelve months as current on the Consolidated Statements of Net Position (see Note 9).

**Interest Rate Swap Agreements.** SMUD enters into interest rate swap agreements to modify the effective interest rates on outstanding debt (see Notes 9 and 10).

**Gas and Electricity Price Swap and Option Agreements.** SMUD uses forward contracts to hedge the impact of market volatility on gas commodity prices for its gas-fueled power plants and for energy prices on purchased power for SMUD's retail load (see Note 9).

**Solano Wind Sale.** SMUD entered into an agreement to sell the Solano Wind Phase 3 plant in December 2011 with a corresponding Power Purchase Agreement for all the output of the plant. In April 2012, under the terms of the Construction Management Agreement, SMUD, on behalf of the purchaser, completed construction of the plant, with the revenue recognition from the transaction, which was accounted for as a financing agreement, to occur over the life of the contracts. Pursuant to the Facility Administration Agreement, SMUD will perform services at the facility under the direction and for the benefit of the purchaser. Pursuant to the ground and property lease, SMUD is leasing the site to the purchaser for a term of twenty years with an option to extend for five additional years.

The sale proceeds have been recorded as Deferred Inflows of Resources on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement. Sale proceeds in the amount of \$63.1 million were received in 2013. The prepayment for purchased power over the life of the contract has been recorded as Prepaid Power and Capacity on the Consolidated Statements of Net Position and will be amortized as Purchased Power Expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position over the life of the agreement (see Note 16 for language about the Power Purchase Agreement).

**Precipitation Hedge Agreements.** SMUD enters into non-exchange traded precipitation hedge agreements to hedge the cost of replacement power caused by low precipitation years (Precipitation Agreements). SMUD records the intrinsic value of the Precipitation Agreements on the Consolidated Statements of Net Position. Settlement of the Precipitation Agreements is not performed until the end of the period covered (water year ended September 30). The intrinsic value of a Precipitation Agreement is the difference between the expected results from a monthly allocation of the cumulative rainfall amounts, in an average rainfall year, and the actual rainfall during the same period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Insurance Programs.** SMUD records liabilities for unpaid claims at their present value when they are probable in occurrence and the amount can be reasonably estimated. SMUD records a liability for unpaid claims associated with general, auto, workers' compensation, and short-term and long-term disability based upon estimates derived by SMUD's claims administrator or SMUD staff. The liability comprises the present value of the claims outstanding, and includes an amount for claim events incurred but not reported based upon SMUD's experience (see Note 15).

**Pollution Remediation.** In December 2009, SMUD identified a pollution remediation obligation at its North City Substation. This substation was built on a former landfill, and the site requires remediation. SMUD recorded a pollution remediation liability of \$12.0 million.

**Hydro License.** SMUD owns and operates the Upper American River Hydroelectric Project (UARP). The original license to construct and operate the UARP was issued in 1957 by FERC and expired in 2007. Since then, SMUD had been operating under an extension of the original license. In 2014, SMUD received the new hydro license for a term of 50 years, effective July 1, 2014. As part of the hydro licensing process, SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. SMUD recorded a liability for the present value of the sum of the annual payments in the amount of \$56.1 million at December 31, 2014 (see Note 16).

**Assembly Bill 32.** California Assembly Bill 32 (AB-32) is an effort by the State of California to set a 2020 greenhouse gas emissions reduction goal into law. The goal is to reach a statewide emission limit of 427 million metric tons of carbon dioxide equivalent of greenhouse gases (GHG). Central to this initiative is the implementation of a cap and trade program, which covers major sources of GHG emissions in the State including power plants. The cap and trade program includes an enforceable emissions cap that will decline over time. The State will distribute allowances, which are tradable permits, equal to the emissions allowed under the cap. Sources under the cap will need to surrender allowances and offsets equal to their emissions at the end of each compliance period. SMUD is subject to AB-32. SMUD participated in the program auctions in 2013 and 2014. SMUD expects its free allocation of allowances from the Air Resources Board will cover its compliance costs associated with electricity delivered to its retail customers. SMUD expects to recover compliance costs associated with wholesale power sales costs through its wholesale power sales revenues. SMUD is monitoring legislation and proposed programs that would impact AB-32 (see Note 8).

**Net Position.** SMUD classifies its net position into three components as follows:

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Contributions in Aid of Construction (CIAC).** SMUD records CIAC from customer contributions, primarily relating to expansions to SMUD's distribution facilities, as Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Contributions of capital are valued at estimated market cost. For rate-making purposes, the Board does not recognize such revenues when received; rather, CIAC is included in revenues as such costs are amortized over the estimated useful lives of the related distribution facilities.

**Revenues and Expenses.** SMUD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SMUD's principal ongoing operations. The principal operating revenues of SMUD are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Grants.** SMUD receives grant proceeds from federal and state assisted programs for its advanced and renewable technologies, electric vehicle, and energy efficiency programs. SMUD also periodically receives grant proceeds from federal or state assistance programs as partial reimbursements for costs it has incurred as a result of storm damages. Additionally, SMUD received several large American Recovery and Reinvestment Act (ARRA) grants in 2009. When applicable, these programs may be subject to financial and compliance audits pursuant to regulatory requirements. SMUD considers the possibility of any material disallowances to be remote. During 2014, SMUD recorded \$3.2 million of grant proceeds and recognized \$4.8 million as a component of Revenue – Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, \$1.6 million as a Regulatory Credit (see Note 8), and a \$3.2 million decrease in unearned revenue as a component of Customer Deposits and Other on the Consolidated Statements of Net Position. During 2013, SMUD recorded \$5.0 million of grant proceeds and recognized \$16.3 million as Revenue – Grants, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position, \$6.4 million as a Regulatory Credit (see Note 8), and a \$17.7 million decrease in unearned revenue as a component of Customer Deposits and Other on the Consolidated Statements of Net Position.

In 2010, SMUD issued taxable Build America Bonds. SMUD receives an interest subsidy from the federal government equal to 35 percent of the interest paid (see Note 10). SMUD received a reduced subsidy payment in November 2014 and 2013 due to budget sequestration by the federal government. In 2014 and 2013, SMUD recognized \$9.1 million and \$9.5 million, respectively, in revenues for its Build America Bonds, as a component of Other Income – Net, in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**Customer Sales and Excise Taxes.** SMUD is required by various governmental authorities, including states and municipalities, to collect and remit taxes on certain customer sales. Such taxes are presented on a net basis and excluded from revenues and expenses in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Rancho Seco Settlement.** In June 1983, SMUD and the U.S. Department of Energy (DOE) entered into a contract whereby the DOE would build a repository for the acceptance and disposal of SMUD's spent nuclear fuel (SNF) and/or high-level radioactive waste (HLW). SMUD paid the DOE a total of approximately \$40.0 million in fees under the contract, thus satisfying its obligation of performance under the contract. DOE did not build a repository and therefore breached its obligation under the contract to commence acceptance of SNF and HLW by January 31, 1998. As a result, SMUD incurred costs to design, license, and fabricate its own on-site storage facility for the long term dry storage of its spent fuel at Rancho Seco. SMUD filed a suit against the DOE in 1998 which covered costs incurred from 1992 to 2003. In September 2014, SMUD received a \$53.1 million settlement which was recorded as Other Income – Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**Subsequent events.** Subsequent events for SMUD have been evaluated through February 20, 2015, which is the date that the financial statements were available to be issued.

**Reclassifications.** Certain amounts in the 2013 Consolidated Financial Statements have been reclassified in order to conform to the 2014 presentation.

**Recent Accounting Pronouncements.** In June 2012, GASB issued Statement of Governmental Accounting Standards (SGAS) No. 68 "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*" (GASB No. 68). The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for SMUD for 2015. SMUD is currently assessing the financial statement impact of adopting this statement.

In January 2013, GASB issued SGAS No. 69, "*Government Combinations and Disposals of Government Operations*" (GASB No. 69). GASB No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement is effective for SMUD in 2014. SMUD has assessed the financial statement impact of adopting this statement, and since SMUD is not involved in any government combinations or disposals of operations this statement currently has no impact on SMUD.

In November 2013, GASB issued SGAS No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*" (GASB No. 71). GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB No. 71 amends paragraph 137 of GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement is effective for SMUD in 2015, to be applied simultaneously with the provisions of GASB No. 68. SMUD is currently assessing the financial statement impact of adopting this statement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3. ACCOUNTING CHANGE**

In April 2013, GASB issued SGAS No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”* (GASB No. 70). The objective of GASB No. 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, GASB No. 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement is effective for SMUD in 2014. SMUD extends financial guarantees to two component units, CVFA and SCA, and has included the required note disclosures to the Component Unit Bonds disclosure in Note 10.

**NOTE 4. UTILITY PLANT**

The summarized activity of SMUD's utility plant during 2014 is presented below:

	<b>Balance December 31, 2013</b>	<b>Additions</b>	<b>Transfers and Disposals</b>	<b>Reclassifications</b>	<b>Balance December 31, 2014</b>
(thousands of dollars)					
<b>Nondepreciable Utility Plant:</b>					
Land	\$ 118,532	\$ 9,382	\$ -0-	\$ -0-	\$ 127,914
CWIP	135,385	197,090	(220,881)	-0-	111,594
Total nondepreciable utility plant	<u>253,917</u>	<u>206,472</u>	<u>(220,881)</u>	<u>-0-</u>	<u>239,508</u>
<b>Depreciable Utility Plant:</b>					
Generation	1,654,315	5,079	(26,414)	-0-	1,632,980
Transmission	290,431	2,907	(418)	-0-	292,920
Distribution	1,943,217	71,192	(6,490)	44,335	2,052,254
Investment in gas properties	206,158	40	-0-	-0-	206,198
Investment in JPAs	14,841	-0-	(676)	-0-	14,165
Intangibles	237,314	109,101	(147)	-0-	346,268
General	888,904	24,960	(11,550)	-0-	902,314
	<u>5,235,180</u>	<u>213,279</u>	<u>(45,695)</u>	<u>44,335</u>	<u>5,447,099</u>
Less: accumulated depreciation and depletion	(2,161,032)	(195,939)	52,065	(44,335)	(2,349,241)
Less: accumulated amortization on JPAs	(5,088)	(313)	-0-	-0-	(5,401)
	<u>(2,166,120)</u>	<u>(196,252)</u>	<u>52,065</u>	<u>(44,335)</u>	<u>(2,354,642)</u>
Total depreciable plant	<u>3,069,060</u>	<u>17,027</u>	<u>6,370</u>	<u>-0-</u>	<u>3,092,457</u>
<b>Total Utility Plant – net</b>	<b><u>\$ 3,322,977</u></b>	<b><u>\$ 223,499</u></b>	<b><u>\$ (214,511)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 3,331,965</u></b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The summarized activity of SMUD's utility plant during 2013 is presented below:

	Balance December 31, 2012	Additions	Transfers and Disposals	Balance December 31, 2013
(thousands of dollars)				
<b>Nondepreciable Utility Plant:</b>				
Land	\$ 117,051	\$ 1,549	\$ (68)	\$ 118,532
CWIP	<u>334,488</u>	<u>168,869</u>	<u>(367,972)</u>	<u>135,385</u>
Total nondepreciable utility plant	<u>451,539</u>	<u>170,418</u>	<u>(368,040)</u>	<u>253,917</u>
<b>Depreciable Utility Plant:</b>				
Generation	1,629,761	28,390	(3,836)	1,654,315
Transmission	287,990	2,023	418	290,431
Distribution	1,839,348	104,619	(750)	1,943,217
Investment in gas properties	204,951	1,207	-0-	206,158
Investment in JPAs	13,100	1,741	-0-	14,841
Intangibles	210,519	26,795	-0-	237,314
General	703,488	203,995	(18,579)	888,904
	<u>4,889,157</u>	<u>368,770</u>	<u>(22,747)</u>	<u>5,235,180</u>
Less: accumulated depreciation and depletion	(1,996,213)	(194,184)	29,365	(2,161,032)
Less: accumulated amortization on JPAs	<u>(4,774)</u>	<u>(314)</u>	<u>-0-</u>	<u>(5,088)</u>
	<u>(2,000,987)</u>	<u>(194,498)</u>	<u>29,365</u>	<u>(2,166,120)</u>
Total depreciable plant	<u>2,888,170</u>	<u>174,272</u>	<u>6,618</u>	<u>3,069,060</u>
<b>Total Utility Plant – net</b>	<b><u>\$ 3,339,709</u></b>	<b><u>\$ 344,690</u></b>	<b><u>\$ (361,422)</u></b>	<b><u>\$ 3,322,977</u></b>

**NOTE 5. INVESTMENT IN JOINT POWERS AGENCY**

**TANC.** SMUD and fourteen other California municipal utilities are members of TANC, a JPA. TANC, along with the other California municipal utilities, own and operate the California-Oregon Transmission Project (COTP), a 500-kilovolt transmission line between central California and southern Oregon. SMUD is obligated to pay approximately 39.0 percent of TANC's COTP debt service and operations costs in exchange for entitlement to approximately 536 megawatts (MW) of TANC's 1,390 MW transfer capability. Additionally, SMUD has a 48 MW share of TANC's 300 MW firm, bi-directional transmission over Pacific Gas and Electric's (PG&E) system between PG&E's Tesla and Midway substations (SOT). The total entitlement shares for the COTP and SOT described above include the long-term agreements listed below.

In December 2009, SMUD entered into a long-term reallocation agreement with TANC and the City of Santa Clara. Effective January 2010 through July 1, 2013, SMUD had an additional 30 MW entitlement share of the SOT. This agreement expired July 1, 2013.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In 2009, SMUD entered into a 15-year long-term layoff agreement with TANC and certain members, expiring January 31, 2024. This agreement provides for the assignment of all rights and obligations of City of Palo Alto and City of Roseville related to their COTP and SOT entitlements. This agreement increased SMUD's COTP entitlement by 36 MW and SOT entitlement by 2MW. Effective July 1, 2014, an amendment provides for the return to City of Roseville of all rights and obligations related to the COTP entitlements, which decreased SMUD's COTP entitlement by 13 MW.

In 2014, SMUD entered into a 25-year long-term layoff agreement with TANC and certain members effective July 1, 2014. This agreement provides for the assignment of all rights and obligations of Northern California Power Agency and partial rights and obligations of the City of Santa Clara related to their COTP entitlements. This agreement increased SMUD's COTP entitlements by 130 MW.

The long-term debt of TANC, which totals \$314.2 million (unaudited) at December 31, 2014, is collateralized by a pledge and assignment of net revenues of TANC supported by take or pay commitments of SMUD and other members. Should other members default on their obligations to TANC, SMUD would be required to make additional payments to cover a portion of such defaulted payments, up to 25 percent of its current obligation.

Copies of the TANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded transmission expenses related to TANC of \$20.6 million and \$18.9 million in 2014 and 2013, respectively.

Summary financial information for TANC is presented below:

	December 31, 2014 (Unaudited)	2013 (Unaudited)
(thousands of dollars)		
Total Assets	\$ 399,873	\$ 415,468
Total Deferred Outflows of Resources	3,987	4,769
Total Assets and Deferred Outflows of Resources	<u>\$ 403,860</u>	<u>\$ 420,237</u>
Total Liabilities	\$ 390,574	\$ 403,513
Total Deferred Inflows of Resources	226	609
Total Net Position	<u>13,060</u>	<u>16,115</u>
Total Liabilities, Inflows of Resources and Net Position	<u>\$ 403,860</u>	<u>\$ 420,237</u>
Changes in Net Position for the Six Months Ended December 31	<u>\$ 2</u>	<u>\$ 2</u>

**BANC.** SMUD, City of Redding, City of Roseville, Modesto Irrigation District and Trinity Public Utilities District are members of BANC, a JPA formed in 2009. In 2011, operational control of Balancing Authority (BA) operations was transferred from SMUD to BANC. BANC performs FERC approved BA reliability functions that are managed by North American Electric Reliability Corporation (NERC), nationally, and by Western Electricity Coordinating Council functions in the west.

Copies of the BANC annual financial reports may be obtained from SMUD at 6201 S Street, P.O. Box 15830, Sacramento, California 95852.

SMUD recorded expenses related to BANC of \$0.8 million in 2014 and \$0.7 million in 2013.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary financial information for BANC is presented below:

	December 31,	
	2014 (Unaudited)	2013 (Audited)
Total Assets	<u>\$ 543</u>	<u>\$ 392</u>
Total Liabilities	\$ 543	\$ 392
Total Net Position	-0-	-0-
Total Liabilities and Net Position	<u>\$ 543</u>	<u>\$ 392</u>
Changes in Net Position for the Year Ended December 31	<u>\$ -0-</u>	<u>\$ -0-</u>

**NOTE 6. COMPONENT UNITS**

**CVFA Carson Cogeneration Project.** CVFA is a JPA formed by SMUD and the Sacramento Regional County Sanitation District. CVFA operates the Carson Project, a 65 MW (net) natural gas-fired cogeneration facility and a 43 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the CVFA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and CVFA.

**SCA Procter & Gamble Cogeneration Project.** SCA is a JPA formed by SMUD and the SFA. SCA operates the Procter & Gamble Project, a 136 MW (net) natural gas-fired cogeneration facility and a 50 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SCA bonds' debt service is provided by a take or pay purchase power agreement between SMUD and SCA.

**SFA Cosumnes Power Plant Project.** SFA is a JPA formed by SMUD and the Modesto Irrigation District. SFA operates the Cosumnes Power Plant Project, a 501 MW (net) natural gas-fired, combined cycle facility. The revenue stream to pay the SFA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SFA.

**SPA Campbell Soup Cogeneration Project.** SPA is a JPA formed by SMUD and the SFA. SPA operates the Campbell Soup Project, a 160 MW (net) natural gas-fired cogeneration facility, and the McClellan Project, a 72 MW (net) natural gas-fired simple cycle peaking plant. The revenue stream to pay the SPA bonds' debt service is provided by a take and pay power purchase agreement between SMUD and SPA.

**NCGA.** NCGA is a JPA formed by SMUD and the SFA. NCGA has a prepaid gas contract with Morgan Stanley Capital Group (MSCG) expiring in 2027, which is financed primarily by NCGA revenue bonds. SMUD has contracted with NCGA to purchase all of the gas delivered by MSCG to NCGA, based on market prices. NCGA is obligated to pay the principal and interest on the bonds. Neither SMUD nor SFA is obligated to make debt service payments on the bonds. NCGA can terminate the prepaid gas contract under certain circumstances, including a failure by MSCG to meet its gas delivery obligation to NCGA or a drop in MSCG's credit rating below a specified level. If this occurs, MSCG will be required to make a termination payment to NCGA based on the unamortized prepayment proceeds received by MSCG.

As described in Note 2, all of the activities and balances of the component units are blended into and reported as part of SMUD because of the extent of their operational and financial relationships with SMUD. Copies of CVFA's, SCA's, SFA's, SPA's and NCGA's annual financial reports may be obtained from their Executive Office at 6201 S Street, P.O. Box 15830, Sacramento, California 95852 or online at SMUD.org.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The summarized activity of SMUD's component units for 2014 is presented below:

**CONDENSED STATEMENTS OF NET POSITION**

**December 31, 2014**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
<b>Assets</b>					
Electric Utility Plant – Net	\$ 57,861	\$ 84,537	\$ 253,204	\$ 77,544	\$ -0-
Restricted and Designated Assets	-0-	-0-	69,887	11,810	-0-
Current Assets	14,660	23,422	49,463	54,081	43,479
Noncurrent Assets	158	218	3,468	797	316,997
Total Assets	72,679	108,177	376,022	144,232	360,476
Deferred Outflows of Resources	1,095	1,430	-0-	1,597	-0-
Total Assets and Deferred Outflows of Resources	<u>\$ 73,774</u>	<u>\$ 109,607</u>	<u>\$ 376,022</u>	<u>\$ 145,829</u>	<u>\$ 360,476</u>
<b>Liabilities</b>					
Long-term Debt – Net	\$ 25,563	\$ 36,885	\$ 228,928	\$ 35,151	\$ 318,795
Current Liabilities	10,167	14,663	42,791	48,987	27,297
Noncurrent Liabilities	8,460	-0-	-0-	-0-	-0-
Total Liabilities	44,190	51,548	271,719	84,138	346,092
Net Position	29,584	58,059	104,303	61,691	14,384
Total Liabilities and Net Position	<u>\$ 73,774</u>	<u>\$ 109,607</u>	<u>\$ 376,022</u>	<u>\$ 145,829</u>	<u>\$ 360,476</u>

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

**December 31, 2014**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
<b>Operating Revenues</b>					
Operating Revenues	\$ 32,983	\$ 59,378	\$ 231,388	\$ 54,645	\$ 37,912
Operating Expenses	32,035	53,837	206,429	52,649	22,927
Operating Income	948	5,541	24,959	1,996	14,985
<b>Non-Operating Revenues and Expenses</b>					
Other Revenues	1	1	151	45	621
Interest Charges and Other	(1,593)	(2,082)	(10,895)	(3,744)	(14,901)
Change in Net Position Before Distributions and Contributions	(644)	3,460	14,215	(1,703)	705
Distribution to Member	-0-	(2,000)	(4,500)	-0-	(671)
Member Contributions and Adjustments	-0-	-0-	-0-	29,905	82
Change in Net Position	(644)	1,460	9,715	28,202	116
Net Position – Beginning of Year	30,228	56,599	94,588	33,489	14,268
Net Position – End of Year	<u>\$ 29,584</u>	<u>\$ 58,059</u>	<u>\$ 104,303</u>	<u>\$ 61,691</u>	<u>\$ 14,384</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**CONDENSED STATEMENTS OF CASH FLOWS**

**December 31, 2014**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
Net Cash Provided by Operating Activities	\$ 6,510	\$ 11,557	\$ 44,003	\$ 8,581	\$ 37,891
Net Cash Used by Noncapital Financing Activities	-0-	(2,000)	(4,500)	-0-	(38,180)
Net Cash Used by Capital Financing Activities	(5,894)	(7,676)	(23,206)	(11,469)	-0-
Net Cash Provided by Investing Activities	<u>1</u>	<u>2</u>	<u>282</u>	<u>1,098</u>	<u>621</u>
Net Increase (Decrease) in Cash and Cash Equivalents	617	1,883	16,579	(1,790)	332
Cash and Cash Equivalents at the Beginning of the Year	<u>4,755</u>	<u>6,738</u>	<u>53,301</u>	<u>13,806</u>	<u>14,710</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 5,372</u></u>	<u><u>\$ 8,621</u></u>	<u><u>\$ 69,880</u></u>	<u><u>\$ 12,016</u></u>	<u><u>\$ 15,042</u></u>

The summarized activity of SMUD's component units for 2013 is presented below:

**CONDENSED STATEMENTS OF NET POSITION**

**December 31, 2013**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
Assets					
Electric Utility Plant – Net	\$ 63,014	\$ 90,446	\$ 269,117	\$ 83,832	\$ -0-
Restricted and Designated Assets	-0-	-0-	56,383	14,652	-0-
Current Assets	14,788	22,058	52,755	25,371	40,958
Noncurrent Assets	<u>193</u>	<u>258</u>	<u>3,708</u>	<u>920</u>	<u>342,009</u>
Total Assets	<u>77,995</u>	<u>112,762</u>	<u>381,963</u>	<u>124,775</u>	<u>382,967</u>
Deferred Outflows of Resources	<u>1,463</u>	<u>1,832</u>	<u>-0-</u>	<u>1,988</u>	<u>-0-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 79,458</u></u>	<u><u>\$ 114,594</u></u>	<u><u>\$ 381,963</u></u>	<u><u>\$ 126,763</u></u>	<u><u>\$ 382,967</u></u>
Liabilities					
Long-term Debt - Net	\$ 30,156	\$ 42,229	\$ 239,652	\$ 72,956	\$ 342,480
Current Liabilities	11,184	15,766	47,723	20,318	26,219
Noncurrent Liabilities	<u>7,890</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>49,230</u>	<u>57,995</u>	<u>287,375</u>	<u>93,274</u>	<u>368,699</u>
Net Position	<u>30,228</u>	<u>56,599</u>	<u>94,588</u>	<u>33,489</u>	<u>14,268</u>
Total Liabilities and Net Position	<u><u>\$ 79,458</u></u>	<u><u>\$ 114,594</u></u>	<u><u>\$ 381,963</u></u>	<u><u>\$ 126,763</u></u>	<u><u>\$ 382,967</u></u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**December 31, 2013**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
Operating Revenues	\$ 40,269	\$ 66,725	\$ 242,511	\$ 65,310	\$ 37,912
Operating Expenses	39,566	62,308	220,460	58,168	21,826
Operating Income	703	4,417	22,051	7,142	16,086
Non-Operating Revenues and Expenses					
Other Revenues	53	5	143	26	611
Interest Charges and Other	(1,725)	(2,296)	(11,295)	(4,024)	(15,767)
Change in Net Position Before Distributions and Contributions					
	(969)	2,126	10,899	3,144	930
Distribution to Member	(3,000)	(7,500)	(37,000)	(2,000)	(672)
Member Contributions and Adjustments	-0-	-0-	-0-	-0-	75
Change in Net Position	(3,969)	(5,374)	(26,101)	1,144	333
Net Position – Beginning of Year	34,197	61,973	120,689	32,345	13,935
Net Position – End of Year	<u>\$ 30,228</u>	<u>\$ 56,599</u>	<u>\$ 94,588</u>	<u>\$ 33,489</u>	<u>\$ 14,268</u>

**CONDENSED STATEMENTS OF CASH FLOWS**

**December 31, 2013**

(thousands of dollars)

	<b>CVFA</b>	<b>SCA</b>	<b>SFA</b>	<b>SPA</b>	<b>NCGA</b>
Net Cash Provided by Operating Activities	\$ 6,588	\$ 10,819	\$ 38,273	\$ 12,930	\$ 37,950
Net Cash Used by Noncapital Financing Activities	(1,825)	(7,500)	(37,000)	(2,000)	(38,444)
Net Cash Used by Capital Financing Activities	(5,710)	(7,033)	(34,023)	(11,308)	-0-
Net Cash Provided (Used) by Investing Activities	2	6	20,258	(72)	610
Net Increase (Decrease) in Cash and Cash Equivalents	(945)	(3,708)	(12,492)	(450)	116
Cash and Cash Equivalents at the Beginning of the Year	5,700	10,446	65,793	14,256	14,594
Cash and Cash Equivalents at the End of the Year	<u>\$ 4,755</u>	<u>\$ 6,738</u>	<u>\$ 53,301</u>	<u>\$ 13,806</u>	<u>\$ 14,710</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 7. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Equivalents and Investments.** SMUD's investment policy is governed by the California State and Municipal Codes and its Indenture, which allow SMUD's investments to include: obligations which are unconditionally guaranteed by the United States (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 agreements; corporate notes; and taxable government and tax-exempt money market portfolios. SMUD's investment policy 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.** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, SMUD limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper 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, SMUD's deposits may not be returned or SMUD will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. SMUD does not have a deposit policy for custodial credit risk.

As of December 31, 2014 and 2013, \$9.7 million and \$7.3 million in deposits were uninsured, respectively. The bank balance is also, per a depository pledge agreement between SMUD and SMUD's bank, collateralized at 132 percent and 124 percent of the collective funds on deposit (increased by the amount of accrued but uncredited interest, reduced by deposits covered by FDIC) at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, SMUD had money market deposit accounts and mutual funds of \$161.4 million and \$101.3 million which were uninsured, respectively. SMUD's investments and money market mutual funds are held in SMUD's name.

**Concentration of Credit Risk.** This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SMUD places no limit on the amounts invested in any one issuer for repurchase agreements and federal agency securities. The following are the concentrations of risk greater than five percent in either year:

	December 31, 2014	2013
<b>Investment Type:</b>		
Federal National Mortgage Association (Fannie Mae)	6%	13%
Federal Home Loan Banks	18%	12%
Freddie Mac	16%	10%
Federal Farm Credit Bank	5%	9%
Corporate Note – Bank of New York	5%	2%
Corporate Note – Wells Fargo & Company	6%	3%

**Interest Rate Risk.** This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Though SMUD has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following schedules indicate the credit and interest rate risk at December 31, 2014 and 2013. The credit ratings listed are from Standard & Poors (S&P). (N/A is defined as not applicable to the rating disclosure requirements).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At December 31, 2014, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturity (in years)			Total Fair Value
		Less Than 1	1-5	More than 5	
(thousands of dollars)					
Cash and Cash Equivalents:					
Cash	Not Rated	\$ 4,350	\$ -0-	\$ -0-	\$ 4,350
LAIF	Not Rated	150,745	-0-	-0-	150,745
Money Market Mutual Funds	AAAm/N/A	124,990	-0-	-0-	124,990
Money Market Deposit Account	N/A	36,390	-0-	-0-	36,390
Deposit at Notice	N/A	9,319	-0-	-0-	9,319
Commercial Paper	A-1	11,267	-0-	-0-	11,267
Total cash and cash equivalents		<u>337,061</u>	<u>-0-</u>	<u>-0-</u>	<u>337,061</u>
Investments:					
Fannie Mae	AA+	20,248	19,962	-0-	40,210
Federal Farm Credit Bank	AA+	32,057	5,545	-0-	37,602
Federal Home Loan Bank	AA+	47,899	75,843	-0-	123,742
Freddie Mac	AA+	19,968	95,484	-0-	115,452
US Treasury	N/A	3,055	13,142	-0-	16,197
Corporate Notes	AA+/AA/A+/A/A-	100,476	83,325	-0-	183,801
Municipal Bonds	A+/AA	2,502	1,501	-0-	4,003
Commercial Paper	A-1+	26,954	-0-	-0-	26,954
Total investments		<u>253,159</u>	<u>294,802</u>	<u>-0-</u>	<u>547,961</u>
Total cash, cash equivalents, and investments		<u>\$ 590,220</u>	<u>\$ 294,802</u>	<u>\$ -0-</u>	<u>\$ 885,022</u>

At December 31, 2013, SMUD's cash, cash equivalents, and investments consist of the following:

Description	Credit Rating	Remaining Maturity (in years)			Total Fair Value
		Less Than 1	1-5	More than 5	
(thousands of dollars)					
Cash and Cash Equivalents:					
Cash	Not Rated	\$ 4,358	\$ -0-	\$ -0-	\$ 4,358
LAIF	Not Rated	270,749	-0-	-0-	270,749
Money Market Mutual Funds	AAAm/N/A	94,317	-0-	-0-	94,317
Money Market Deposit Account	AAAm	6,990	-0-	-0-	6,990
Deposit at Notice	N/A	1,414	-0-	-0-	1,414
Commercial Paper	A-1	10,712	-0-	-0-	10,712
Total cash and cash equivalents		<u>388,540</u>	<u>-0-</u>	<u>-0-</u>	<u>388,540</u>
Investments:					
Fannie Mae	AA+	10,650	85,606	-0-	96,256
Federal Farm Credit Bank	AA+	30,032	37,577	-0-	67,609
Federal Home Loan Bank	AA+	65,995	27,813	-0-	93,808
Freddie Mac	AA+	2,005	71,658	-0-	73,663
US Treasury	N/A	25,059	3,103	-0-	28,162
Corporate Notes	AA+/A+/A1/A/A-	52,714	48,588	-0-	101,302
Municipal Bonds	A1/SP-1+	8,067	2,508	-0-	10,575
Commercial Paper	A-1	43,916	-0-	-0-	43,916
Total investments		<u>238,438</u>	<u>276,853</u>	<u>-0-</u>	<u>515,291</u>
Total cash, cash equivalents, and investments		<u>\$ 626,978</u>	<u>\$ 276,853</u>	<u>\$ -0-</u>	<u>\$ 903,831</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	December 31, 2014	2013
	(thousands of dollars)	
<b>Total Cash, Cash Equivalents, and Investments:</b>		
Revenue bond reserve and debt service funds:		
Revenue bond reserve fund	\$ 8,659	\$ 9,844
Debt service fund	67,551	69,815
Component unit bond reserve and debt service funds	54,220	53,813
Total revenue bond reserve and debt service funds	<u>130,430</u>	133,472
Nuclear decommissioning trust fund	8,250	31,137
Rate stabilization fund	45,306	81,474
Component unit other restricted funds	65,198	54,519
Other restricted funds	1,554	1,254
Unrestricted funds	634,284	601,975
Total cash, cash equivalents, and investments	<u>\$ 885,022</u>	<u>\$ 903,831</u>

**NOTE 8. REGULATORY DEFERRALS**

The Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the tables below. Changes to these balances, and their inclusion in rates, occur only at the direction of the Board.

**Regulatory Assets (Costs)**

**Decommissioning.** SMUD's regulatory asset relating to the unfunded portion of its decommissioning liability is being collected through interest earnings on the Trust Fund. Nuclear fuel storage costs and non-radiological decommissioning costs have been collected in rates since 2009.

**TANC Operations Costs.** SMUD's regulatory asset relating to deferred TANC costs comprises the difference between its cash payments made to TANC and its share of TANC's accrual-based costs of operations. This regulatory asset is being collected in rates over the life of TANC's assets during the period that cash payments to TANC exceed TANC's accrual-based costs. In 2014, SMUD's cash payments to TANC exceeded TANC's accrual-based costs and has recorded a regulatory credit.

**U.S. Bureau of Reclamation.** In December 2004, SMUD established a regulatory asset to defer recognizing the expense related to the U.S. Bureau of Reclamation (Bureau). This regulatory asset will be collected in rates over the period SMUD is committed to making rate payments to the Bureau. In 2014, SMUD made its final payment to the Bureau.

**Derivative Financial Instruments.** SMUD's regulatory costs and/or credits relating to Investment Derivative Instruments are intended to defer the net difference between the fair value of derivative instruments and their cost basis, if any. Investment Derivative Instruments are reflected in rates at contract cost and as such, the balance is charged or credited into rates as the related asset or liability is utilized (see Note 9).

**Senate Bill 1.** SMUD implemented a per kilowatt hour solar surcharge, effective January 1, 2008 in order to fund investments in solar required by Senate Bill 1 (SB-1). The difference between the surcharge revenues received and the funds spent on solar initiatives will be recognized or deferred into future years. SMUD has spent more than it has collected in SB-1 revenues and has recorded a regulatory asset.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Debt Issuance Costs.** SMUD established a regulatory asset for costs incurred in connection with the issuance of debt obligations, principally underwriter fees and legal costs. The regulatory asset will be collected in rates over the life of the bonds. Debt issuance costs after December 31, 2013 are expensed.

SMUD's total regulatory costs for future recovery are presented below:

	December 31, 2014	2013
(thousands of dollars)		
<b>Regulatory Costs for Future Recovery:</b>		
Decommissioning	\$ 149,337	\$ 142,485
TANC operations costs	-0-	841
U.S. Bureau of Reclamation	-0-	391
Derivative financial instruments	32,144	24,326
Senate Bill 1	7,398	7,729
Debt Issuance Costs	<u>14,752</u>	<u>16,466</u>
Total regulatory costs	203,631	192,238
Less: regulatory costs to be recovered within one year	(20,838)	(17,668)
<b>Total regulatory costs for future recovery – net</b>	<u>\$ 182,793</u>	<u>\$ 174,570</u>

**Regulatory Credits**

**CIAC.** In 2014 and 2013 SMUD added CIAC totaling \$20.2 million and \$10.6 million, respectively, to Regulatory Credits in the Consolidated Statements of Net Position and recorded \$10.4 million and \$10.0 million of amortization, respectively, to Other Income - Net in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. SMUD's regulatory credit relating to CIAC is intended to offset the revenue and expense associated with this accounting treatment. Thus, this regulatory credit is being amortized into rates over the depreciable lives of the related assets in order to offset the earnings effect of these non-exchange transactions.

**Rate Stabilization.** SMUD's regulatory credit relating to Rate Stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) transfers on an event driven basis. In 2014, \$11.8 million was transferred from the RSF to revenue as a result of lower than budgeted energy deliveries from Western Area Power Administration (Western).

**Hydro Rate Stabilization.** The Hydro Rate Stabilization Fund (HRSF) was established through the Hydro Generation Adjustment (HGA) mechanism, which helps manage volatility in energy costs. The HGA mechanism applies a formula based on precipitation and wholesale electricity prices to calculate needed withdrawals from or deposits to the HRSF. The maximum balance of the HRSF is 5 percent of the budgeted retail revenue and the maximum annual transfer in or out of the HRSF is 4 percent of budgeted retail revenue. If the HRSF is depleted SMUD will apply a hydro rate surcharge to customers' bills up to 4 percent. When the HRSF is fully replenished, a wet year can trigger a hydro rebate or credit on the customers' bills. In 2014, \$24.3 million was transferred from the HRSF to revenue as a result of below average precipitation. No additional rate adjustments were necessary.

**Assembly Bill 32.** SMUD participated in the carbon allowance auctions under AB-32, the Global Warming Solutions Act (see Note 2). In 2012, the Board authorized the deferral of AB-32 auction proceeds to match the revenue recognition with the related expenses. The difference between the auction proceeds received and the funds spent on AB-32 programs will be deferred into future years. SMUD has spent less than it has collected in AB-32 revenues and has recorded a regulatory credit.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Grant Revenues.** In 2009, SMUD was awarded several large grants under the ARRA, which provided large amounts of reimbursements for capital expenditures. In 2010, the Board authorized the deferral of grant income for capital expenditures as regulatory liabilities. Thus, this regulatory credit will be deferred to match the depreciable lives of the related capital assets in order to offset the earnings effect of these non-exchange transactions.

**Precipitation Hedges.** Settlements of Precipitation Agreements are included in rates in the year settled and accordingly, the intrinsic value of open precipitation hedges is deferred as regulatory assets or liabilities.

SMUD's total regulatory credits for future revenue recognition are presented below:

	December 31, 2014	2013
	(thousands of dollars)	
<b>Regulatory Credits:</b>		
CIAC	\$ 241,427	\$ 231,612
Rate stabilization	42,251	54,070
Hydro rate stabilization	3,055	27,404
Assembly Bill 32	5,339	3,441
Grant revenues	69,172	75,123
TANC operations Costs	7,687	-0-
Precipitation hedge	-0-	11,547
Total regulatory credits	<u>\$ 368,931</u>	<u>\$ 403,197</u>

#### NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

To help provide stable electric rates and to meet the forecasted power needs of its retail customers reliably, SMUD enters into various physical and financial fixed price purchase contracts for electricity and natural gas. These fixed price contracts and swap agreements are intended to hedge the exposure due to highly volatile commodity prices. SMUD also enters into interest rate swap agreements to reduce interest rate risk, or to enhance the relationship between the risk and return regarding SMUD's assets or debt obligations. SMUD utilizes these derivative financial instruments to mitigate its exposure to certain market risks associated with ongoing operations. SMUD has established policies set by an executive committee for the use of derivative financial instruments for trading purposes. These contracts are evaluated pursuant to SGAS No. 53 "*Accounting and Financial Reporting for Derivative Instruments*" (GASB No. 53) to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures.

SMUD applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase or (decrease) in the fair value of a hedge is reported as a Deferred Inflow or Deferred Outflow on the Consolidated Statements of Net Position. Derivatives that do not meet the effectiveness tests are deferred for rate-making purposes as regulatory assets or liabilities on the Consolidated Statements of Net Position (see Note 8).

During 2014 and 2013, SMUD executed numerous new gas and power related purchase agreements, some of which are recorded as hedging or investment derivatives and are therefore included in the following table. All hedging or investment derivatives are recorded at fair value on the Consolidated Statements of Net Position.

For electricity and gas derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by an independent external pricing service. When external quoted market prices are not available for derivative contracts, SMUD uses an internally developed valuation model utilizing short term observable inputs. For interest rate derivatives, SMUD subscribes to a financial information service that it uses to verify fair value estimates obtained from its counterparties.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2014 (amounts in thousands; gains shown as positive amounts, losses as negative):

<b>Cash Flow Hedges:</b>	<b>2014 Changes in Fair Value</b>		<b>Fair Value at December 31, 2014</b>			<b>Notional</b>	
	<b>Current Amount</b>	<b>Noncurrent Amount</b>	<b>Current Amount</b>	<b>Noncurrent Amount</b>			
(thousands of dollars)							
(thousands of Dekatherms (Dth))							
<b>Asset: Investment Derivative Instruments</b>							
Gas – Commodity	\$ (272)	\$ (147)	\$ -0-	\$ -0-			
Gas – Storage	(7)	-0-	-0-	-0-			
Gas – Transportation	39	-0-	39	-0-		380 Dth	
Total Investment							
Derivative Instruments	\$ (240)	\$ (147)	\$ 39	\$ -0-			
<b>Asset: Hedging Derivative Instruments</b>							
Gas – Basis	\$ 37	\$ (476)	\$ 560	\$ 179	9,860	Dth	
Gas – Commodity	(1,115)	(176)	860	-0-	893	Dth	
Gas – Storage	21	-0-	42	-0-	528	Dth	
Gas – Transportation	688	(826)	1,023	149	10,955	Dth	
Interest Rate	(485)	1,477	6,540	25,375		\$131,030	
Total Hedging							
Derivative Instruments	\$ (854)	\$ (1)	\$ 9,025	\$ 25,703			
<b>Liability: Investment Derivative Instruments</b>							
Gas – Basis	\$ (331)	\$ -0-	\$ 331	\$ -0-	300	Dth	
Gas – Commodity	(4,552)	(3,914)	4,589	4,228	10,510	Dth	
Gas – Storage	2	-0-	-0-	-0-			
Interest Rate	1,649	(285)	7,375	15,660		\$227,190	
Total Investment							
Derivative Instruments	\$ (3,232)	\$ (4,199)	\$ 12,295	\$ 19,888			
<b>Liability: Hedging Derivative Instruments</b>							
Gas – Basis	\$ (2,290)	\$ -0-	\$ 2,290	\$ -0-	2,140	Dth	
Gas – Commodity	(33,552)	(14,162)	49,370	100,306	101,268	Dth	
Gas – Storage	376	-0-	18	-0-	288	Dth	
Gas – Transportation	(49)	-0-	49	-0-	3,270	Dth	
Total Hedging							
Derivative Instruments	\$ (35,515)	\$ (14,162)	\$ 51,727	\$ 100,306			

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following is a summary of the fair values, changes in fair value and notional amounts of derivative instruments, grouped by trading strategy, outstanding at December 31, 2013 (amounts in thousands; gains shown as positive amounts, losses as negative):

<b>Cash Flow Hedges:</b>	<b>2013 Changes in Fair Value</b>		<b>Fair Value at December 31, 2013</b>			<b>Notional</b>	
	<b>Current Amount</b>	<b>Noncurrent Amount</b>	<b>Current Amount</b>	<b>Noncurrent Amount</b>			
(thousands of dollars)							
(thousands of Dekatherms (Dth))							
<b>Asset: Investment Derivative Instruments</b>							
Gas – Commodity	\$ 272	\$ 112	\$ 272	\$ 147		3,235 Dth	
Gas – Storage	(12)	-0-	7	-0-		78 Dth	
Total Investment Derivative Instruments	\$ 260	\$ 112	\$ 279	\$ 147			
<b>Asset: Hedging Derivative Instruments</b>							
Gas – Basis	\$ 523	\$ 655	\$ 523	\$ 655		10,950 Dth	
Gas – Commodity	1,975	(677)	1,975	176		13,373 Dth	
Gas – Storage	(514)	-0-	21	-0-		148 Dth	
Gas – Transportation	335	975	335	975		16,425 Dth	
Interest Rate	57	(12,349)	7,025	23,898		\$131,030	
Total Hedging Derivative Instruments	\$ 2,376	\$ (11,396)	\$ 9,879	\$ 25,704			
<b>Liability: Investment Derivative Instruments</b>							
Gas – Commodity	\$ 10,994	\$ 19	\$ 37	\$ 314		2,938 Dth	
Gas – Storage	4	-0-	2	-0-		78 Dth	
Gas – Transportation	7	-0-	-0-	-0-			
Interest Rate	615	15,691	9,024	15,375		\$260,480	
Total Investment Derivative Instruments	\$ 11,620	\$ 15,710	\$ 9,063	\$ 15,689			
<b>Liability: Hedging Derivative Instruments</b>							
Gas – Basis	\$ 85	\$ -0-	\$ -0-	\$ -0-			
Gas – Commodity	65,367	(3,245)	15,818	86,144		89,698 Dth	
Gas – Storage	(384)	-0-	394	-0-		1,428 Dth	
Gas – Transportation	88	-0-	-0-	-0-			
Total Hedging Derivative Instruments	\$ 65,156	\$ (3,245)	\$ 16,212	\$ 86,144			

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Objectives and terms of hedging derivative instruments.** The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2014 are summarized in the table below. The table is aggregated by the trading strategy. Credit ratings of SMUD's counterparties can be found in the table under Credit Risk. Details of SMUD's interest rate derivative instruments can be found in Note 10.

	<b>Notional Amount Dth</b>	<b>Beginning Date</b>	<b>Ending Date</b>	<b>Minimum Price/Dth</b>	<b>Maximum Price/Dth</b>
Gas – Basis	12,300	01/01/15	12/31/16	\$ (0.82)	\$ 3.39
Gas – Commodity	112,671	01/01/08	12/31/22	3.15	7.17
Gas – Storage	816	01/01/15	03/31/15	.25	.40
Gas – Transportation	14,605	01/01/15	12/31/16	(0.36)	(0.13)

The objectives and terms of SMUD's hedging derivative instruments that were outstanding at December 31, 2013 are summarized in the table below. The table is aggregated by the trading strategy.

	<b>Notional Amount Dth</b>	<b>Beginning Date</b>	<b>Ending Date</b>	<b>Minimum Price/Dth</b>	<b>Maximum Price/Dth</b>
Gas – Basis	10,950	01/01/14	12/31/15	\$ (0.74)	\$ (0.62)
Gas – Commodity	109,244	01/01/08	12/31/22	3.83	7.17
Gas – Storage	1,732	01/01/14	03/31/14	.17	4.71
Gas – Transportation	16,425	01/01/14	12/31/15	(0.36)	(0.10)

SMUD hedges its interest costs. The interest rate swaps are designed to synthetically fix the cash flows associated with variable rate bonds (see Note 10).

SMUD hedges its power and natural gas costs so that it can offer predictable rates to its retail electric customers and support its credit rating. SMUD maintains a risk management program to control the price, credit, and operational risks arising from its power and natural gas market activities. Under the program, authorized SMUD employees assemble a portfolio of swaps, futures, and forward contracts over time with the goal of making SMUD's purchased power and fuel budget more predictable.

These hedged risks include those related to interest rate and commodity price fluctuations associated with certain forecasted transactions, including interest rate risk on long-term debt, and forward purchases of gas and electricity to meet load.

**Derivatives not designated as hedging instruments**

**Gas and Electric Contracts.** SMUD utilizes certain gas swap and electric swap agreements under GASB No. 53 not designated as hedging derivative instruments to mitigate exposure to changes in the market price of natural gas and electricity. The fair value of each agreement, excluding the actual settlements to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Regulatory Credits for future recovery in the Consolidated Statements of Net Position. The actual settlement payable is recorded in Accounts Payable on the Consolidated Statements of Net Position, and the actual settlement receivable is recorded in Receivables – Net - Other on the Consolidated Statements of Net Position. The payments and receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

**Interest Rate Contracts.** SMUD utilizes certain interest rate swap agreements not designated as hedging derivative instruments under GASB No. 53 to mitigate exposure to changes in the fair value of variable rate debt resulting from fluctuations in interest rates. The fair value of each agreement, excluding the balance of interest to be paid or received as of the end of the period, is recorded in either Current or Noncurrent Assets, Investment Derivative Instruments on the Consolidated Statements of Net Position if in an asset position or Current or Noncurrent Liabilities, Investment Derivative Instruments on the Consolidated Statements of Net Position if in a liability position. An offsetting amount is included in Current or Noncurrent Regulatory Costs or Deferred Outflows or Inflows of Resources in the Consolidated Statements of Net Position. The interest receivable is recorded in Receivables – Net – Other on the Consolidated Statements of Net Position, and the accrued interest is recorded in Interest Payable on the Consolidated Statements of Net Position. The payments or receipts of the actual settlement are recorded as Investment Expense in the Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The Board has deferred recognition of the effects of reporting the fair value of Investment Derivative Instruments for rate-making purposes, and maintains regulatory accounts to defer the accounting impact of these accounting adjustments (see Note 8). Market values may have changed significantly since December 31, 2014.

**Interest rate risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of SMUD's interest rate swaps. SMUD is exposed to interest rate risk on its interest rate swaps.

**Basis risk.** Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. SMUD is exposed to basis risk when it hedges its natural gas purchases, which are priced at various locations, with NYMEX futures contracts, which settle based on the price in Henry Hub, Louisiana. SMUD enters into basis swaps to hedge against this risk.

**Termination risk.** Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, credit events upon merger, and other events. One aspect of termination risk is that SMUD would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark to market value of the derivative was a liability to SMUD, SMUD could be required to pay that amount to the counterparty. Termination risk is associated with all of SMUD's derivatives up to the fair value amounts.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Credit Risk.** Credit risk is the risk of loss resulting when the counterparty is unable or unwilling to fulfill its present and future financial obligations. SMUD can be exposed to significant counterparty credit risk on all derivative instruments. SMUD seeks to minimize credit risk by transacting with creditworthy counterparties. SMUD has established and maintained strict counterparty credit guidelines. SMUD continuously monitors counterparty credit risk and utilizes numerous counterparties to diversify the exposure to potential defaults. Under certain conditions as outlined in SMUD's credit risk management policy, SMUD may require additional credit support under its trading agreements.

Some of SMUD's derivative master agreements contain credit contingent provisions that enable SMUD to maintain unsecured credit as a result of positive investment quality credit ratings from each of the major credit rating agencies. If SMUD's debt were to be downgraded, there could be a step-down in SMUD's unsecured credit thresholds, and SMUD's counterparties would require additional collateral. If SMUD's debt were to decrease below investment grade, SMUD's unsecured credit thresholds would be reduced to zero, and counterparties to the derivative instruments would demand ongoing full collateralization on derivative instruments in net out of the money positions (See Note 2).

The counterparties' current credit rating at December 31, 2014 is shown in the table below. The credit ratings listed are from S&P or Moody's:

Counterparty	Counterparty Credit Rating
Gas Contracts:	
Barclays Bank PLC	A-
Bank of Montreal	A+
BNP Paribas Energy Trading GP.	A+
Citigroup Inc.	Baa2
Deutsche Bank AG	A3
EDF Trading North America LLC	A3
Goldman Sachs Group Inc.	Baa1
J.P. Morgan Ventures Energy Corp.	A3
Macquarie Bank Limited	BBB
Bank of America Corp	Baa2
Morgan Stanley Capital Group, Inc.	Baa2
Interest Rate Contracts:	
Goldman Sachs Capital Markets, L.P.	A-
Goldman Sachs Mitsui Marine Derivative Products L.P.	AAA
Morgan Stanley Capital Services, Inc.	A-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10. LONG-TERM DEBT**

SMUD's total long-term debt is presented below:

	December 31, 2014	2013
(thousands of dollars)		
Electric revenue bonds, 3.0%-6.32%, 2015-2041	\$ 1,873,105	\$ 1,971,390
Subordinated electric revenue bonds, index rates, 2015-2041	<u>347,850</u>	<u>347,850</u>
Total electric revenue bonds	2,220,955	2,319,240
Component unit project revenue bonds, 3.75%-5.25%, 2015-2030	373,670	399,295
Gas supply prepayment bonds, index rates, 2015-2027	<u>342,480</u>	<u>364,860</u>
Total long-term debt outstanding	2,937,105	3,083,395
Bond premiums – net	<u>115,026</u>	<u>130,007</u>
Total long-term debt	3,052,131	3,213,402
Less: amounts due within one year	<u>(170,430)</u>	<u>(137,600)</u>
Total long-term debt – net	<u><u>\$ 2,881,701</u></u>	<u><u>\$ 3,075,802</u></u>

The summarized activity of SMUD's long-term debt during 2014 is presented below:

	December 31, 2013	Additions	Payments or Amortization	December 31, 2014	Amounts Due Within One Year
(thousands of dollars)					
Electric revenue bonds	\$ 1,971,390	\$ -0-	\$ (98,285)	\$ 1,873,105	\$ 87,025
Subordinate electric revenue bonds	347,850	-0-	-0-	347,850	3,000
Component unit project					
revenue bonds	399,295	-0-	(25,625)	373,670	56,720
Gas supply prepayment bonds	364,860	-0-	(22,380)	342,480	23,685
Total	<u>3,083,395</u>	<u>-0-</u>	<u>(146,290)</u>	<u>2,937,105</u>	<u>\$ 170,430</u>
Unamortized premiums – net	130,007	-0-	(14,981)	115,026	
Total long-term debt	<u><u>\$ 3,213,402</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ (161,271)</u></u>	<u><u>\$ 3,052,131</u></u>	

The summarized activity of SMUD's long-term debt during 2013 is presented below:

	December 31, 2012	Additions	Payments or Amortization	December 31, 2013	Amounts Due Within One Year
(thousands of dollars)					
Electric revenue bonds	\$ 1,943,130	\$ 308,415	\$ (280,155)	\$ 1,971,390	\$ 89,595
Subordinate electric revenue bonds	347,850	-0-	-0-	347,850	-0-
Component unit project					
revenue bonds	423,915	-0-	(24,620)	399,295	25,625
Gas supply prepayment bonds	386,655	-0-	(21,795)	364,860	22,380
Total	<u>3,101,550</u>	<u>308,415</u>	<u>(326,570)</u>	<u>3,083,395</u>	<u>\$ 137,600</u>
Unamortized premiums – net	109,065	45,106	(24,164)	130,007	
Total long-term debt	<u><u>\$ 3,210,615</u></u>	<u><u>\$ 353,521</u></u>	<u><u>\$ (350,734)</u></u>	<u><u>\$ 3,213,402</u></u>	

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At December 31, 2014 scheduled annual principal maturities and interest are as follows:

	Principal	Interest	Total
	(thousands of dollars)		
2015	\$ 170,430	\$ 129,279	\$ 299,709
2016	147,675	123,299	270,974
2017	155,930	116,451	272,381
2018	155,975	109,088	265,063
2019	164,730	103,282	268,012
2020 – 2024 (combined)	736,965	423,265	1,160,230
2025 – 2029 (combined)	673,740	268,904	942,644
2030 – 2034 (combined)	397,775	141,767	539,542
2035 – 2039 (combined)	275,900	34,554	310,454
2040 – 2041 (combined)	57,985	3,388	61,373
Total Requirements	<u>\$ 2,937,105</u>	<u>\$ 1,453,277</u>	<u>\$ 4,390,382</u>

Interest in the preceding table includes interest requirements for fixed rate debt at their stated rates, variable rate debt covered by interest rate swaps at their fixed rate, and variable rate debt not covered by interest rate swaps using the debt interest rate of 0.03 percent and 0.04 percent in effect at December 31, 2014 for the issues.

The following bonds have been issued and are outstanding at December 31, 2014:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount
<b>Electric Revenue Bonds:</b>					
06/15/1997	1997 Series K Bonds	07/01/2024	5.25% - 5.9%	\$ 131,030,000	131,030,000
06/04/2003	2003 Series R Bonds	08/15/2015	3.25% - 5.0%	481,275,000	25,270,000
06/09/2008	2008 Series U Bonds	08/15/2028	3.125% - 5.0%	521,730,000	473,800,000
05/15/2009	2009 Series V Bonds	05/15/2036	6.322%	200,000,000	200,000,000
07/29/2010	2010 Series W Bonds	05/15/2036	6.156%	250,000,000	250,000,000
10/04/2011	2011 Series X Bonds	08/15/2028	3.0% - 5.0%	325,550,000	304,545,000
05/31/2012	2012 Series Y Bonds	08/15/2033	3.0% - 5.0%	196,945,000	195,170,000
05/21/2013	2013 Series A Bonds	08/15/2041	3.75% - 5.0%	132,020,000	132,020,000
05/21/2013	2013 Series B Bonds	08/15/2033	3.0% - 5.0%	118,615,000	118,615,000
08/20/2013	2013 Series C Bonds	08/15/2017	5.0%	57,780,000	42,655,000
<b>JPA Electric Revenue Bonds</b>					
08/19/2009	2009 CVFA Bonds	07/01/2020	2.25% - 5.25%	\$ 48,920,000	29,115,000
08/19/2009	2009 SCA Bonds	07/01/2021	4.0% - 5.25%	57,530,000	40,120,000
01/19/2006	2006 SFA Bonds	07/01/2030	3.25% - 5.25%	300,375,000	233,155,000
04/20/2005	2005 SPA Bonds	07/01/2022	3.0% - 5.5%	122,960,000	71,280,000
05/31/2007	2007B NCGA#1 Bonds	07/01/2027	Index Rate	668,470,000	342,480,000
<b>Subordinated Electric Revenue Bonds</b>					
08/14/2008	2008 Series J Bonds	08/15/2028	Index Rate	\$ 120,000,000	\$ 120,000,000
08/14/2008	2008 Series K Bonds	08/15/2028	Index Rate	77,850,000	77,850,000
02/29/2012	2012 Series L Bonds	08/15/2041	Index Rate	75,000,000	75,000,000
02/29/2012	2012 Series M Bonds	08/15/2041	Index Rate	75,000,000	75,000,000

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**2014 Bond Redemption.** In December 2014, SMUD redeemed \$8.7 million of 2004 Series T Electric Revenue Refunding Bonds. The redemption resulted in a current accounting gain of \$23 thousand, which is included in Interest on Debt in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position. Redeeming the bonds will reduce the aggregate future debt service payments by \$11.0 million.

**2013 Bond Refundings and Redemptions.** In May 2013, SMUD issued \$118.6 million of 2013 Series B Electric Revenue Refunding Bonds (2013 Series B bonds). Proceeds from the 2013 Series B bonds and \$6.7 million of available funds were used to refund \$141.5 million of the outstanding 2003 Series R, and 2004 Series T bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting gain of \$2.0 million, which is being amortized over the life of the refunding issue. The 2013 Series B refunding reduced future aggregate debt service payments by \$33.8 million and resulted in a total economic gain of \$22.5 million, which is the present value of the difference between the old and new debt service payments.

In August 2013, SMUD issued \$57.8 million of 2013 Series C Electric Revenue Refunding Bonds (2013 Series C bonds). Proceeds from the 2013 Series C bonds and \$4.3 million of available funds were used to refund \$65.9 million of the outstanding 2003 Series S bonds through a legal defeasance, and accordingly, the liability for the defeased bonds has been removed from Long-Term Debt in the Consolidated Statements of Net Position. The refunding resulted in the recognition of a deferred accounting loss of \$0.3 million, which is being amortized over the life of the refunding issue. The 2013 Series C refunding reduced future aggregate debt service payments by \$12.1 million and resulted in a total economic gain of \$6.2 million, which is the present value of the difference between the old and new debt service payments.

**Interest Rate Swap Agreements.** A summary of SMUD's three interest rate swap agreements are as follows. The credit ratings listed are from S&P:

Notional Amount (thousands)	SMUD Pays	Fixed Rate	Floating Rate	Termination Date	Counterparty Credit Rating
\$ 131,030	Variable	5.154%	SIFMA	07/01/24	A-
120,715	Fixed	4.345%	70% of LIBOR	08/15/18	AAA
106,475	Fixed	2.894%	63% of LIBOR	08/15/28	A-

SMUD has a fixed-to-variable interest rate swap agreement with a notional amount of \$131.0 million, which is equivalent to the principal amount of SMUD's 1997 Series K Electric Revenue Bonds. Under this swap agreement, SMUD pays a variable rate equivalent to the SIFMA Index (0.04 percent at December 31, 2014) and receives fixed rate payments of 5.154 percent. In connection with the swap agreement, SMUD has a put option agreement, also with a notional amount of \$131.0 million, which gives the counterparty the right to sell to SMUD, at par, either the 1997 Series K Bonds, or a portfolio of securities sufficient to defease the 1997 Series K Bonds. The exercise of the option terminates the swap at no cost to SMUD. The term of both the swap and the put is equal to the maturity of the 1997 Series K Bonds.

Additionally, SMUD has two variable-to-fixed interest rate swap agreements with a combined notional amount of \$227.2 million originally entered into for the purpose of fixing the effective interest rate associated with certain of its subordinated bonds that were refunded during 2008. The notional values of the two swaps are amortized over the life of the respective swap agreements. SMUD can terminate all swap agreements at any time, with payment or receipt of the fair market value of the swaps as of the date of termination. The obligations of SMUD under the swap agreements are not secured by a pledge of revenues of SMUD's electric system or any other property of SMUD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Component Unit Interest Rate Swap Agreements.** NCGA has three interest rate swap agreements, which are summarized as follows. The credit ratings listed are from S&P:

Notional Amount (thousands)	NCGA Pays	Fixed Rate	Floating Rate	Termination Date	Credit Support Provider Credit Rating
\$ 78,005	Fixed	4.062%	67% of LIBOR +.60%	07/01/17	A-
65,865	Fixed	4.144%	67% of LIBOR +.63%	07/01/19	A-
198,610	Fixed	4.304%	67% of LIBOR +.72%	07/01/27	A-

At December 31, 2014 NCGA has three variable-to-fixed interest rate swap agreements with a counterparty for the purpose of fixing the effective interest rate associated with the 2007 Series B Bonds. NCGA pays the counterparty a fixed rate on the notional amount and receives a floating rate equal to 67 percent of the three month LIBOR (0.26 percent at December 31, 2014) plus an interest rate spread, as specified in each swap agreement. The total notional amount of the three swaps at December 31, 2014 was \$342.5 million and was equivalent to the outstanding principal balance on the NCGA Bonds. The swaps are amortized over the life of their respective swap agreements in a manner corresponding to the principal repayment schedule of the NCGA Bonds. Early termination of the swaps would occur upon termination of the prepaid agreement for any reason. Upon early termination, the swaps would have no value to either party.

**Subordinated Electric Revenue Bonds.** Payment of and interest on the Subordinated Electric Revenue Bonds is subordinate to the payment of the principal and interest on SMUD's Electric Revenue Bonds.

**Variable Rate Bonds.** SMUD's Variable Rate Bonds bear interest at weekly rates, ranging from 0.03 percent to 0.04 percent at December 31, 2014. SMUD can elect to change the interest rate period or fix the interest rate, with certain limitations. SMUD's Variable Rate Bonds can be put to SMUD's Trustee by the bondholders; however, if the bonds can't be remarketed, SMUD has in place reimbursement agreements with Bank of America, State Street, and US Bank to enable SMUD to pay off the bonds over five years. Accordingly, SMUD has recorded such bonds as Long-Term Debt, less amounts scheduled for redemption within one year.

**Component Unit Bonds.** The component units of SMUD have each issued bonds to finance their respective projects. The revenue stream to pay the SPA, NCGA and SFA bonds' debt service is provided by a take and pay purchase agreement. Principal and interest associated with these bonds are paid solely from the component units' revenues and receipts collected in connection with the operation of the projects. Most operating revenues earned by the component units are collected from SMUD in connection with the sale of gas or electricity to SMUD. The ability to service debt for SPA and SFA is dependent upon the successful availability of operations, and for NCGA is dependent on various parties (particularly MSCG, as gas supplier) meeting their contractual obligations. The ability of SCA and CVFA to service their debt is not dependent upon the successful operation of the project. SMUD guarantees to make payments sufficient to pay principal and interest and all other payments required to be made under CVFA and SCA's indenture of trust, under a "take or pay" contract. CVFA and SCA are not required to repay SMUD for any amounts paid under this guarantee.

In December 2014, SPA notified the bondholders about a partial redemption of the 2005 SPA Bonds. SPA will redeem \$29.9 million of the Bonds maturing July 2020 through 2022 in January 2015. The \$29.9 million principal amount is included in Long-term debt due within one year on the Consolidated Statements of Net Position. See Note 18 for Subsequent Event.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Callable Bonds.** SMUD has \$797.9 million of Electric Revenue Bonds that are currently callable, \$450.0 million of which are fixed rate Build America Bonds debt and \$347.9 million of subordinate Variable Rate Demand Notes. SMUD also has \$1,052.7 million of bonds that become callable from 2018 through 2024, and these bonds can be called until maturity.

**Collateral.** The principal and interest on SMUD's bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of SMUD's electric system. Neither the credit nor the taxing power of SMUD is pledged to the payment of the bonds and the general fund of SMUD is not liable for the payment thereof.

**Covenants.** SMUD's bond resolutions contain various covenants that include requirements to maintain minimum debt service coverage ratios, certain other financial ratios, stipulated minimum funding of revenue bond reserves, and various other requirements including a rate covenant to raise rates to maintain minimum debt service coverage.

SMUD has pledged future net electric revenues, component unit net project revenues, and net gas supply prepayment revenues to repay, in electric revenue, component unit project revenue, and gas supply prepayment revenue bonds issued from 1997 through 2014. Proceeds from the bonds provided financing for various capital improvement projects, component unit capital projects, and the prepayment of a twenty-year supply of natural gas. The bonds are payable solely from the net revenues generated by SMUD's electrical sales, component unit project revenues, and gas supply prepayment revenues and are payable through 2041 at December 31, 2014.

GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", disclosures for pledged revenues are as follows:

	December 31, 2014	2013
(thousands of dollars)		
Pledged future revenues	<u>\$ 2,937,105</u>	<u>\$ 3,083,395</u>
Principal and interest payments for the year ended	<u>\$ 271,373</u>	<u>\$ 253,612</u>
Total net revenues for the year ended	<u>\$ 834,442</u>	<u>\$ 871,331</u>
Total remaining principal and interest to be paid	<u>\$4,390,382</u>	<u>\$ 4,687,275</u>
Annual principal and interest payments as a percent of net revenues		
For the year ended	<u>33%</u>	<u>29%</u>

**NOTE 11. COMMERCIAL PAPER NOTES**

SMUD issues Commercial Paper Notes (Notes) to finance or reimburse capital expenditures. At December 31, 2014 and 2013 Notes outstanding totaled \$200.0 million. The effective interest rate for the Notes outstanding at December 31, 2014 was 0.1 percent and the average term was 77 days. SMUD has a \$204.9 million letter of credit agreement, and there have not been any term advances under it.

The summarized activity of SMUD's Notes during 2014 and 2013 is presented below:

	Balance at Beginning of Year			Balance at End of Year
	Additions	Reductions	(thousands of dollars)	
December 31, 2014	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000
December 31, 2013	\$ 200,000	\$ -0-	\$ -0-	\$ 200,000

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12. RANCHO SECO DECOMMISSIONING LIABILITY

**Background.** The Rancho Seco decommissioning liability relates to the nuclear decommissioning of the former 913 MW nuclear power plant, which terminated commercial operations in 1989 and the separately licensed Independent Spent Fuel Storage Facility (ISFSI). Nuclear decommissioning is the process of safely removing nuclear facilities from service and reducing residual radioactivity to a level that permits termination of the Nuclear Regulatory Commission (NRC) license, and release of the property for unrestricted use. The NRC has approved SMUD's decommissioning plan for the nuclear power plant, which delineates a phased process, and the first phase of physical work was completed in 2008. Decommissioning of the ISFSI will occur after the DOE removes the spent nuclear fuel and high level waste from the site.

In 2009, the NRC released all of the land formerly under the Part 50 license for unrestricted use with the exception of the 1 acre fenced area around the Interim Onsite Storage Building that was previously used to store low-level radioactive waste produced during the decommissioning of the nuclear reactor facility. This waste was disposed of in 2014. The decommissioning of that remaining facility will begin in 2015 and when completed, will result in termination of the former operating license issued under Part 50.

The DOE, under the Nuclear Waste Policy Act of 1982, is responsible for permanent disposal of spent nuclear fuel and high-level radioactive waste which are currently in storage at the ISFSI. SMUD has a contract with the DOE for the removal and disposal of spent nuclear fuel and high-level (greater than class "C": GTCC) radioactive waste. All of SMUD's spent fuel and GTCC waste are currently stored in sealed canisters in the ISFSI. However, the date when fuel and GTCC waste removal will be complete is uncertain. In 2010, the DOE formally withdrew the application for licensing of Yucca Mountain as a high-level waste repository, essentially removing Yucca Mountain as an option for disposal of SMUD's used nuclear fuel. The DOE also announced in January 2010 the creation of a Blue Ribbon Commission to study alternatives for developing a repository for the nation's used nuclear fuel. The Commission provided a final report on alternatives in January 2012. The DOE evaluated the recommendations and published the report "Strategy for the Management and Disposal of Used Nuclear Fuel and High-Level Radioactive Waste" in January 2013. The next phase of the process will be for Congress and the President of the United States to consider the recommendations and enact legislation to implement the recommendations. At this time, there is no credible information available to determine when the DOE would remove the used nuclear fuel from the Rancho Seco facility. The ISFSI will remain under the regulation of the NRC until the nuclear fuel and GTCC radioactive waste are removed and the site is decommissioned.

**Asset Retirement Obligations.** These financial statements reflect SMUD's current estimate of its obligation for the cost of decommissioning (including the cost of managing the Storage Facility until it can be decommissioned) under the requirements of FASB ASC 410, based on studies completed each year. Each year, SMUD evaluates the estimate of costs of decommissioning and there was a decrease in costs in the 2014 study. The ARO estimate assumes all spent nuclear fuel will be removed from the site by 2028.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Rancho Seco's ARO is presented below:

	December 31, 2014	2013
	(thousands of dollars)	
Active decommissioning	\$ 16,067	\$ 33,872
Spent fuel management	136,010	135,252
Total ARO	<u>\$ 152,077</u>	<u>\$ 169,124</u>
Less: current portion	(7,879)	(19,759)
Total Non-current portion of ARO	<u>\$ 144,198</u>	<u>\$ 149,365</u>

The summarized activity of the Rancho Seco ARO during 2014 and 2013 are presented below. The annual adjustments include a savings computed as the difference between the fair value of the obligation as if the decommissioning activities were performed by a third party and the amount actually incurred by SMUD performing the decommissioning activities.

	December 31, 2014	2013
	(thousands of dollars)	
ARO at beginning of year	\$ 169,124	\$ 169,980
Accretion	8,291	8,331
Expenditures	(27,587)	(5,160)
Change in Study	(399)	(1,967)
Annual adjustments	2,648	(2,060)
ARO at end of year	<u>\$ 152,077</u>	<u>\$ 169,124</u>

**NOTE 13. PENSION PLANS**

**Defined Benefit Pension Plan.** SMUD participates in the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and SMUD policies. The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employees years of credited service, age, and final compensation. Copies of PERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, California 95814.

**Funding Policy.** Participants are required to contribute approximately seven percent of their annual covered salary. SMUD makes partial contributions required of SMUD employees on their behalf and for their account. SMUD is currently required to contribute approximately 11 percent of payroll to the plan. The contribution requirements of plan members and SMUD are established by PERS. On January 1, 2013, the public Employee's Pension Reform Act of 2013 took effect, requiring a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate.

**Annual Pension Cost.** SMUD has the option to prepay an annual lump sum payment to PERS. In July 2014, SMUD made a lump sum payment to PERS for the period July 1, 2014 - June 30, 2015 for \$22.5 million. At December 31, 2014, \$11.2 million is included in the Consolidated Statements of Net Position as Prepayments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Payments to PERS are presented below:

	2014	2013
	(thousands of dollars)	
SMUD payments for PERS contributions	\$ 32,373	\$ 31,092
Employee payments for additional service credits	487	584
Employee payments for PERS contributions	4,304	2,375
Total payments to PERS	<u>\$ 37,164</u>	<u>\$ 34,051</u>

Contributions are determined by actuarial valuations, which are performed based on the entry age normal actuarial cost method. The contribution for the first half of 2014 was determined by PERS as part of the annual actuarial valuation as of June 30, 2012; the contribution for the second half of 2014 was determined by PERS as part of the annual actuarial valuation as of June 30, 2013. The actuarial assumptions included: (a) a 7.5 percent investment rate of return (net of administrative expenses) for 2014 and 2013, (b) projected annual salary increases that vary by duration of service, and (c) a 3.0 percent per year payroll growth. Both (a) and (b) also included an inflation component of 2.75 percent. On April 13, 2013, PERS changed their amortization and smoothing policies. Effective with June 30, 2013 valuations, PERS no longer uses an actuarial value of assets but uses the market value of assets, and employs an amortization and smoothing policy that spreads rate increases or decreases over a 5-year period, and amortizes all experience gains and losses over a fixed 30-year period. All changes in liability due to plan amendments, and changes in actuarial assumptions or methodology are amortized separately over a 20-year period. If a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Three-year trend information for PERS is presented below:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contribution
	(thousands of dollars)	
06/30/14	\$ 31,028	100%
06/30/13	\$ 31,215	100%
06/30/12	\$ 32,064	100%

**Funded Status and Funding Progress.** As of June 30, 2013, the most recent actuarial valuation date, the plan was 79.9 percent funded. The actuarial accrued liability for benefits was \$1,778.4 million, and the actuarial value of assets which equals the market value was \$1,421.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$356.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$185.6 million, and the ratio of the UAAL to the covered payroll was 192.0 percent. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Other Plans.** SMUD provides its employees with two cash deferred compensation plans: one pursuant to Internal Revenue Code (IRC) Section 401(k) [401(k) Plan] and one pursuant to IRC Section 457 (457 Plan) (collectively, the Plans). The Plans are contributory plans in which SMUD's employees contribute the funds. Each of SMUD's eligible full-time or permanent part-time employees may participate in either or both Plans, and amounts contributed are vested immediately. Such funds are held by a Trustee in trust for the employees upon retirement from SMUD service and, accordingly, are not subject to the general claims of SMUD's creditors. SMUD is responsible for ensuring compliance with IRC requirements concerning the Plans and has the duty of reasonable care in the selection of investment alternatives, but neither SMUD, nor its Board or officers have any liability for market variations in the Plans' asset values. SMUD employees are responsible for determining how their funds are to be invested and pay all ongoing fees related to the Plans. The Plans are currently not subject to discrimination testing, nor the requirements of the Employee Retirement Income Security Act of 1974. SMUD employees participating in the Plans are allowed to contribute a portion of their gross income not to exceed the annual dollar limits prescribed by the IRC.

SMUD makes annual contributions to the 401(k) Plan on behalf of certain employees pursuant to a memorandum of understanding with both of its collective bargaining units. SMUD also matches non-represented employee contributions to the 401(k) Plan up to a set amount. SMUD made contributions into the 401(k) Plan of \$2.9 million in 2014 and \$1.6 million 2013. SMUD does not match employee contributions, nor make contributions on behalf of its employees to the 457 Plan. Participating employees made contributions into both Plans totaling \$16.8 million in 2014 and \$16.2 million in 2013.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14. OTHER POSTEMPLOYMENT BENEFITS**

SMUD provides postemployment healthcare benefits, in accordance with SMUD policy and negotiated agreements with employee representation groups in a single employer defined benefit plan, to all employees who retire from SMUD, and their dependents. SMUD also provides postemployment healthcare benefits to covered employees who are eligible for disability retirement. SMUD contributes the full cost of coverage for retirees hired before January 1, 1991, and a portion of the cost based on credited years of service for retirees hired after January 1, 1991. SMUD also contributes a portion of the costs of coverage for these retirees' dependents. Retirees are required to contribute the portion that is not paid by SMUD. The benefits, benefit levels, retiree contributions and employer contributions are governed by SMUD and can be amended by SMUD through its personnel manual and union contracts. At June 30, 2014, 5,181 postemployment participants, including retirees, spouses of retirees, surviving spouses, and eligible dependents, were eligible to participate in SMUD's healthcare benefits program.

OPEB arises from an exchange of salaries and benefits for employee services rendered, and refers to postemployment benefits other than pension benefits such as post employment healthcare benefits. SMUD considers the following benefits to be OPEB: Medical, Dental and Long-Term Disability.

**Plan Description.** SMUD is a member of the California Employers Retiree Benefit Trust (CERBT) for prefunding of OPEB obligations. The CERBT Fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The plan is an agent multiple employer plan administered by PERS, which provides medical, dental and long-term disability benefits for retirees and their beneficiaries. Any changes to these benefits would be approved by SMUD's Board and union contracts. To obtain a CERBT report, please contact PERS at 888-CALPERS.

The funding of a plan occurs when the following events take place: the employer makes payments of benefits directly to or on behalf of a retiree or beneficiary; the employer makes premium payments to an insurer; or the employer irrevocably transfers assets to a trust or other third party acting in the role of trustee, where the plan assets are dedicated to the sole purpose of the payments of the plan benefits, and creditors of the government do not have access to those assets.

**Funding Policy.** SMUD has elected to net fund to PERS, so the contributions are the Annual Required Contribution (ARC) less the estimated cash flow for retiree benefit costs for each year. SMUD can elect to put in additional contributions into the trust, and in 2014 funded an additional \$40.0 million to the CERBT. In 2014 and 2013, the net ARC contribution to the CERBT was \$6.8 and \$8.6 million, respectively. During 2014 and 2013, SMUD made healthcare benefit contributions by paying actual medical costs of \$23.6 million and \$22.2 million, respectively.

**Funding Status and Funding Progress.** At June 30, 2014 and 2013, SMUD estimates that the actuarially determined accumulated postemployment benefit obligation was approximately \$505.1 and \$492.7 million, respectively. At June 30, 2014 and 2013, the plan was 25.6 and 21.0 percent funded, respectively. The covered payroll (annual payroll of active employees covered by the plan) at June 30, 2014 and 2013, was \$187.2 and \$179.7 million, respectively. The ratio of the UAAL to covered payroll was 200.7 percent at June 30, 2014.

**Annual OPEB Cost.** The annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of SGAS No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*". The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. For 2014, SMUD's annual OPEB Cost (expense) was \$29.4 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table shows the components of SMUD's annual OPEB cost for the year, the amount actually paid in premiums, and changes in the net OPEB obligation:

	Year Ended December 31, 2014	2013
	(thousands of dollars)	
Annual required contribution	\$ 29,833	\$ 29,665
Interest on net OPEB obligation	(2,704)	(2,671)
Annual required contribution adjustment	<u>2,251</u>	<u>2,153</u>
Annual OPEB cost	<u>29,380</u>	<u>29,147</u>
Contributions made	<u>(70,361)</u>	<u>(30,788)</u>
Increase / (Decrease) in net OPEB obligation	<u>(40,981)</u>	<u>(1,641)</u>
Net OPEB (asset), beginning of year	<u>(36,742)</u>	<u>(35,101)</u>
Net OPEB (asset), end of year	<u><u>\$ (77,723)</u></u>	<u><u>\$ (36,742)</u></u>

SMUD's Net OPEB Obligation (asset) is recorded for 2014 as a component of Prepayments and other on the Consolidated Statements of Net Position.

SMUD's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)
	(thousands of dollars)		
December 31, 2014	\$29,380	239%	(\$77,723)
December 31, 2013	\$29,147	106%	(\$36,742)
December 31, 2012	\$26,123	229%	(\$35,101)

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal was used in the June 30, 2014 and 2013 actuarial valuation. Actuarial assumptions used a 7.36 percent investment rate of return (net of administrative expenses), and a 3.0 percent inflation assumption. For 2014, the actuarial assumptions for an annual healthcare cost trend growth rate ranged from 1.3 to 12.1 percent for the current year, 7.5 to 8.0 percent for 2015, and 7.0 to 7.5 percent for 2016. The UAAL will be amortized as a percentage of payroll over an open 30-year period. At June 30, 2014 and 2013 the actuarial value of the assets was \$129.5 and \$103.3 million, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15. INSURANCE PROGRAMS AND CLAIMS**

SMUD is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, and natural disasters. In addition, SMUD is exposed to risks of loss due to injuries to, and illnesses of, its employees. SMUD carries commercial insurance coverage to cover most claims in excess of specific dollar thresholds, which range from \$5 thousand to \$2.5 million per claim with total excess liability insurance coverage for most claims of \$120.0 million. SMUD's property insurance coverage is based on the replacement value of the asset. There have been no significant reductions in insurance coverage, and in some cases, certain coverages increased. In 2014, 2013 and 2012, the insurance policies in effect have adequately covered all settlements of the claims against SMUD. No claims have exceeded the limits of property or liability insurance in any of the past three years.

The claims liability is included as a component of Self Insurance, Unearned Revenue and Other in the Consolidated Statements of Net Position.

SMUD's total claims liability, comprising claims received and claims incurred but not reported, at December 31, 2014, 2013 and 2012 is presented below:

	2014	2013	2012
(thousands of dollars)			
Workers' compensation claims	\$ 11,220	\$ 11,291	\$ 9,352
General and auto claims	825	669	573
Short- and long-term disability claims	121	391	168
Claims liability	<u>\$ 12,166</u>	<u>\$ 12,351</u>	<u>\$ 10,093</u>

Changes in SMUD's total claims liability during 2014, 2013, and 2012 is presented below:

	2014	2013	2012
(thousands of dollars)			
Claims liability, beginning of year	\$ 12,351	\$ 10,093	\$ 10,265
Add: provision for claims, current year	2,122	4,105	1,941
Increase in provision for claims in prior years	2,930	3,433	4,205
Less: payments on claims attributable to current and prior years	(5,237)	(5,280)	(6,318)
Claims liability, end of year	<u>\$ 12,166</u>	<u>\$ 12,351</u>	<u>\$ 10,093</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 16. COMMITMENTS**

**Electric Power and Gas Supply Purchase Agreements.** SMUD has numerous power purchase agreements with other power producers to purchase capacity, transmission, and associated energy to supply a portion of its load requirements. SMUD has minimum take-or-pay commitments for energy on some contracts. Certain contracts allow SMUD to exchange energy received primarily in the summer months, when SMUD most needs the energy and to return energy during the winter months, or other subsequent periods. SMUD has numerous long-term natural gas supply, gas transportation and gas storage agreements with Canadian and U.S. companies to supply a portion of the consumption needs of SMUD's natural gas-fired power plants, which expire through 2040.

At December 31, 2014, the approximate minimum obligations for the take or pay contracts over the next five years are as follows:

	<b>Electric</b> (thousands of dollars)	<b>Gas</b>
2015	\$ 31,874	\$ 17,164
2016	32,688	17,015
2017	33,559	17,309
2018	34,148	17,635
2019	34,148	17,984

At December 31, 2014, the approximate minimum obligations for the remaining contracts, assuming the energy or gas is delivered over the next five years, are as follows:

	<b>Electric</b> (thousands of dollars)	<b>Gas</b>
2015	\$ 119,299	\$ 149,436
2016	119,782	130,904
2017	127,421	132,708
2018	119,594	133,559
2019	126,643	123,819

**Contractual Commitments beyond 2019 – Electricity.** Several of SMUD's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2020 and 2033 and provide for power under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between \$32.2 million in 2020 and \$5.7 million in 2033. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the energy is delivered, ranges between \$134.3 million in 2020 and \$1.6 million in 2033. SMUD's largest purchase power source is the Western Base Resource contract, whereby SMUD receives 25.4 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 25.4 percent share of their revenue requirement. The Western contract expires on December 31, 2024.

**Contractual Commitments beyond 2019 – Gas.** Several of SMUD's natural gas supply, gas transportation and gas storage contracts extend beyond the five-year summary presented above. These contracts expire between 2020 and 2040 and provide for transportation and storage under various terms and conditions. SMUD estimates its annual minimum commitments under the take or pay contracts ranges between \$18.3 million in 2020 and \$10.0 million in 2040. SMUD estimates its annual minimum commitments under the remaining contracts, assuming the gas is delivered, ranges between \$120.0 million in 2020 and \$21.4 million in 2040.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Additional Contracts.** SMUD has entered into one additional power contract that has been excluded from the table above due to an unknown start date. This contract is based on generation that has not been built and is expected online between 2016 and 2017. Because of the uncertainty of the start date, it has been excluded from the table above.

**Solano Wind.** In December 2011, SMUD entered into an agreement to sell the Solano Wind Phase 3 project (see Note 2). SMUD will buy all output from the plant under the terms of the Power Purchase Agreement. The plant began commercial operation in April 2012 and SMUD receives all output generated. Under the terms of the various agreements, SMUD has the option to buy the plant back at certain discrete future dates.

**Gas Price Swap Agreements.** SMUD has entered into numerous variable to fixed rate swaps with notional amounts totaling 138,612,500 Dth for the purpose of fixing the rate on SMUD's natural gas purchases for its gas-fueled power plants and gas indexed electric contracts. These gas price swap agreements result in SMUD paying fixed rates ranging from \$3.15 to \$7.17 per Dth. The swap agreements expire periodically from January 2015 through December 2022.

**Gas Transport Capacity Agreements.** SMUD has numerous long-term natural gas transport capacity agreements with Canadian and U.S. companies to transport natural gas to SMUD's natural gas-fired power plants from the supply basins in Alberta to the California-Oregon border and from supply basins in the southwest and Rocky Mountains to the Southern California border. These gas transport capacity agreements provide for the delivery of gas into SMUD-owned pipeline capacity within California. The gas transport capacity agreements provide SMUD with 56,000 Dth per day (Dth/d) of natural gas pipeline capacity from the North, including the Canadian Basins through 2023 and 54,000 Dth/d from the Southwest or Rocky Mountain Basins through at least 2019.

**Gas Storage Agreements.** SMUD also has an agreement for the storage of up to 2.0 million Dth of natural gas at regional facilities through March 2015, dropping to 1.0 million Dth through March 2016.

**Hydro License Agreements.** SMUD has a hydro license for a term of 50 years effective July 1, 2014 (see Note 2). SMUD entered into four contracts with government agencies whereby SMUD makes annual payments to them for various services for the term of the license. Each contract is adjusted annually by an inflation index. The present value of the sum of the annual payments is \$56.1 million at December 31, 2014.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17. CLAIMS AND CONTINGENCIES**

**FERC Administrative Proceedings.** SMUD is involved in a number of FERC administrative proceedings related to the operation of wholesale energy markets, regional transmission planning, gas transportation, and the development of North American Electric Reliability Corporation (NERC) reliability standards. While these proceedings are complex and numerous, they generally fall into the following categories: (i) filings initiated by the California Independent System Operator Corporation (CAISO) (or other market participants) to adopt/modify the CAISO Tariff and/or establish market design and behavior rules; (ii) filings initiated by existing transmission owners (i.e. PG&E and the other Investor Owned Utilities (IOUs)) to pass-through costs to their existing wholesale transmission customers; (iii) filings initiated by FERC or market participants to establish market design and behavior rules or to complain about or investigate market behavior by certain market participants; (iv) filings initiated by transmission owners under their transmission owner tariffs for the purpose of establishing a regional transmission planning process; (v) filings initiated by providers of firm gas transportation service under the Natural Gas Act; and (vi) filings initiated by NERC to develop reliability standards applicable to owners, users, and operators of the bulk electric system. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Construction Matters.** SMUD contracts with various firms to design and construct facilities for SMUD. Currently, SMUD is party to various claims, legal actions and complaints relating to such construction projects. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**Environmental Matters.** SMUD was one of many potentially responsible parties that had been named in a number of actions relating to environmental claims and/or complaints. SMUD has resolved these environmental claims and/or complaints and entered into settlement agreements and/or consent orders. These settlement agreements and consent orders have statutory reopeners provisions which allow regulatory agencies to seek additional funds for environmental remediation under certain limited circumstances. While SMUD believes it is unlikely that any of the prior settlement agreements or consent orders will be reopened, the possibility exists. If any of the settlement agreements or consent orders is reopened, SMUD management does not believe that the outcome will have a material adverse impact on SMUD's financial position, liquidity or results of operations.

**North City Remediation.** In 1950, SMUD purchased property (North City Site) from the City of Sacramento and the Western Railroad Company. Portions of the North City Site prior to the sale had been operated as a municipal landfill by the City of Sacramento. SMUD currently operates a bulk substation on the North City Site. SMUD intends to assure compliance with State standards at closed landfill sites and is in the process of determining the appropriate remediation for the North City Site. In 2009, SMUD recorded a liability related to the investigation, design and remediation necessary for the North City Site in the amount of \$12.0 million estimated for the entire project. As the owner of the North City Site, SMUD will have a role in the remediation selection and activities, as may those who operated or used the North City Site for landfill purposes. SMUD has estimated its exposure to such costs based on its proportionate share of the remedy. However, should others become unable to participate due to insolvency or otherwise unable to pay their share of the costs, SMUD's share of remediation costs would increase. SMUD's management does not believe this will occur. Even if SMUD were to ultimately be responsible for all remediation costs associated with the North City Site, SMUD management believes that the outcome of these remediation costs will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Former Community Linen Rental Services (Community) Property.** In 1981, SMUD purchased property from Community located at 1824 and 1826 61st Street (Site). That same year, Community sold its linen business and equipment to Mission Laundry (Mission). SMUD continued to lease portions of the property to Mission until 1985. SMUD settled with these businesses and waived a potential future legal claim for cleanup funding. The property to the north of the Site was owned by Kramer Carton Company (Kramer) and used for 60 years as a carton manufacturing facility. In 2009, Kramer filed for bankruptcy protection from its creditors. The Kramer property was encumbered by a first and second deed of trust, where the second deed of trust was held by Willamette Capital Management, Ltd. (Willamette). Willamette purchased the note on the first deed of trust. In 2011, Willamette foreclosed on the Kramer property and now holds title to the Kramer property. Based on environmental investigations, it has been determined that there is contamination at the Kramer property, at the Site, and at areas south of the Kramer property. The contamination appears to emanate primarily from the Site, with some contribution from the Kramer property. Preliminary environmental investigations of the Kramer property, the Site and areas south of the Kramer property indicate that total remediation costs may exceed \$2.0 million. SMUD does not believe that it is the source of the contamination. Nonetheless, since Kramer is bankrupt and Willamette contends it is exempt from liability under a secured creditor exemption, it is unclear whether it would be beneficial for SMUD to take legal action for contribution. SMUD has estimated its exposure to such costs based on its proportionate share of the remedy. However, should others become unable to participate due to insolvency or otherwise refuse to pay their entire share of the costs, SMUD's share of remediation costs would increase; alternatively, SMUD could potentially acquire the Kramer property at a nominal or greatly reduced cost, giving SMUD an asset with value that will materialize after the cleanup. Even if SMUD were to ultimately be responsible for all remediation costs associated with the Site, SMUD's management believes that the remediation of the Site will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

**East Campus – Operations Center Dispute (Turner Construction Company).** In December 2010, SMUD entered into the East Campus – Operations Center Design-Build Agreement (Agreement) for \$112.0 million with Turner Construction Company (Turner) to construct the East Campus – Operations Center (EC-OC) design-build project (Project). In April 2013, SMUD provided Turner with notice of substantial completion of the Project. Section 18.4(a) of the Agreement requires SMUD to purchase a project errors and omissions policy (Project E&O Policy) for the Project. Turner has alleged that SMUD has breached the Agreement because the Project E&O Policy purchased by SMUD does not comply with Section 18.4(a) of the Agreement for two reasons: (1) the Project E&O Policy does not cover "all claims" for design defects, because the Project E&O Policy's insured vs. insured exclusion prohibits Turner from recovering under the policy for design defects on the part of other insureds, and (2) SMUD purchased extended reporting period (tail) coverage for only five, rather than ten years. Turner asserts claims arising from the breach of the Agreement in the amount of \$3.9 to \$5.1 million. Turner has triggered the dispute resolution process within the Agreement and provided Notice of Intent to Initiate Arbitration. Arbitration commenced on January 21, 2015. SMUD's management believes the claims are without merit. In any event, SMUD's management believes that the outcome of this matter will not have a material adverse impact on SMUD's financial position, liquidity or results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Other Matters.** Currently, SMUD is party to various claims, legal actions and complaints relating to its operations, including but not limited to: property damage and personal injury, contract disputes, torts, and employment matters. SMUD's management believes that the ultimate resolution of these matters will not have a material adverse effect on SMUD's financial position, liquidity or results of operations.

**NOTE 18. SUBSEQUENT EVENT**

On January 5, 2015, SPA redeemed \$29.9 million of 2005 SPA Bonds. See Component Unit Bonds in Note 10.

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**REQUIRED SUPPLEMENTARY INFORMATION (unaudited)**

**Schedules of Funding Progress**

**PERS Pension.** The schedule of funding progress for PERS is presented below for the three most recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(thousands of dollars)						
06/30/2013	\$ 1,421,522	\$ 1,778,351	\$ 356,829	79.9%	\$ 185,863	192.0%
06/30/2012	\$ 1,561,647	\$ 1,693,613	\$ 131,966	92.2%	\$ 177,772	74.2%
06/30/2011	\$ 1,528,294	\$ 1,634,178	\$ 105,884	93.5%	\$ 182,872	57.9%

\* Starting 6/30/13, Actuarial Value of Assets equals the market value of the assets per PERS smoothing policy approved on April 13, 2013.

**OPEB.** The schedule of funding progress for the other postemployment benefit healthcare plan is presented below for the three recent years for which SMUD has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
(thousands of dollars)						
06/30/2014	\$ 129,493	\$ 505,142	\$ 375,649	25.6%	\$ 187,151	200.7%
06/30/2013	\$ 103,251	\$ 492,651	\$ 389,400	21.0%	\$ 179,733	216.7%
06/30/2012	\$ 52,724	\$ 424,738	\$ 372,014	12.4%	\$ 174,618	213.0%
06/30/2011	\$ 47,843	\$ 362,469	\$ 314,626	13.2%	\$ 171,411	183.6%





**SMUD**

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