REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

TUOLUMNE WIND PROJECT AUTHORITY
(A COMPONENT UNIT OF THE TURLOCK IRRIGATION DISTRICT)

December 31, 2020 and 2019

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Report of Independent Auditors

To the Board of Directors of
Tuolumne Wind Project Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Tuolumne Wind Project Authority (the "Authority"), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 7 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Portland, Oregon
April 27, 2021

Using this financial report
The following management's discussion and analysis of the Tuolumne Wind Project Authority (the "Authority") and its financial performance provides an overview of the Authority's financial activities for the years ended December 31, 2020 and 2019. This management's discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

Background
The Authority is a joint exercise of powers authority formed pursuant to a joint exercise of powers agreement creating the Authority. The Turlock Irrigation District (TID) and the Walnut Energy Center Authority (WECA) formed the Authority by executing the joint powers authority (JPA) in 2008. The purpose of the Authority is to develop, own, and operate the Tuolumne Wind Project (the Project). The Authority is authorized to enter into contracts and issue revenue bonds in support of the Project.

Pursuant to the asset contribution agreement between TID and the Authority, TID provides technical, general, and administrative services to meet the Authority's needs. Neither TID nor WECA has any obligation or liability beyond that specifically provided in the joint powers agreement and the project agreements (the Agreements). Pursuant to the Agreements, TID is responsible for all costs of the Authority and all of the power generation output is owned by TID.

Project
The Authority issued the 2009 revenue bonds to finance the acquisition of the Project, a 136.6 mega-watt wind farm power generating facility. A portion of the bonds were used to reimburse TID for costs incurred during the acquisition process. The facility achieved commercial operation and the acquisition was completed in 2009.

Financial reporting
The Authority maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Authority is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Authority uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority's operating expenses are paid by TID and as such are excluded from the cash flow statements; as are the associated revenues. The Authority's commission is comprised of TID's Board of Directors. The Authority is a separate legal entity; however, due to the extent of its operational and financial relationship with TID, it is included in the consolidated financial statements of TID as a component unit.

Statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows
The statements of net position include all of the Authority's assets, deferred outflows of resources and liabilities using the accrual basis of accounting, as well as information about which assets can be utilized for general purposes and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as cash payments for debt service and capital expenditures and cash purchases and proceeds from investing activities during the time periods indicated.

(dollars in thousands)

Summary of Financial Position and Changes in Net Position as of and for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018 *as restated*
ASSETS AND DEFERRED OUTFLOWS			
Noncurrent lease receivable	$ 257,859	$ 272,574	$ 286,729
Restricted cash, cash equivalents, and investments	41,999	41,163	53,385
Other current assets	18,185	20,148	10,520
Deferred outflows of resources	18,303	21,347	24,597
Total assets and deferred outflows	$ 336,346	$ 355,232	$ 375,231
LIABILITIES AND NET POSITION			
Long-term debt	$ 298,056	$ 317,449	$ 336,577
Other noncurrent liabilities	14,580	14,430	14,430
Other current liabilities	23,710	23,353	24,224
Total liabilities	336,346	355,232	375,231
NET POSITION	-	-	-
Total liabilities and net position	$ 336,346	$ 355,232	$ 375,231

	2020	2019	2018
OPERATING REVENUES			
Lease revenue	$ 24,794	$ 25,352	$ 25,639
OPERATING EXPENSES			
Transmission	3,421	3,771	4,462
Land leases	1,203	1,034	1,084
Operation and maintenance	6,926	7,156	5,535
Administrative and general	1,811	1,696	1,934
Total operating expenses	13,361	13,657	13,015
Operating income	11,433	11,695	12,624
NONOPERATING REVENUES AND EXPENSES			
Other income	3,978	4,199	3,965
Interest expense, net	(15,411)	(15,894)	(16,589)
Total nonoperating revenues and expenses	(11,433)	(11,695)	(12,624)
Change in net position	-	-	-
NET POSITION			
Beginning of year	-	-	-
End of year	$ -	$ -	$ -

Management's Discussion and Analysis as of and for the Year Ended December 31, 2020:

Noncurrent lease receivable

As of December 31, 2020 and 2019, total costs capitalized by the Authority, which are to be recovered in the form of lease payments from TID, were $257.9 million and $272.6 million, respectively. The lease receivable comprises 77% of the Authority's assets as of December 31, 2020 and 2019, respectively. The decrease in 2020 is primarily due to a reduction in outstanding principal debt of $14.9 million of TWPA's scheduled bond principal payments as set forth in the Agreements. These collections from TID reduce the lease receivable balance.

Restricted cash, cash equivalents and investments

The Authority's restricted cash, cash equivalents and investments increased $0.8 million to $42.0 million in 2020 compared to $41.2 million in 2019, and is due to current year increase in the scheduled debt payments due in 2020.

Other current assets

The decrease in other current assets of $2.1 million to $18.0 million in 2020, compared to $20.1 million in 2019, is primarily a result of current year operations.

Deferred outflows of resources

Deferred outflows of resources decreased $2.9 million to $18.4 million in 2020, compared to $21.3 million in 2019, primarily due to scheduled amortization of a deferred loss of $2.2 million and amortization of ARO of $0.7 million.

Long-term debt

Long-term debt decreased $19.4 million to $298.1 million in 2020, compared to $317.4 million in 2019. The decrease in 2020 is due to classifying the current portion of debt as a current liability of $14.9 million and current year amortization of bond premiums of $4.5 million.

Other noncurrent current liabilities

Current liabilities increased $0.2 million to $14.6 million in 2020, compared to $14.4 million in 2019, due to an increase in inflation for the authority's asset retirement obligation.

Other current liabilities

Current liabilities increased $0.3 million to $23.7 million in 2020, compared to $23.4 million in 2019, due to an increase in the current portion of long-term debt payable of $0.7 million offset and a decrease in accrued interest payable of $0.4 million.

Lease revenue

Lease revenue decreased $0.5 million to $24.8 million for the year ended December 31, 2020, compared to lease revenue of $25.3 million for the year ended December 31, 2019, and is a function of total expenses of the operating organization.

Operating expenses

The Authority's transmission and land lease expenses decreased $0.2 million to $4.6 million in 2020, compared to $4.8 million in 2019. The Authority's transmission and land lease expenses are based on contracted rates with the providers and are a function of the output of the generating facility. The generating facility produced 422,364 and 362,927 MWh, respectively, for the years ended December 31, 2020 and 2019. The Authority's operations and maintenance expense decreased $0.3 million to $6.9 million in 2020, compared to $7.2 million in 2019, due to additional maintenance activities performed in 2019. The Authority's administrative and general expenses increased $0.1 million to $1.8 million in 2020, compared to $1.7 million in 2019 due to a slight decrease in insurance expense.

Other income

Other income decreased $0.2 million to $4.0 million in 2020 when compared to $4.2 million in 2019, primarily due to investment market conditions.

Interest expense

Interest expense on the revenue bonds decreased $0.5 million to $15.4 million in 2020, when compared to $15.9 million in 2019, primarily due to a principal payment of $14.2 million which lowered the outstanding principal for the year.

Management's Discussion and Analysis as of and for the Year Ended December 31, 2019:

Noncurrent lease receivable

As of December 31, 2019 and 2018, total costs capitalized by the Authority, which are to be recovered in the form of lease payments from TID, were $272.6 million and $286.7 million, respectively. The lease receivable comprises 77% and 76% of the Authority's assets as of December 31, 2019 and 2018, respectively. The decrease in 2019 is primarily due to a reduction in outstanding principal debt of $14.2 million of TWPA's scheduled bond principal payments as set forth in the Agreements. These collections from TID reduce the lease receivable balance.

Restricted cash, cash equivalents and investments

The Authority's restricted cash, cash equivalents and investments decreased $12.2 million to $41.2 million in 2019 compared to $53.4 million in 2018, and is due to a decrease in the required reserves due to paying off the remaining principal on the TWPA 2009 revenue bonds, Series A which reduced reserve requirements by $11.7 million which was utilized to fund current year scheduled debt payments. The remaining decrease is due to current year decrease in the scheduled debt payments due in 2019.

Other current assets

The increase in other current assets of $9.6 million to $20.1 million in 2019, compared to $10.5 million in 2018, is primarily a result of current year operations.

Deferred outflows of resources

Deferred outflows of resources decreased $3.3 million to $21.3 million in 2019, compared to $24.6 million in 2018, primarily due to scheduled amortization of a deferred loss of $2.5 million and amortization of ARO of $0.8 million.

Long-term debt
Long-term debt decreased $19.2 million to $317.4 million in 2019, compared to $336.6 million in 2018. The decrease in 2019 is due to classifying the current portion of debt as a current liability of $14.2 million and current year amortization of bond premiums of $5.0 million.

Other current liabilities
Current liabilities decreased $0.9 million to $23.4 million in 2019, compared to $24.2 million in 2018, due to a decrease in the current portion of long-term debt payable of $0.5 million offset and a decrease in accrued interest payable of $0.3 million.

Lease revenue
Lease revenue decreased $0.3 million to $25.3 million for the year ended December 31, 2019, compared to lease revenue of $25.6 million for the year ended December 31, 2018, and is a function of total expenses of the operating organization.

Operating expenses
The Authority's transmission and land lease expenses decreased $0.7 million to $4.8 million in 2019, compared to $5.5 million in 2018. The Authority's transmission and land lease expenses are based on contracted rates with the providers and are a function of the output of the generating facility. A full year of lowered contracted transmission rates implemented mid-2018 and a decrease in production resulting in a net decrease in costs. The generating facility produced 362,927 and 386,208 MWh, respectively, for the years ended December 31, 2019 and 2018. The Authority's operations and maintenance expense increased $1.7 million to $7.2 million in 2019, compared to $5.5 million in 2018, due to additional maintenance activities performed in 2019 and an increase in asset retirement obligation expense of $0.6 million. The Authority's administrative and general expenses decreased $0.2 million to $1.7 million in 2018, compared to $1.9 million in 2018 for 2019 and 2018, respectively due to a slight decrease in property taxes.

Other income
Other income increased $0.2 million to $4.2 million in 2019 when compared to $4.0 million in 2018, primarily due to investment market conditions.

Interest expense
Interest expense on the revenue bonds decreased $0.7 million to $15.9 million in 2019, when compared to $16.6 million in 2018, primarily due to a principal payment of $14.6 million which lowered the outstanding principal for the year.

Tuolumne Wind Project Authority
Statements of Net Position
(dollars in thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Noncurrent lease receivable from Turlock Irrigation District	$ 257,859	$ 272,574
Investments and other noncurrent assets		
Cash and cash equivalents restricted for long-term purposes	2,385	17,809
Short-term Investments restricted for long-term purposes	8,761	-
Investments restricted for long-term purposes	7,141	-
Total investments and other noncurrent assets	18,287	17,809
Current assets		
Restricted cash and cash equivalents	23,712	23,354
Due from Turlock Irrigation District	17,441	19,487
Prepaid assets	744	661
Total current assets	41,897	43,502
Total assets	318,043	333,885
DEFERRED OUTFLOWS OF RESOURCES		
Deferred asset retirement obligation	9,868	10,703
Deferred refunding loss	8,435	10,644
	18,303	21,347
Total assets and deferred outflows of resources	$ 336,346	$ 355,232
LIABILITIES AND NET POSITION		
Noncurrent liabilities		
Long-term debt, net of current portion	$ 298,056	$ 317,449
Asset retirement obligation	14,580	14,430
Total noncurrent liabilities	312,636	331,879
Current liabilities		
Current portion of long-term debt	14,865	14,155
Accrued interest payable	8,845	9,198
Total current liabilities	23,710	23,353
COMMITMENTS (Note 7)		
NET POSITION	-	-
Total liabilities and net position	$ 336,346	$ 355,232

Tuolumne Wind Project Authority
Statements of Revenues, Expenses, and Changes in Net Position
(dollars in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
OPERATING REVENUES		
Lease revenue	$ 24,794	$ 25,352
OPERATING EXPENSES		
Transmission	3,421	3,771
Land leases	1,203	1,034
Operation and maintenance	6,926	7,156
Administrative and general	1,811	1,696
Total operating expenses	13,361	13,657
Operating income	11,433	11,695
NONOPERATING REVENUES AND EXPENSES		
Other income	3,978	4,199
Interest expense, net	(15,411)	(15,894)
Total nonoperating revenues and expenses	(11,433)	(11,695)
Change in net position	-	-
NET POSITION		
Beginning of year	-	-
End of year	$ -	$ -

See accompanying notes.

Tuolumne Wind Project Authority
Statements of Cash Flows
(dollars in thousands)

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from the District	$ 14,255	$ 2,890
Net cash provided by operating activities	14,255	2,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on long-term debt	(18,083)	(18,806)
Repayment of long-term debt	(14,155)	(14,660)
Repayment received on long-term lease receivable	14,865	14,155
Build America Bond receipts	3,458	3,449
Net cash used in capital and related financing activities	(13,915)	(15,862)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(43,293)	-
Sale of investments	27,402	15,016
Investment income	485	646
Net cash provided by investing activities	(15,406)	15,662
Net increase in cash and cash equivalents	(15,066)	2,690
CASH AND CASH EQUIVALENTS		
Beginning of year	41,163	38,473
End of year	$ 26,097	$ 41,163
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS		
Operating income	$ 11,433	$ 11,695
Asset retirement obligation expense	835	823
Adjustments to reconcile operating income to net cash provided by operating activities		
Change in prepaids	(59)	(37)
Change in due to/due from Turlock Irrigation District	2,046	(9,591)
Net cash provided by operating activities	$ 14,255	$ 2,890

See accompanying notes.

Note 1 – Organization and Description of the Business

The Tuolumne Wind Project Authority (the Authority) is a joint powers authority (JPA) formed by the Turlock Irrigation District (TID) and Walnut Energy Center Authority pursuant to the California Government Code. The purpose of the Authority is to own and operate the Tuolumne Wind Project (the Project). The Project, which is a 136.6 mega-watt, wind farm electric power generating facility, commenced commercial operations and was acquired by the Authority in 2009. The Authority is a component unit of TID.

Pursuant to the asset contribution agreement (AC Agreement) between TID and the Authority, TID provides the Authority with any administrative services the Authority may require. The Authority has no employees. The Authority is exempt from payment of federal and state income taxes. The Authority's operating expenses are comprised of land leases, certain administrative costs, transmission costs, and operations and maintenance costs in connection with related operation and maintenance agreements. Certain costs are borne directly by TID and are not included in these financial statements.

Pursuant to the power purchase agreement (PPA) (Note 6), TID is obligated to purchase all of the electricity produced by the Project. Accordingly, TID makes capacity and energy payments to the Authority, reflected as lease revenue in the statement of revenues, expenses, and changes in net position. The Authority is obligated to reimburse TID for the actual costs of Project operations, transmission, operations and maintenance, general and administrative and all expenditures necessary to provide capacity and energy from the Project.

Note 2 – Summary of Significant Accounting Policies

Method of accounting
The Authority maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Authority is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Authority uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority's operating expenses are paid by TID and as such are excluded from the cash flow statements; as are the associated revenues.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Authority's most significant estimates relate to its asset retirement obligation and fair value estimates for its investments.

Note 2 – Summary of Significant Accounting Policies (continued)

Lease receivable
In accordance with the AC Agreement and the PPA, TID's obligation to repay all costs under those agreements is unconditional. The PPA and AC Agreement together represent, in substance, a capital lease arrangement wherein TID (lessee) is obligated to repay all capital and operating costs of the facility and bears all risks of ownership. As such, the Authority records its net investment in utility plant as a capital lease in accordance with GASB accounting guidance governing lease accounting. As lessor, the Authority records its unrecovered financing costs associated with this in substance leasing arrangement as a direct financing lease receivable in the statements of net position, all of which is classified as noncurrent.

The AC Agreement and the PPA provide for recovery of all costs incurred by the Authority in connection with the financing and operation of the Project. As such, lease revenue is recognized when operating and interest expenses are incurred, offset by net investment income. There is no margin or net position to be retained by the Authority; nor is the Authority expected to sustain any losses under these agreements. As such, the Authority is designed to operate on a break-even basis with no net position through the life of the AC Agreement and the PPA.

Cash and cash equivalents, and investments
Cash equivalents include all debt instruments with original maturity dates of three months or less from the date of purchase. The debt instruments are reported at amortized cost which approximates fair value.

All investments are carried at their fair value, generally based on market prices quoted by dealers for those or similar investments. Other income includes both realized gains and losses and unrealized changes in the fair value of investments.

In accordance with provisions of the credit agreements relating to the Authority's long-term debt obligations, restricted funds held by trustees have been established to provide for certain debt service and project funding requirements. The restricted funds held by trustees are invested in instruments with maturities no later than the expected date of the use of such funds. At December 31, 2020 and 2019, all of the Authority's cash and cash equivalents and investments are held in restricted funds.

Long-term debt
Long-term debt is recorded at the principal amount of the obligations, adjusted for original issuance premium. The premium on bonds issued is amortized over the terms of the bonds using the effective interest method.

Deferred refunding gain or loss
Debt defeasance charges result from debt refunding transactions and comprise the difference between the reacquisition costs and the net outstanding debt balances including deferred costs of the defeased debt at the date of the defeasance transaction. Such charges are included as a component of deferred outflows or deferred inflows and amortized into interest expense over the shorter of the life of the refunded debt or the new debt, using the effective interest method.

Note 2 – Summary of Significant Accounting Policies (continued)

Debt issuance costs
Costs incurred in connection with the issuance of debt obligations, principally underwriters' and legal fees are expensed as incurred.

Asset retirement obligations
The Authority records asset retirement obligations (AROs) where there is a legally enforceable liability associated with the retirement of tangible capital assets. An ARO is measured based on the best estimate of the current value of outlays expected to be incurred. The current value is adjusted annually for the effects of general inflation or deflation. All relevant factors are evaluated at least annually to determine whether there is a significant change in the estimate outlays and whether to remeasure the ARO. The deferred outflows of resources are reduced and recognized as outflows of resources in a systematic and rational matter over the estimated useful life of the tangible capital asset.

Due from (to) Turlock Irrigation District
Receivables from and payables to TID are a result of timing differences incurred through the operations of the Project, which will net to $0 at the termination of the PPA. Amounts due from (to) TID relating to these transactions amounted to $17,291 and $19,487 as of December 31, 2020 and 2019, respectively.

Subsequent events
Subsequent events have been assessed through April 27, 2021.

Recent accounting pronouncements
In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). This statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. This statement is effective for the Authority in 2022. The Authority is currently assessing the financial statement impact of adopting this statement.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of GASB 92 is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement is effective for the Authority in 2022. The Authority is currently assessing the financial statement impact of adopting this statement.

Note 2 – Summary of Significant Accounting Policies (continued)

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates.* Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR), most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This statement is effective for the Authority in 2022. The Authority is currently assessing the financial statement impact of adopting this statement.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief from certain new accounting and financial reporting requirements in light of the COVID-19 pandemic. The Statement is effective immediately and the Board has adopted the provisions for the year ended December 31, 2020. The Authority has assessed the impact of the new statement and will postpone the implementation of; GASB No. 87, Leases; GASB No. 92, Omnibus 2020; and GASB No. 93, Replacement of Interbank Offered Rates.

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

Note 3 – Cash, Cash Equivalents and Investments

The Authority's investment policies are governed by the California Government Codes and its bond indenture, which restricts the Authority's investment securities to obligations which are unconditionally guaranteed by the U.S. government or its agencies; direct and general obligations of the State of California (the State) or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; supranational securities, asset and mortgage-backed securities; time certificates of deposit; repurchase agreements; medium-term corporate notes; shares of beneficial interest; and mortgage pass-through securities.

The Authority's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the total portfolio and with a single issuer, maximum maturities, and minimum credit ratings.

(dollars in thousands)

Note 3 – Cash, Cash Equivalents and Investments (continued)

Credit risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Authority limits investments to those rated, at a minimum, “A1” or equivalent for medium-term notes and “A” for commercial paper by a nationally recognized rating agency. At December 31, 2020 and 2019 all funds are deposited either with a bank or the trustee. The credit ratings listed are from Standard and Poor’s as of December 31, 2020. NR means not rated.

	Credit Rating	2020	2019
Cash and cash equivalents			
Deposits	NR	$ 23,712	$ 23,354
Short-term investments restricted for long-term purposes			
US Treasury Note	AA+	7,141	-
		7,141	-
Investments restricted for long-term purposes			
Government Sponsored Enterprise	AA+	8,761	-
		8,761	-
Cash and cash equivalents restricted for long-term purposes			
LOC deposit	NR	2,179	2,177
Deposits	NR	206	15,632
		2,385	17,809
		$ 41,999	$ 41,163
Restricted funds			
LOC deposit		$ 2,179	$ 2,177
Reserve funds		16,108	15,632
Debt service fund		23,712	23,354
		$ 41,999	$ 41,163

(dollars in thousands)

Note 3 – Cash, Cash Equivalents and Investments (continued)

In accordance with provisions of the credit agreements relating to certain of the Authority's long-term debt obligations, restricted funds are maintained at levels set forth in the credit agreements to provide for debt service reserve and project funding requirements. Funds are held by trustees as deposits and investments at December 31, 2020 and 2019. In addition, the Authority has placed $2,179 in a restricted account as collateral related to a letter of credit that expires on December 31, 2023.

Custodial credit risk
This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Authority's deposits may not be returned or the Authority will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. The Authority does not have a deposit policy for custodial credit risk. Currently the FDIC offers deposit insurance coverage of $250 for deposit accounts. At December 31, 2020 and 2019 the Authority had deposits of $500, which are insured by the FDIC. The remaining deposits totaling $25,391 and $40,663 are uninsured and uncollateralized at December 31, 2020 and 2019, respectively.

Concentration of credit risk
This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Authority places no limit on the amounts invested in any one issuer for federal agency securities, except for mortgage pass-through securities, which may not exceed 20% of the Authority's portfolio. For disclosure purposes, investments issued or explicitly guaranteed by the U.S. government and investment in mutual funds and external investment pools are not required to be evaluated for concentration of credit risk. At December 31, 2019, the Authority did not have more than 5% invested in a single issuer. The following are the concentrations of credit risk representing 5% or greater in a single issuer in either year, all of which are Government sponsored enterprises:

	2020	2019
Freddie Mac Notes	55%	0%

Interest rate risk
Although the Authority has a policy that restricts the maturities of its 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 increases in interest rates. At December 31, 2020 and 2019, all of the Authority's investments had stated maturities of less than 1 year.

(dollars in thousands)

Note 4 – Fair Value Measurement

Fair Value Measurement and Application (GASB 72) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Authority utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

GASB 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy defined by GASB 72 are as follows:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly**.**

Level 3 – inputs are unobservable inputs that reflect the Authority's own assumptions about factors that market participants would use in pricing the asset or liability.

The valuation methods of the fair value measurements are disclosed below.

Government sponsored enterprises – uses a market based approach which considers yield, price of comparable securities, coupon rate, maturity, credit quality and dealer-provided prices.

U.S. Treasury Notes – uses prices quoted in active markets for those securities.

The following table identifies the level within the fair value hierarchy that the Authority's financial assets and liabilities were accounted for on a recurring basis as of December 31, 2020 and 2019, respectively. As required by GASB 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Authority's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

	At Fair Value as of December 31, 2020		
	Level 1	Level 2	Total
Investments			
Government sponsored enterprises	$ -	$ 8,761	$ 8,761
U.S. Treasury Notes	7,141	-	7,141
Total investments	$ 7,141	$ 8,761	$ 15,902

(dollars in thousands)

Note 5 – Long-Term Debt

Long-term debt consists of the following at December 31:

	2020	2019
2009 revenue bonds, Series B, fixed interest rate of 6.92%, maturing through 2034	$ 151,605	$ 151,605
Refunding revenue bonds, 2016 Series A, fixed interest rate of 5.00%, maturing through 2029	144,030	158,185
Total long-term debt outstanding	295,635	309,790
Less		
Current portion	(14,865)	(14,155)
Unamortized premiums	17,286	21,814
Total long-term debt	$ 298,056	$ 317,449

Summarized activity of the Authority's long-term debt for the years ended December 31, 2020 and 2019 is presented below:

	December 31, 2019	Additions	Payments and Amortization	December 31, 2020	Amounts Due Within One Year
Revenue bonds	$ 309,790	$ -	$ (14,155)	$ 295,635	$ 14,865
Unamortized premiums	21,814	-	(4,528)	17,286	
Total long-term debt, net	$ 331,604	$ -	$ (18,683)	$ 312,921	

	December 31, 2018	Additions	Payments and Amortization	December 31, 2019	Amounts Due Within One Year
Revenue bonds	$ 324,450	$ -	$ (14,660)	$ 309,790	$ 14,155
Unamortized premiums	26,787	-	(4,973)	21,814	
Total long-term debt, net	$ 351,237	$ -	$ (19,633)	$ 331,604	

(dollars in thousands)

Note 5 – Long-Term Debt (continued)

General

The Series B bonds outstanding are Build America Bonds under the American Recovery and Reinvestment Act. The Build America Bonds were sold as a taxable issue and TID receives a federal subsidy of 32%, as reduced by sequester, of the interest paid on the bonds. For the years ended December 31, 2020 and 2019, the Authority received $3,458 and $3,449, respectively, in this federal subsidy, which is included in other income on the statements of revenues, expenses, and changes in net position.

The revenue bonds are payable solely from the unconditional payments made by TID under the PPA, and also includes amounts held by a trustee for the benefit of the registered owners of the bonds. TID has an unconditional obligation to make all payments to the Authority under the PPA, regardless of the output of the Project.

The Authority's bond resolutions contain covenants that require a stipulated minimum funding of revenue bond reserves and various other requirements.

Fixed rate revenue bonds totaling $23,020 may be subject to redemption by the Authority in 2027 without premium or discount. Additionally, fixed rate revenue bonds totaling $151,605 may be subject to redemption at any interest date with a make whole premium as defined in the Bond Indenture which is calculated based on differences between prevailing market interest rates and effective interest rates of the bonds to be redeemed.

The Authority's scheduled future annual principal maturities and interest, assuming no redemption as noted above, are as follows at December 31, 2020:

	Principal	Interest	Total
2021	$ 14,865	$ 16,946	$ 31,811
2022	15,605	16,166	31,771
2023	16,385	15,347	31,732
2024	17,205	14,487	31,692
2025	18,065	13,583	31,648
2026-2030	97,340	52,738	150,078
2031-2034	116,170	12,497	128,667
	$ 295,635	$ 141,764	$ 437,399

Interest expense, net totaled $15,411 and $15,894 for the years ended December 31, 2020 and 2019, respectively.

Note 6 – Power Purchase Agreement

The PPA provides for the sale of all capacity and energy to TID and terminates on the date all bonds have been paid in full. Capacity and energy payments are calculated based upon the operating costs of the Project plus fixed payment amounts as defined in the PPA. TID has an unconditional obligation to make capacity and energy payments to the Authority under the PPA, regardless of the output of the Project. TID has the right to purchase the Project from the Authority during the period one year prior to and one year after the termination of the PPA for $0.1. The PPA will terminate on the date on which all bond commitments outstanding have been paid and discharged in full, which currently is scheduled to occur in 2034.

Note 7 – Asset Retirement Obligations

In 2019, the Authority adopted GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB 83 establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Recognition occurs when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates the government to perform the asset retirement activities. GASB 83 requires the measurement of the ARO be based on the probability weighted best estimate of the current value of outlays expected to be incurred, and adjusted for general inflation or deflation at least annually. It requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. The ARO should only be remeasured when the result of the evaluation indicates a significant change in the estimated outlays. GASB 83 also requires disclosures of descriptive information about the nature of a government’s AROs including the methods and assumptions used for the estimates of the liabilities, the estimated remaining useful life of the associated tangible capital assets, how any funding and assurance requirements are being met, and the amount of any assets restricted for payment of the AROs (if not separately displayed in the financial statements). If a liability for an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons, therefore.

Prior to the adoption of GASB 83, the Authority reported an ARO liability of $4.4 million, which was included in Liabilities on the Statements of Net Position, consistent with prior accounting standards.

The adoption of GASB 83, had no impact on the beginning net position, but did result in an increase to deferred outflow of resources for asset retirement obligation of $11.6 million, an increase in asset retirement obligation of $10.0 million, an increase to noncurrent lease receivable of $10.0 million, and a decrease to due from Turlock Irrigation District of $11.6 million.

Note 7 – Asset Retirement Obligations (continued)

The Authority adopted GASB 83 as of January 1, 2019. The primary objective of GASB 83 is to improve accounting and financial reporting by state and local governments for certain asset retirement obligations (ARO).

As described in Note 1, TWPA owns and operates a 136.6 MW wind farm, consisting of 62 wind-turbine generators located in Klickitat County, Washington. In conjunction with the purchase of the Project, TWPA recorded an ARO related to a decommissioning plan approved by Klickitat County. As the decommissioning plan represents a legal obligation to clean up the site at the retirement of the asset to comply with the approved contract with Klickitat County, Washington, it meets the definition of an ARO. The Project is operated and maintained pursuant to an operating and maintenance agreement with the operator. During 2019, the operator obtained an estimate, from a third party, to determine the estimated cost of executing the decommissioning plan. The previous estimate had been performed at the time of purchase of the Tuolumne Wind Project. The estimate presented a list of the work that will be performed on site such as turbine removal, foundation removal and road removal. Cost estimates include labor and equipment use.

The liability recognized for the ARO was $14,580 and $14,430 for the year ended December 31, 2020 and 2019, respectively. The estimated remaining useful life of the Project is approximately 14 years. The deferred outflows recognized was $10,018 and $10,703 as of December 31, 2020 and 2019, respectively and is amortized over the remaining useful life of the Project. During the years ended December 31, 2020 and 2019, TID recorded $985 and $823 of expense, respectively.

Note 8 – Commitments

Operations and maintenance agreement
The Project is being operated and maintained pursuant to an operating and maintenance agreement with the operator, which expired in November 2020. After the initial term, the operating and maintenance agreement renewals annually. Total expense under the operations and maintenance agreement amounted to $358 and $267 for the year ended December 31, 2020 and 2019, respectively.

Service agreements
There are two service agreements with each of the manufacturers of the 62 turbines for TWPA. One service agreement is for 42 turbines and expires in 2029. The other service agreement is an integrated service package, which includes a performance guarantee, repairs and maintenance for 20 turbines. Both service agreements are for standard operations and maintenance on the respective manufacturer’s turbines over the life of the agreement. In addition, the service agreement for the 42 turbines includes warranty provisions. The service provider for the other 20 turbines has filed for bankruptcy and has defaulted on the service contract in place. There is a short term agreement in place with another service provider, and the Authority is currently evaluating long term solutions for services for the 20 turbines.

(dollars in thousands)

Note 8 – Commitments (continued)

The Authority also has two interconnection and transmission agreements with local utilities in the Pacific Northwest. The interconnection agreements allow for the delivery of the wind energy output to various delivery points in the northwest United States. One agreement has an initial term that expires in 2020 with a one-year automatic renewal thereafter and the other agreement expires in 2029 and has a 10-year renewal option. Total expenses under the Authority's service, interconnection and transmission agreements amounted to $6,705 and $6,479 for the years ended December 31, 2020 and 2019, respectively.

Land leases
The Authority has leases with nine land owners on which the turbines reside. The land owners are paid a fixed per unit price based on the total monthly output of the respective turbines. Each agreement is for 20 years, expiring in 2029, with two 10-year renewal options. Total expense for the years ended December 31, 2020 and 2019 was $1,203 and $1,034 respectively. The annual lease expense under the remaining initial term of the land leases (based on historical average wind data) is estimated as follows as of December 31, 2020:

	Amount
2021	$ 1,154
2022	1,154
2023	1,154
2024	1,154
2025	1,154
Thereafter	5,039
	$ 10,809

Note 9 – Contingencies and Uncertainties

During 2020, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. The duration and intensity of the impact of the coronavirus and resulting impact to the Authority is unknown.

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