



Report of Independent Auditors
and Financial Statements

**Walnut Energy Center Authority
(a Component Unit of the
Turlock Irrigation District)**

December 31, 2022 and 2021

Table of Contents

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	4
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12

Report of Independent Auditors

The Board of Directors
Walnut Energy Center Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Walnut Energy Center Authority (the “Authority”), which comprise the statements of net position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Walnut Energy Center Authority as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Walnut Energy Center Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Walnut Energy Center Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 4 through 8 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 considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon

April 28, 2023

Management's Discussion and Analysis (Unaudited)

Walnut Energy Center Authority

Management's Discussion and Analysis (Unaudited)

(dollars in thousands)

Using this financial report

The following management's discussion and analysis of the Walnut Energy Center Authority (the "Authority") and its financial performance provides an overview of the Authority's financial activities for the years ended December 31, 2022 and 2021. 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 Merced Irrigation District (MeID) formed the Authority by executing the joint powers authority (JPA) in December 2003. The purpose of the Authority is to develop, own, and operate the Walnut Energy Center (the Project), a 250 mega-watt natural gas-fired combined cycle power generating facility. The Authority is authorized to enter into contracts and issue revenue bonds in support of the Project.

Pursuant to the Construction and Operation Agreement between TID and the Authority, TID provides technical and general and administrative services to meet the Authority's needs. Neither TID nor MeID 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.

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 and one member from MeID. 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, liabilities and deferred inflows of resources using the accrual basis of accounting, 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, cash payments for debt service and capital expenditures and cash purchases and proceeds from investing activities during the time periods indicated.

Walnut Energy Center Authority
Management's Discussion and Analysis (Unaudited)
(dollars in thousands)

Summary of Financial Position and Changes in Net Position as of and for the years ended December 31, 2022, 2021, and 2020:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
ASSETS			
Noncurrent receivable	\$ 151,867	\$ 156,817	\$ 159,952
Restricted cash, cash equivalents, and investments	28,592	28,781	28,827
Other noncurrent assets	29,486	36,061	40,121
Other current assets	<u>19,252</u>	<u>21,335</u>	<u>23,986</u>
Total assets	<u>\$ 229,197</u>	<u>\$ 242,994</u>	<u>\$ 252,886</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Long-term debt	\$ 185,948	\$ 197,144	\$ 207,884
Current liabilities	41,278	43,591	42,443
Deferred inflows of resources	<u>1,971</u>	<u>2,259</u>	<u>2,559</u>
Total liabilities and deferred inflows	<u>229,197</u>	<u>242,994</u>	<u>252,886</u>
NET POSITION	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities, deferred inflows, and net position	<u>\$ 229,197</u>	<u>\$ 242,994</u>	<u>\$ 252,886</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>
OPERATING REVENUES			
Revenue	<u>\$ 86,814</u>	<u>\$ 59,298</u>	<u>\$ 56,173</u>
OPERATING EXPENSES			
Fuel	59,722	35,693	32,128
Operations	13,959	11,642	11,697
Maintenance	<u>5,525</u>	<u>4,722</u>	<u>5,080</u>
Total operating expenses	<u>79,206</u>	<u>52,057</u>	<u>48,905</u>
Operating income	<u>7,608</u>	<u>7,241</u>	<u>7,268</u>
NONOPERATING REVENUES AND EXPENSES			
Investment (loss) income	(376)	(105)	393
Interest and amortization expense, net	<u>(7,232)</u>	<u>(7,136)</u>	<u>(7,661)</u>
Total nonoperating revenues and expenses	<u>(7,608)</u>	<u>(7,241)</u>	<u>(7,268)</u>
Net increase in net position	-	-	-
NET POSITION			
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Walnut Energy Center Authority
Management's Discussion and Analysis (Unaudited)
(dollars in thousands)

Management's Discussion and Analysis as of and for the Year Ended December 31, 2022:

Noncurrent receivable

As of December 31, 2022 and 2021, total costs capitalized by the Authority, which are to be recovered in the form of payments from TID, were \$151.9 million and \$156.8 million, respectively. The decrease is primarily due to the scheduled bond principal payment of \$5.0 million which was collected from TID as set forth in the Agreements. The collections from TID reduced the receivable balance. The receivable comprises 66% and 65% of the Authority's assets at December 31, 2022 and 2021, respectively. Collections on this receivable balance will be concurrent with the principal maturities of the Authority's long-term debt.

Restricted cash, cash equivalents, and investments

The Authority's restricted cash, cash equivalents, and investments decreased \$0.2 million to \$28.6 million in 2022 compared to \$28.8 million in 2021 for 2022 and 2021. The change was primarily related to a change in market value of investments.

Other noncurrent assets

Other noncurrent assets decreased \$6.6 million to \$29.5 million in 2022, compared to \$36.1 million in 2021 due to the collection of \$6.6 million from TID for the pay down of taxable debt.

Other current assets

Other current assets decreased \$2.0 million to \$19.3 million in 2022, compared to \$21.3 million in 2021. The decrease is a result of a change in the due from TID as a result of current year operations.

Long-term debt

Long-term debt decreased \$11.2 million to \$185.9 million in 2022, compared to \$197.1 million in 2021 due to classifying the current portion of debt as a current liability of \$8.8 million and \$2.4 million due to the amortization on the Authority's revenue bond premiums.

Current liabilities

Current liabilities decreased \$2.3 million to \$41.3 million in 2022, compared to \$43.6 million in 2021 due to a net decrease of commercial paper of \$2.8 million and a decrease in interest payable of \$0.1 million offset by an increase in current portion of long-term debt of \$0.5 million.

Revenue

Revenue increased \$27.5 million to \$86.8 million for the year ended December 31, 2022, compared to revenue of \$59.3 million for the year ended December 31, 2021, and is a function of the increase in total operating expenses of the Authority in 2021. Refer to changes in expenses described below.

Generation and fuel

Fuel expense increased \$24.0 million to \$59.7 million for the year ended December 31, 2022, compared to \$35.7 million for the year ended December 31, 2021. Increase in fuel cost is primarily attributed to an increase in price and additional volume. The generating facility produced 1,467 and 1,163 GWh, respectively, for the years ended December 31, 2022 and 2021. The Authority's operations and maintenance expense was \$19.5 million for the year ended December 31, 2022, as compared to \$16.4 million for the year ended December 31, 2021. The increase in operations and maintenance expense is primarily due to higher maintenance cost at the Walnut Energy Center in 2021.

Walnut Energy Center Authority
Management's Discussion and Analysis (Unaudited)
(dollars in thousands)

Investment (loss) income

Investment (loss) increased by \$(0.3) million to \$(0.4) million in 2022 as compared to \$(0.1) million in 2021, primarily due to change in market value on investments.

Interest and amortization expense, net

Interest and amortization expense, primarily remained flat at \$7.2 million for 2022 and 2021, due to the pay down of principal debt in 2021 offset by an increase in commercial paper borrowing rates.

Management's Discussion and Analysis as of and for the Year Ended December 31, 2021:

Noncurrent receivable

As of December 31, 2022 and 2021, total costs capitalized by the Authority, which are to be recovered in the form of payments from TID, were \$156.8 million and \$160.0 million, respectively. The decrease is primarily due to the scheduled bond principal payment of \$4.6 million, which was collected from TID as set forth in the Agreements offset by an addition of investment of \$1.5 million by the Authority in the Walnut Energy Center. The collections from TID reduced the receivable balance. The receivable comprises 65% and 63% of the Authority's assets at December 31, 2022 and 2021, respectively. Collections on this receivable balance will be concurrent with the principal maturities of the Authority's long-term debt.

Restricted cash, cash equivalents, and investments

The Authority's restricted cash, cash equivalents, and investments remained flat at \$28.8 million for 2022 and 2021 primarily due to similar debt service due January 1, 2022 and 2021.

Other noncurrent assets

Other noncurrent assets decreased \$4.1 million to \$36.1 million in 2021, compared to \$40.2 million in 2020 due to the collection of \$4.1 million from TID for the pay down of taxable debt.

Other current assets

Other current assets decreased \$2.7 million to \$21.3 million in 2021, compared to \$24.0 million in 2020. The decrease was a result of a change in the due from TID as a result of current year operations.

Long-term debt

Long-term debt decreased \$10.8 million to \$197.1 million in 2021, compared to \$207.9 million in 2020 due to classifying the current portion of debt as a current liability of \$8.3 million and \$2.5 million due to the amortization on the Authority's revenue bond premiums.

Current liabilities

Current liabilities increased \$1.2 million to \$43.6 million in 2021, compared to \$42.4 million in 2020 due to a net increase of commercial paper of \$1.1 million and an increase in current portion of long-term debt of \$0.3 million offset by a decrease in interest payable of \$0.2 million.

Revenue

Revenue increased \$3.1 million to \$59.3 million for the year ended December 31, 2021, compared to revenue of \$56.2 million for the year ended December 31, 2020, and is a function of the increase in total operating expenses of the Authority in 2021. Refer to changes in expenses described below.

Walnut Energy Center Authority
Management's Discussion and Analysis (Unaudited)
(dollars in thousands)

Generation and fuel

Fuel expense increased \$3.6 million to \$35.7 million for the year ended December 31, 2021, compared to \$32.1 million for the year ended December 31, 2020. Increase in fuel cost is primarily attributed to an increase in price. The generating facility produced 1,163 and 1,253 GWh, respectively, for the years ended December 31, 2021 and 2020. The Authority's operations and maintenance expense was \$16.4 million for the year ended December 31, 2021, as compared to \$16.8 million for the year ended December 31, 2020. The decrease in operations and maintenance expense is primarily due to lower maintenance cost at the Walnut Energy Center in 2021.

Investment (loss) income

Investment (loss) income decreased by \$0.5 million to \$(0.1) million in 2021 as compared to \$0.4 million in 2020, primarily due to change in market value on investments.

Interest and amortization expense, net

Interest and amortization expense, net decreased \$0.5 million to \$7.2 million in 2021 compared to \$7.7 million in 2020, due to the pay down of principal debt in 2020.

Financial Statements

Walnut Energy Center Authority
Statements of Net Position
(dollars in thousands)
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Noncurrent receivable from Turlock Irrigation District	\$ 151,867	\$ 156,817
Investments and other noncurrent assets		
Long-term investments, including restricted amounts	5,386	14,361
Short-term investments, restricted for long-term purposes	9,526	1,236
Cash and cash equivalents restricted for long-term purposes	370	171
Long-term receivable from Turlock Irrigation District	29,486	36,061
Total investments and other noncurrent assets	<u>44,768</u>	<u>51,829</u>
Current assets		
Restricted cash and cash equivalents	13,310	13,013
Due from Turlock Irrigation District	19,238	21,327
Accrued interest receivable	14	8
Total current assets	<u>32,562</u>	<u>34,348</u>
Total assets	<u>\$ 229,197</u>	<u>\$ 242,994</u>
LIABILITIES AND NET POSITION		
Long-term debt, net of current portion	\$ 185,948	\$ 197,144
Current liabilities		
Commercial paper notes	27,826	30,571
Current portion of long-term debt	8,780	8,270
Accrued interest payable	4,672	4,750
Total liabilities	<u>41,278</u>	<u>43,591</u>
COMMITMENTS (Note 8)		
DEFERRED INFLOWS OF RESOURCES		
Deferred refunding gain	1,971	2,259
NET POSITION		
Total liabilities, deferred inflows, and net position	<u>\$ 229,197</u>	<u>\$ 242,994</u>

See accompanying notes.

Walnut Energy Center Authority
Statements of Revenues, Expenses, and Changes in Net Position
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Revenue	\$ 86,814	\$ 59,298
OPERATING EXPENSES		
Fuel	59,722	35,693
Operation	13,959	11,642
Maintenance	<u>5,525</u>	<u>4,722</u>
Total operating expenses	<u>79,206</u>	<u>52,057</u>
Operating income	<u>7,608</u>	<u>7,241</u>
NONOPERATING REVENUES AND EXPENSES		
Net investment (loss) income	(376)	(105)
Interest and amortization expense, net	<u>(7,232)</u>	<u>(7,136)</u>
Total nonoperating revenues and expenses	<u>(7,608)</u>	<u>(7,241)</u>
Change in net position	<u>-</u>	<u>-</u>
NET POSITION		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes.

Walnut Energy Center Authority
Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from the District	\$ 9,697	\$ 9,898
Net cash provided by operating activities	<u>9,697</u>	<u>9,898</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt	(3,635)	(3,455)
Repayment of taxable commercial paper	(2,745)	(425)
Interest payments on taxable commercial paper	(580)	(27)
Interest payments on long-term debt	<u>(1,915)</u>	<u>(2,363)</u>
Net cash used in noncapital financing activities	<u>(8,875)</u>	<u>(6,270)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on long-term debt	(7,374)	(7,699)
Repayment received on noncurrent receivable	4,950	3,135
Repayment of long-term debt	(4,635)	(4,540)
Repayment of tax-exempt commercial paper	-	-
Proceeds from issuance of tax-exempt commercial paper	-	1,500
Interest payments on tax-exempt commercial paper	<u>(145)</u>	<u>(19)</u>
Net cash used in capital and related financing activities	<u>(7,204)</u>	<u>(7,623)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment from District of long-term receivable	6,575	4,060
Net investment income	302	163
Purchase of investments	(1,240)	(7,953)
Sale of investments	<u>1,241</u>	<u>7,831</u>
Net cash provided by investing activities	<u>6,878</u>	<u>4,101</u>
Net increase in cash and cash equivalents	496	106
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>13,184</u>	<u>13,078</u>
End of year	<u>\$ 13,680</u>	<u>\$ 13,184</u>
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS		
Operating income	\$ 7,608	\$ 7,241
Adjustments to reconcile operating income to net cash provided by operating activities		
Change in due to/due from Turlock Irrigation District related to operating activities	<u>2,089</u>	<u>2,657</u>
Net cash provided by operating activities	<u>\$ 9,697</u>	<u>\$ 9,898</u>

See accompanying notes.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

Note 1 – Organization, Description of the Business and Liquidity

The Walnut Energy Center Authority (the Authority) is a joint powers authority (JPA) formed by the Turlock Irrigation District (TID) and Merced Irrigation District (MeID) pursuant to the California Government Code. The purpose of the Authority is to develop, own, and operate the Walnut Energy Center (the Project). The Project, which is a 250 mega-watt, natural gas-fired, combined cycle electric power generating facility, commenced commercial operations in 2006. The Authority is a component unit of TID.

Pursuant to the Construction and Operation Agreement (“C&O Agreement”) between TID and the Authority, TID will provide the Authority with staffing and 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 fuel, as determined by the average cost of gas delivered (net of hedging costs or credits) from TID, and operations and maintenance costs in connection with the C&O Agreement. Certain costs are borne directly by TID and are therefore, not included in these financial statements.

Pursuant to the C&O Agreement, 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 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, fuel costs including transportation and storage, 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 more significant estimates include fair value estimates for its investments.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

Receivable

In accordance with the C&O Agreement and the power purchase agreement (PPA) (Note 7), the Authority recovers all costs associated with the Project. TID's obligation to repay all costs is unconditional under these agreements. The PPA and C&O Agreement together represent, in substance, an arrangement wherein TID 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 receivable. The Authority records its unrecovered financing costs associated with this arrangement as a receivable in the statements of net position, all of which is classified as noncurrent. Collections on the receivable are concurrent with the principal maturities of the Authority's long-term debt.

The C&O Agreement and the PPA provide for recovery of all costs incurred by the Authority in connection with the development, financing and operation of the Project. As such, revenue is recognized when operating and interest expenses are incurred, offset by net investment income. There are no margins 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 C&O Agreement.

Debt obligations

Long-term debt and short-term borrowings are recorded at the principal amount of the obligations, adjusted for original issuance premium. The premium on bonds issued and short-term borrowings are amortized over the terms of the bonds using the effective interest method. The premium amortized during the years ended December 31, 2022 and 2021 totaled \$2,416 and \$2,471, respectively.

The Authority has issued both tax-exempt and taxable debt obligations, including commercial paper, short-term borrowings and long-term bonds. Tax-exempt debt obligations are used for investments in the Project and are classified as capital financing activities in the statements of cash flows. Taxable debt obligations are loaned to TID for investments in gas producing properties owned by TID and are classified as noncapital investment activities in the statements of cash flows.

Deferred refunding gain

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.

Debt issuance costs

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

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

Cash, cash equivalents, and investments

Cash equivalents include all debt instruments with original maturity dates of three months or less from the date of purchase and all investments in the California Asset Management Program (CAMP). The debt instruments are reported at amortized cost which approximates fair value. The investment in CAMP is reported at net asset value which approximates fair value. CAMP is a JPA, and a public agency whose investments are limited to those permitted by the California Government Code. The Authority is invested in CAMP's California Asset Management Trust Cash Reserve Portfolio which is a short-term money market portfolio. Investments in CAMP shares are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency. The Authority's deposits are available for withdrawal on demand.

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 primarily in CAMP or United States government securities and related instruments with maturities no later than the expected date of the use of such funds. At December 31, 2022 and 2021, all of the Authority's cash, cash equivalents and investments are held in restricted funds and recorded at their fair value.

Long-term receivable from Turlock Irrigation District

In connection with the establishment of the Authority, the Authority loaned TID \$79,889 for investment in two gas producing properties, financed with draws from the Authority's commercial paper program and the 2010 revenue refunding bonds, Series B, which refunded a portion of the commercial paper draws. Sales of gas from these properties are designed to provide a hedge against the price risk associated with gas purchased to operate the Project, which are passed through to the Authority under the C&O Agreement. Historically TID's net investment in the gas producing properties exceeded the amount advanced from the Authority. Either through additional advances or depletion of the investment, it is management's intent to make payments consistent with the annual depletion of the gas field properties. Consistent with the annual depletion, TID made payments in 2022 and 2021 totaling \$6,575 and \$4,060, respectively, to the Authority to pay down the associated commercial paper draws and fund principal due on the 2010 revenue refunding bonds, Series B. As TID's net investment and the amount advanced from the Authority can fluctuate, this receivable is reported as a noncurrent asset in the accompanying statements of net position.

The Authority has an agreement to rent land from TID. The Authority has prepaid \$2,960, the full amount due as required under the agreement. The term expires on the latest to occur of the 1) termination or expiration of the PPA, 2) the date the revenue bonds are repaid, and 3) the date on which the Authority no longer owns the Project. As described above, the Authority will recover all costs in conjunction with the operation of the Project and therefore has recorded the prepaid rent as a component of receivable in the statements of net position.

Due from (to) Turlock Irrigation District

Receivables from and payables to TID are a result of timing differences incurred through the operations of the Authority, which will net to \$0 at the termination of the PPA. Amounts due from (to) TID relating to these transactions amounted to \$19,238 and \$21,327 as of December 31, 2022 and 2021, respectively. Certain improvements have been made to the Project, financed by TID. Such costs are not included in the Authority's accounts.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

Subsequent events

Subsequent events have been assessed through April 28, 2023.

Recent accounting pronouncements

In June 2022, GASB issued Statement No. 100, "Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62" (GASB 100), to enhance accounting and financial reporting requirements for accounting changes and error corrections. The statement defines accounting changes and sets forth requirements for reporting changes and error corrections in the financial statements. In addition, the statement contains requirements for disclosure in notes to financial statements of information about accounting changes and error corrections. Furthermore, for periods that are earlier than those included in the financial statements, information presented in required supplementary information and supplementary information should be restated for error corrections, but not for changes in accounting principles. This statement is effective for the Authority in 2024.

In June 2017, GASB issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments and increases the usefulness of governments' financial statements. 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 87 was implemented by the Authority for the fiscal year ending December 31, 2022. Management has determined that there is no impact to the Authority's current financial accounting and reporting for the types of transactions identified in this statement.

Note 3 – Cash, Cash Equivalents and Investments

The Authority's investment policies are governed by the California Government Code 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 or instrumentalities; direct and general obligations of the State of California (the State) or any local agency within the State; bankers' acceptances; supranational securities; asset and mortgage-backed securities; commercial paper; certificates of deposit; time certificates of deposit; repurchase agreements; medium-term corporate notes; shares of beneficial interest; mortgage pass-through securities; and deposits with CAMP.

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.

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. The following schedule presents the credit risk at December 31, 2022 and 2021. The credit ratings listed are from Standard and Poor's as of December 31, 2022. NR means not rated.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

	<u>Credit Rating</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents			
Deposits	NR	\$ 13,310	\$ 13,013
		<u>13,310</u>	<u>13,013</u>
Cash and cash equivalents restricted for long-term purposes			
Deposits	NR	205	82
California Asset Management Program	AAAm	165	89
		<u>370</u>	<u>171</u>
Short-term investments restricted for long-term purposes			
Government Sponsored enterprises	AA+	6,401	-
U.S. Treasury Notes	AA+	3,125	1,236
		<u>9,526</u>	<u>1,236</u>
Long-term investments			
US Treasury Note	AA+	5,386	7,807
Government Sponsored enterprises	AA+	-	6,554
		<u>5,386</u>	<u>14,361</u>
		<u>\$ 28,592</u>	<u>\$ 28,781</u>
Restricted funds			
Reserve funds		\$ 15,282	\$ 15,768
Debt service fund		13,310	13,013
		<u>\$ 28,592</u>	<u>\$ 28,781</u>

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. These funds are held by trustees and are invested in U.S. Government securities and related instruments with maturities no later than the expected date of the use of the funds. The Authority's investments in Government sponsored enterprises include bonds issued by Federal Home Loan Bank and Federal Home Loan Mortgage Corporation.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

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. At December 31, 2022 and 2021, the Authority had deposits of \$250, which are insured by the FDIC. The remaining deposits of \$13,265 and \$12,845 are uninsured and uncollateralized at December 31, 2022 and 2021, respectively. Investments in CAMP at December 31, 2022 and 2021, of \$165 and \$89, respectively, were uninsured and uncollateralized.

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 investments in mutual funds and external investment pools are not required to be evaluated for concentration of credit risk. 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:

	<u>2022</u>	<u>2021</u>
Freddie Mac Notes	44%	42%

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, 2022 and 2021, all of the Authority's investments had a stated maturity of less than three years.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

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.

CAMP – uses the net asset value per share as determined by the portfolio manager multiplied by the number of shares held. The portfolio includes investments exclusively in the following authorized investments: U.S. government and agency obligations, repurchase agreements collateralized by U.S. government and agency obligations, negotiable certificates of deposit, bankers' acceptances and commercial paper. The fair values of the underlying securities are generally based on quoted market prices for similar assets.

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, 2022 and 2021, 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.

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

	At Fair Value as of December 31, 2022		
	Level 1	Level 2	Total
Investments, including cash and cash equivalents			
California Asset Management Program	\$ -	\$ 165	\$ 165
Government Sponsored enterprises	-	6,401	6,401
U.S. Treasury Notes	8,511	-	8,511
Total investments, including cash equivalents	\$ 8,511	\$ 6,566	\$ 15,077

	At Fair Value as of December 31, 2021		
	Level 1	Level 2	Total
Investments, including cash and cash equivalents			
California Asset Management Program	\$ -	\$ 89	\$ 89
Government Sponsored enterprises	-	6,554	6,554
U.S. Treasury Notes	9,043	-	9,043
Total investments, including cash equivalents	\$ 9,043	\$ 6,643	\$ 15,686

Note 5 – Long-Term Debt

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

	2022	2021
2010 revenue refunding bonds, series B, fixed interest rates of 5.4% to 6.2%, maturing through 2029	\$ 29,655	\$ 33,290
2014 revenue bonds, series A, fixed interest rates of 5% maturing through 2034	83,530	88,165
2019 revenue refunding bonds, series A fixed interest rates of 5% maturing through 2037	61,315	61,315
Total long-term debt outstanding	174,500	182,770
Less		
Current portion	(8,780)	(8,270)
Unamortized premiums	20,228	22,644
Total long-term debt	\$ 185,948	\$ 197,144

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

The summarized activity of the Authority's long-term debt during 2022 and 2021 is presented below:

	December 31, 2021	Additions	Payments and Amortization	December 31, 2022	Amounts Due Within One Year
Revenue bonds	\$ 182,770	\$ -	\$ (8,270)	\$ 174,500	\$ 8,780
Unamortized premiums	22,644	-	(2,416)	20,228	
Total long-term debt, net	<u>\$ 205,414</u>	<u>\$ -</u>	<u>\$ (10,686)</u>	<u>\$ 194,728</u>	

	December 31, 2020	Additions	Payments and Amortization	December 31, 2021	Amounts Due Within One Year
Revenue bonds	\$ 190,764	\$ -	\$ (7,994)	\$ 182,770	\$ 8,270
Unamortized premiums	25,115	-	(2,471)	22,644	
Total long-term debt, net	<u>\$ 215,879</u>	<u>\$ -</u>	<u>\$ (10,465)</u>	<u>\$ 205,414</u>	

General

The revenue bonds are payable solely from the unconditional payments made by TID under the PPA (Note 7), and also include 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 various covenants that include stipulated minimum funding of revenue bond reserves and various other requirements.

Fixed rate revenue bonds totaling \$73,500 and \$50,655 may be subject to redemption by the Authority in 2024 and 2031, respectively, without premium or discount. Fixed rate revenue bonds totaling \$29,655 may be subject to redemption by the Authority at any interest date with a make whole premium.

The Authority's scheduled future annual principal maturities and interest, assuming no redemption as noted above, are as follows at December 31, 2022:

	Principal	Interest	Total
2023	\$ 8,780	\$ 8,604	\$ 17,384
2024	9,120	8,098	17,218
2025	10,095	7,540	17,635
2026	10,690	6,950	17,640
2027	11,735	6,304	18,039
2028-2032	71,950	20,615	92,565
2033-2037	52,130	3,312	55,442
	<u>\$ 174,500</u>	<u>\$ 61,423</u>	<u>\$ 235,923</u>

Walnut Energy Center Authority
(dollars in thousands)
Notes to Financial Statements

Note 6 – Commercial Paper and Short-Term Borrowings

The Authority has issued commercial paper notes to finance or reimburse capital expenditures, including payments to TID for its gas field purchases. At December 31, 2022 and 2021, there were notes outstanding of \$27,826 and \$30,571, respectively, of which \$8,495 and \$11,240 was taxable at December 31, 2022 and 2021, respectively. The effective interest rate for the notes outstanding at December 31, 2022 and 2021 was 3.20% and 0.15%, respectively, and the average term was 5 and 59 days, respectively. A letter of credit of \$43,600, expiring in August 2025, supports the sale of these outstanding notes and the Authority incurs an annual fee for this service. There has not been a term advance under the letter of credit. The counterparty to the letter of credit is a national bank whose credit rating is A+ Stable (Standard & Poor's).

The summarized activity of the Authority's commercial paper notes during 2022 and 2021 is presented below:

	<u>2022</u>	<u>2021</u>
Balances at beginning of year	\$ 30,571	\$ 29,496
Additions	-	1,500
Payments	<u>(2,745)</u>	<u>(425)</u>
Balances at end of year	<u>\$ 27,826</u>	<u>\$ 30,571</u>

Note 7 – Power Purchase Agreement

The PPA provides for the sale of all capacity and energy to TID and terminates on the date all Authority 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 expected to be in 2040.

Note 8 – Commitments

Gas supply costs

Pursuant to the C&O Agreement, the Authority purchases its gas requirements from TID. A significant portion of TID's forward commitments for gas purchases, gas storage, and gas transportation are entered into for the purpose of securing gas supplies for the Authority's power plant needs. Although the Authority is not a direct party to these agreements, it is committed to these costs in connection with the C&O Agreement. However, since TID is obligated to purchase all of the Authority's power at the Authority's full cost of generation including fuel, the costs associated with these gas supply commitments are passed through to the Authority as a fuel operating expense.