REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

WALNUT ENERGY CENTER AUTHORITY (A COMPONENT UNIT OF THE TURLOCK IRRIGATION DISTRICT)

December 31, 2021 and 2020

MOSSADAMS

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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, 2021 and 2020, 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, 2021 and 2020, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Walnut Energy Center Authority's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Walnut Energy Center Authority's ability to continue as a going concern for a reasonable period of time.

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

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.

Moss Adams LLP

Portland, Oregon
April 28, 2022

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, 2021 and 2020. 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, 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, 2021, 2020, and 2019:

	2021	2020	2019
ASSETS			
Noncurrent lease receivable	$ 156,817	$ 159,952	$ 168,092
Restricted cash, cash equivalents, and investments	28,781	28,827	26,794
Other noncurrent assets	36,061	40,121	44,358
Other current assets	21,335	23,986	27,281
Total assets	$ 242,994	$ 252,886	$ 266,525
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Long-term debt	$ 197,144	$ 207,884	$ 218,403
Current liabilities	43,591	42,443	45,251
Deferred inflows of resources	2,259	2,559	2,871
Total liabilities and deferred inflows	242,994	252,886	266,525
NET POSITION	-	-	-
Total liabilities, deferred inflows, and net position	$ 242,994	$ 252,886	$ 266,525

	2021	2020	2019
OPERATING REVENUES			
Lease revenue	$ 59,298	$ 56,173	$ 61,392
OPERATING EXPENSES			
Fuel	35,693	32,128	33,340
Operations	11,642	11,697	12,073
Maintenance	4,722	5,080	5,561
Total operating expenses	52,057	48,905	50,974
Operating income	7,241	7,268	10,418
NONOPERATING REVENUES AND EXPENSES			
Investment (loss) income	(105)	393	640
Interest and amortization expense, net	(7,136)	(7,661)	(11,058)
Total nonoperating revenues and expenses	(7,241)	(7,268)	(10,418)
Net increase 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, 2021:

Noncurrent lease receivable

As of December 31, 2021 and 2020, total costs capitalized by the Authority, which are to be recovered in the form of lease 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 lease receivable balance. The lease receivable comprises 65% and 63% of the Authority's assets at December 31, 2021 and 2020, respectively. Collections on this lease 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 2021 and 2020 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 $40.2 million 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 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 $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.

Lease revenue

Lease revenue increased $3.1 million to $59.3 million for the year ended December 31, 2021, compared to lease 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.

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.

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 $160.0 million and $168.1 million, respectively. The decrease is primarily due to the scheduled bond principal payment of $4.5 million which was collected from TID as set forth in the Agreements and a repayment of investment of $3.6 million by the Authority in the Walnut Energy Center. The collections from TID reduced the lease receivable balance. The lease receivable comprises 63% of the Authority’s assets at December 31, 2020 and 2019. Collections on this lease 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 increased $2.0 million to $28.8 million in 2020, compared to $26.8 million in 2019 primarily due to increased debt service due January 1, 2021.

Other noncurrent assets

Other noncurrent assets decreased $4.2 million to $40.2 million in 2020, compared $44.4 million in 2019 due to the collection of $4.2 million from TID for the pay down of taxable debt.

Other current assets

Other current assets decreased $3.3 million to $24.0 million in 2020, compared to $27.3 million in 2019. The increase 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 $10.5 million to $207.9 million in 2020, compared to $218.4 million in 2019 due to classifying the current portion of debt as a current liability of $8.0 million and $2.5 million due to the amortization on the Authority’s revenue bond premiums.

Current liabilities
Current liabilities decreased $2.9 million to $42.4 million in 2020, compared to $45.3 million due to a net repayment of commercial paper of $4.4 million offset by an increase in interest payable of $0.6 million and an increase in current portion of long-term debt of $1.0 million.

Lease revenue
Lease revenue decreased $5.2 million to $56.2 million for the year ended December 31, 2020, compared to lease revenue of $61.4 million for the year ended December 31, 2019, and is a function of the decrease in total operating expenses of the Authority in 2020. Refer to changes in expenses described below.

Generation and fuel
Fuel expense decreased $1.2 million to $32.1 million for the year ended December 31, 2020, compared to $33.3 million for the year ended December 31, 2019. Decrease in fuel cost is attributed to both a decrease in price and volume. The generating facility produced 1,253 and 1,044 GWh, respectively, for the years ended December 31, 2020 and 2019. The Authority's operations and maintenance expense was $16.8 million for the year ended December 31, 2020, as compared to $17.6 million for the year ended December 31, 2019. The decrease in operations and maintenance expense is primarily due to lower maintenance cost at the Walnut Energy Center in 2020.

Investment income
Investment income decreased by $0.2 million to $0.4 million in 2020 as compared to $0.6 million in 2019, primarily due to lower yields on investments.

Interest and amortization expense, net
Interest and amortization expense, net decreased $3.4 million to $7.7 million in 2020 compared to $11.1 million in 2019, due to a full year of savings from the 2019 bond refunding, the pay down of principal debt, and pay down of commercial paper in 2020.

Walnut Energy Center Authority
Statements of Net Position
(dollars in thousands)

	December 31, 2021	December 31, 2020
ASSETS		
Noncurrent lease receivable from Turlock Irrigation District	$ 156,817	$ 159,952
Investments and other noncurrent assets		
Long-term investments, including restricted amounts	14,361	7,872
Short-term investments, restricted for long-term purposes	1,236	7,877
Cash and cash equivalents restricted for long-term purposes	171	137
Long-term receivable from Turlock Irrigation District	36,061	40,121
Total investments and other noncurrent assets	51,829	56,007
Current assets		
Restricted cash and cash equivalents	13,013	12,941
Due from Turlock Irrigation District	21,327	23,984
Accrued interest receivable	8	2
Total current assets	34,348	36,927
Total assets	$ 242,994	$ 252,886
LIABILITIES AND NET POSITION		
Long-term debt, net of current portion	$ 197,144	$ 207,884
Current liabilities		
Commercial paper notes	30,571	29,496
Current portion of long-term debt	8,270	7,995
Accrued interest payable	4,750	4,952
Total liabilities	43,591	42,443
COMMITMENTS (Note 8)		
DEFERRED INFLOWS OF RESOURCES		
Deferred refunding gain	2,259	2,559
NET POSITION	-	-
Total liabilities, deferred inflows, and net position	$ 242,994	$ 252,886

See accompanying notes.

Walnut Energy Center Authority
Statements of Revenues, Expenses, and Changes in Net Position
(dollars in thousands)

	Years Ended December 31, 2021	Years Ended December 31, 2020
OPERATING REVENUES		
Lease revenue	$ 59,298	$ 56,173
OPERATING EXPENSES		
Fuel	35,693	32,128
Operation	11,642	11,697
Maintenance	4,722	5,080
Total operating expenses	52,057	48,905
Operating income	7,241	7,268
NONOPERATING REVENUES AND EXPENSES		
Net investment (loss) income	(105)	393
Interest and amortization expense, net	(7,136)	(7,661)
Total nonoperating revenues and expenses	(7,241)	(7,268)
Change in net position	-	-
NET POSITION		
Beginning of year	-	-
End of year	$ -	$ -

See accompanying notes.

Walnut Energy Center Authority
Statements of Cash Flows
(dollars in thousands)

	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease payments received from the District	$ 9,898	$ 10,564
Net cash provided by operating activities	9,898	10,564
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt	(3,455)	(3,295)
Repayment of taxable commercial paper	(425)	(782)
Interest payments on taxable commercial paper	(27)	(162)
Interest payments on long-term debt	(2,363)	(2,720)
Net cash used in noncapital financing activities	(6,270)	(6,959)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on long-term debt	(7,699)	(6,902)
Repayment received on noncurrent lease receivable	3,135	8,140
Repayment of long-term debt	(4,540)	(3,690)
Repayment of tax-exempt commercial paper	-	(3,600)
Proceeds from issuance of tax-exempt commercial paper	1,500	-
Interest payments on tax-exempt commercial paper	(19)	(149)
Net cash used in capital and related financing activities	(7,623)	(6,201)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment from District of long-term receivable	4,060	4,237
Net investment income	163	287
Purchase of investments	(7,953)	(7,832)
Sale of investments	7,831	7,580
Net cash provided by investing activities	4,101	4,272
Net increase in cash and cash equivalents	106	1,676
CASH AND CASH EQUIVALENTS		
Beginning of year	13,078	11,402
End of year	$ 13,184	$ 13,078
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS		
Operating income	$ 7,241	$ 7,268
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	2,657	3,296
Net cash provided by operating activities	$ 9,898	$ 10,564

See accompanying notes.

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 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, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Lease 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, 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. As the 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. Collections on the lease 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, lease 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, 2021 and 2020 totaled $2,471 and $2,524, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 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, 2021 and 2020, 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 2021 and 2020 totaling $4,060 and $4,237, 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 leases land from TID. The Authority has prepaid $2,960, the full amount due as required under the lease agreement. The lease 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 lease receivable in the statements of net position.

Note 2 – Summary of Significant Accounting Policies (continued)

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 $21,327 and $23,984 as of December 31, 2021 and 2020, respectively. Certain leasehold improvements have been made to the Project, financed by TID. Such costs are not included in the Authority's accounts.

Subsequent events

Subsequent events have been assessed through April 28, 2022.

Recent accounting pronouncements

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*.

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, 2021 and 2020. The credit ratings listed are from Standard and Poor's as of December 31, 2021. NR means not rated.

(dollars in thousands)

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

	Credit Rating	2021	2020
Cash and cash equivalents			
Deposits	NR	$ 13,013	$ 12,941
		13,013	12,941
Cash and cash equivalents restricted for long-term purposes			
Deposits	NR	82	35
California Asset Management Program	AAAm	89	102
		171	137
Short-term investments restricted for long-term purposes			
U.S. Treasury Notes	AA+	1,236	7,877
		1,236	7,877
Long-term investments			
US Treasury Note	AA+	7,807	1,262
Government Sponsored enterprises	AA+	6,554	6,610
		14,361	7,872
		$ 28,781	$ 28,827
Restricted funds			
Reserve funds		$ 15,768	$ 15,886
Debt service fund		13,013	12,941
		$ 28,781	$ 28,827

(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. 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.

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, 2021 and 2020 the Authority had deposits of $250, which are insured by the FDIC. The remaining deposits of $12,845 and $12,726 are uninsured and uncollateralized at December 31, 2021 and 2020, respectively. Investments in CAMP at December 31, 2021 and 2020, of $89 and $102, 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 investment 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:

	2021	2020
Freddie Mac Notes	42%	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, 2021 and 2020, all of the Authority's investments had a stated maturity of less than three years.

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, 2021 and 2020, 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.

(dollars in thousands)

Note 4 – Fair Value Measurement (continued)

	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

	At Fair Value as of December 31, 2020		
	Level 1	Level 2	Total
Investments, including cash and cash equivalents			
California Asset Management Program	$ -	$ 102	$ 102
Government Sponsored enterprises	6,610	-	6,610
U.S. Treasury Notes	9,139	-	9,139
Total investments, including cash equivalents	$ 15,749	$ 102	$ 15,851

Note 5 – Long-Term Debt

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

	2021	2020
2010 revenue refunding bonds, series B, fixed interest rates of 5.4% to 6.2%, maturing through 2029	$ 33,290	$ 36,745
2014 revenue bonds, series A, fixed interest rates of 5% maturing through 2034	88,165	92,704
2019 revenue refunding bonds, series A fixed interest rates of 5% maturing through 2037	61,315	61,315
Total long-term debt outstanding	182,770	190,764
Less		
Current portion	(8,270)	(7,995)
Unamortized premiums	22,644	25,115
Total long-term debt	$ 197,144	$ 207,884

(dollars in thousands)

Note 5 – Long-Term Debt (continued)

The summarized activity of the Authority's long-term debt during 2021 and 2020 is presented below:

	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	$ 215,879	$ -	$ (10,465)	$ 205,414	

	December 31, 2019	Additions	Payments and Amortization	December 31, 2020	Amounts Due Within One Year
Revenue bonds	$ 197,749	$ -	$ (6,985)	$ 190,764	$ 7,995
Unamortized premiums	27,639	-	(2,524)	25,115	
Total long-term debt, net	$ 225,388	$ -	$ (9,509)	$ 215,879	

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 $33,290 may be subject to redemption by the Authority at any interest date with a make whole premium.

(dollars in thousands)

Note 5 – Long-Term Debt (continued)

The Authority's scheduled future annual principal maturities and interest, assuming no redemption as noted above, are as follows at December 31, 2021:

	Principal	Interest	Total
2022	$ 8,270	$ 9,060	$ 17,330
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
2027-2031	68,570	24,312	92,882
2032-2036	66,485	5,919	72,404
2037	760	-	760
	$ 182,770	$ 70,483	$ 253,253

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, 2021 and 2020, there were notes outstanding of $30,571 and $29,496, respectively, of which $11,240 and $11,665 was taxable at December 31, 2021 and 2020, respectively. The effective interest rate for the notes outstanding at December 31, 2021 and 2020 was 0.15% and 0.20%, respectively, and the average term was 59 and 85 days, respectively. A letter of credit of $65,400, expiring in September 2022, 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 AA- Negative (Standard & Poor's).

The summarized activity of the Authority's commercial paper notes during 2021 and 2020 is presented below:

	2021	2020
Balances at beginning of year	$ 29,496	$ 33,878
Additions	1,500	-
Payments	(425)	(4,382)
Balances at end of year	$ 30,571	$ 29,496

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.

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