REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

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

December 31, 2020 and 2019

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Report of Independent Auditors

To the Board of Directors of
Walnut Energy Center Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Walnut Energy Center Authority (the "Authority"), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 7 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 27, 2021

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, 2020 and 2019. This management's discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

Background

The Authority is a joint exercise of powers authority formed pursuant to a joint exercise of powers agreement creating the Authority. The Turlock Irrigation District (TID) and the 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, 2020, 2019, and 2018:

	2020	2019	2018
ASSETS			
Noncurrent lease receivable	$ 159,952	$ 168,092	$ 197,982
Restricted cash, cash equivalents, and investments	28,827	26,794	32,972
Other noncurrent assets	40,121	44,358	49,095
Other current assets	23,986	27,281	5,268
Total assets	$ 252,886	$ 266,525	$ 285,317
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Long-term debt	$ 207,884	$ 218,403	$ 232,034
Current liabilities	42,443	45,251	50,912
Deferred inflows of resources	2,559	2,871	2,371
Total liabilities and deferred inflows	252,886	266,525	285,317
NET POSITION	-	-	-
Total liabilities, deferred inflows, and net position	$ 252,886	$ 266,525	$ 285,317

	2020	2019	2018
OPERATING REVENUES			
Lease revenue	$ 56,173	$ 61,392	$ 66,898
OPERATING EXPENSES			
Fuel	32,128	33,340	36,400
Operations	11,697	12,073	12,548
Maintenance	5,080	5,561	6,706
Total operating expenses	48,905	50,974	55,654
Operating income	7,268	10,418	11,244
NONOPERATING REVENUES AND EXPENSES			
Investment income	393	640	379
Interest expense	(7,661)	(11,058)	(11,623)
Total nonoperating revenues and expenses	(7,268)	(10,418)	(11,244)
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, 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 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 expense

Interest expense 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.

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

Noncurrent lease receivable

As of December 31, 2019 and 2018, total costs capitalized by the Authority, which are to be recovered in the form of lease payments from TID, were $168.1 million and $198.0 million, respectively. The decrease is primarily due to the Authority refinancing the series A, 2010 revenue refunding bonds which resulted in a decrease in debt principle of $23.2 million, the scheduled bond principal payment of $3.7 million which was collected from TID as set forth in the Agreements and a repayment of investment of $3.0 million by the Authority in the Walnut Energy Center. The collections from TID reduced the lease receivable balance. The lease receivable comprises 63% and 69% of the Authority's assets at December 31, 2019 and 2018, 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 decreased $6.2 million to $26.8 million in 2019, compared to $33.0 million in 2018 primarily due to the Authority using debt reserves in the current year debt refinancing.

Other noncurrent assets

Other noncurrent assets decreased $4.7 million to $44.4 million in 2019, compared $49.1 million due to the collection of $4.7 million from TID for the pay down of taxable debt.

Other current assets

Other current assets increased $22.0 million to $27.3 million in 2019, compared to $5.3 million in 2018. The increase is a result of a change in the due from TID as a result of current year bond refinancing and current year operations.

Long-term debt
Long-term debt decreased $13.6 million to $218.4 million in 2019, compared to $232.0 million in 2018 due to the net of the bond refinancing of $5.1 million, the classifying the current portion of debt as a current liability of $7.0 million and $1.5 million due to the amortization on the Authority's revenue bond premiums.

Current liabilities
Current liabilities decreased $5.7 million to $45.3 million in 2019, compared to $50.9 million due to a net repayment of commercial paper of $4.4 million, and a decrease in interest payable of $1.6 million offset by an increase in current portion of long-term debt of $0.4 million.

Lease revenue
Lease revenue decreased $5.5 million to $61.4 million for the year ended December 31, 2019, compared to lease revenue of $66.9 million for the year ended December 31, 2018, and is a function of the decrease in total operating expenses of the Authority in 2019. Refer to changes in expenses described below.

Generation and fuel
Fuel expense decreased $3.1 million to $33.3 million for the year ended December 31, 2019, compared to $36.4 million for the year ended December 31, 2018. Decrease in fuel cost is attributed to a decrease in price. The generating facility produced 1,044 and 1,230 GWh, respectively, for the years ended December 31, 2019 and 2018. The Authority's operations and maintenance expense was $17.6 million for the year ended December 31, 2019, as compared to $19.3 million for the year ended December 31, 2018. The decrease in operations and maintenance expense is primarily due to lower production at the Walnut Energy Center.

Investment income
Investment income increased by $0.2 million to $0.6 million in 2019 as compared to $0.4 million in 2018, primarily due to higher yields on investments.

Interest expense
Interest expense decreased slightly in 2019 compared to 2018, due to savings from the bond refunding, the pay down of principal debt, and pay down of commercial paper in 2019.

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

	December 31, 2020	December 31, 2019
ASSETS		
Noncurrent lease receivable from Turlock Irrigation District	$ 159,952	$ 168,092
Investments and other noncurrent assets		
Long-term investments, including restricted amounts	7,872	7,114
Short-term investments, restricted for long-term purposes	7,877	8,278
Cash and cash equivalents restricted for long-term purposes	137	123
Long-term receivable from Turlock Irrigation District	40,121	44,358
Total investments and other noncurrent assets	56,007	59,873
Current assets		
Restricted cash and cash equivalents	12,941	11,279
Due from Turlock Irrigation District	23,984	27,280
Accrued interest receivable	2	1
Total current assets	36,927	38,560
Total assets	$ 252,886	$ 266,525
LIABILITIES AND NET POSITION		
Long-term debt, net of current portion	$ 207,884	$ 218,403
Current liabilities		
Commercial paper notes	29,496	33,878
Current portion of long-term debt	7,995	6,985
Accrued interest payable	4,952	4,388
Total liabilities	42,443	45,251
COMMITMENTS (Note 8)		
DEFERRED INFLOWS OF RESOURCES		
Deferred refunding gain	2,559	2,871
NET POSITION	-	-
Total liabilities, deferred inflows, and net position	$ 252,886	$ 266,525

See accompanying notes.

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

	Years Ended December 31, 2020	Years Ended December 31, 2019
OPERATING REVENUES		
Lease revenue	$ 56,173	$ 61,392
OPERATING EXPENSES		
Fuel	32,128	33,340
Operation	11,697	12,073
Maintenance	5,080	5,561
Total operating expenses	48,905	50,974
Operating income	7,268	10,418
NONOPERATING REVENUES AND EXPENSES		
Net investment income	393	640
Interest expense, net	(7,661)	(11,058)
Total nonoperating revenues and expenses	(7,268)	(10,418)
Change in net position	-	-
NET POSITION		
Beginning of year	-	-
End of year	$ -	$ -

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

	Years Ended December 31, 2020	Years Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease payments received from the District	$ 10,564	$ 11,604
Net cash provided by operating activities	10,564	11,604
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt	(3,295)	(3,140)
Repayment of taxable commercial paper	(782)	(1,442)
Interest payments on taxable commercial paper	(162)	(359)
Interest payments on long-term debt	(2,720)	(2,646)
Net cash used in noncapital financing activities	(6,959)	(7,587)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on long-term debt	(6,902)	(10,008)
Repayment received on noncurrent lease receivable	8,140	6,690
Proceeds from issuance of long-term debt	-	80,168
Repayment of long-term debt	(3,690)	(89,021)
Repayment of tax-exempt commercial paper	(3,600)	(3,000)
Interest payments on tax-exempt commercial paper	(149)	(402)
Net cash used in capital and related financing activities	(6,201)	(15,573)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment from District of long-term receivable	4,237	4,737
Net investment income	287	489
Purchase of investments	(7,832)	(19,309)
Sale of investments	7,580	19,690
Net cash provided by investing activities	4,272	5,607
Net increase (decrease) in cash and cash equivalents	1,676	(5,949)
CASH AND CASH EQUIVALENTS		
Beginning of year	11,402	17,351
End of year	$ 13,078	$ 11,402
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS		
Operating income	$ 7,268	$ 10,418
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	3,296	1,186
Net cash provided by operating activities	$ 10,564	$ 11,604

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, 2020 and 2019 totaled $2,524 and $2,299, 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 or loss
Debt defeasance charges result from debt refunding transactions and comprise the difference between the reacquisition costs and the net outstanding debt balances including deferred costs of the defeased debt at the date of the defeasance transaction. Such charges are included as a component of deferred outflows or deferred inflows and amortized into interest expense over the shorter of the life of the refunded debt or the new debt, using the effective interest method.

Debt issuance costs
Costs incurred in connection with the issuance of debt obligations, principally underwriters' and legal fees are expensed as incurred. For the year ended December 31, 2019, the Authority expensed $1.2 million, related to the issuance of its 2019 Revenue Refunding Bonds, which is included as a component of interest expense on the statements of revenues, expenses, and changes in net position.

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, 2020 and 2019, 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 2020 and 2019 totaling $4,237 and $4,737, 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 $23,984 and $27,280 as of December 31, 2020 and 2019, 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 27, 2021.

Recent accounting pronouncements

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

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objective of GASB 91 is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. This statement is effective for the Authority in 2022. The Authority is currently assessing the financial statement impact of adopting this statement.

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

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates.* Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR), most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This statement is effective for the Authority in 2023. The Authority is currently assessing the financial statement impact of adopting this statement.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

Note 3 – Cash, Cash Equivalents and Investments

The Authority's investment policies are governed by the California Government 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, 2020 and 2019. The credit ratings listed are from Standard and Poor's as of December 31, 2020. NR means not rated.

(dollars in thousands)

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

	Credit Rating	2020	2019
Cash and cash equivalents			
Deposits	NR	$ 12,941	$ 11,279
		12,941	11,279
Cash and cash equivalents restricted for long-term purposes			
Deposits	NR	35	19
California Asset Management Program	AAAm	102	104
		137	123
Short-term investments restricted for long-term purposes			
U.S. Treasury Notes	AA+	7,877	8,278
		7,877	8,278
Long-term investments			
US Treasury Note	AA+	1,262	7,114
Government Sponsored enterprises	AA+	6,610	-
		7,872	7,114
		$ 28,827	$ 26,794
Restricted funds			
Reserve funds			
Debt service fund		$ 15,886	$ 15,515
		12,941	11,279
		$ 28,827	$ 26,794

(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, 2020 and 2019 the Authority had deposits of $250, which are insured by the FDIC. The remaining deposits of $12,726 and $11,048 are uninsured and uncollateralized at December 31, 2020 and 2019, respectively. Investments in CAMP at December 31, 2020 and 2019, of $102 and $104, 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. At December 31, 2019, the Authority did not have more than 5% invested in a single issuer. The following are the concentrations of credit risk representing 5% or greater in a single issuer in either year, all of which are Government sponsored enterprises:

	2020	2019
Freddie Mac Notes	42%	0%

Interest rate risk
Although the Authority has a policy that restricts the maturities of its investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates. At December 31, 2020 and 2019, all of the Authority's investments had a stated maturity of less than two 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, 2020 and 2019, respectively. As required by GASB 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Authority's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

(dollars in thousands)

Note 4 – Fair Value Measurement (continued)

	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

	At Fair Value as of December 31, 2019		
	Level 1	Level 2	Total
Investments, including cash and cash equivalents			
California Asset Management Program	$ -	$ 104	$ 104
U.S. Treasury Notes	15,392	-	15,392
Total investments, including cash equivalents	$ 15,392	$ 104	$ 15,496

Note 5 – Long-Term Debt

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

	2020	2019
2010 revenue refunding bonds, series B, fixed interest rates of 4.65% to 6.2%, maturing through 2029	$ 36,745	$ 40,040
2014 revenue bonds, series A, fixed interest rates of 4% to 5% maturing through 2034	92,704	96,394
2019 revenue refunding bonds, series A fixed interest rates of 5% maturing through 2037	61,315	61,315
Total long-term debt outstanding	190,764	197,749
Less		
Current portion	(7,995)	(6,985)
Unamortized premiums	25,115	27,639
Total long-term debt	$ 207,884	$ 218,403

(dollars in thousands)

Note 5 – Long-Term Debt (continued)

The summarized activity of the Authority's long-term debt during 2020 and 2019 is presented below:

	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	

	December 31, 2018	Additions	Payments and Amortization	December 31, 2019	Amounts Due Within One Year
Revenue bonds	$ 227,540	$ 61,315	$ (91,106)	$ 197,749	$ 6,985
Unamortized premiums	11,084	18,854	(2,299)	27,639	
Total long-term debt, net	$ 238,624	$ 80,169	$ (93,405)	$ 225,388	

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 $36,745 may be subject to redemption by the Authority at any interest date with a make whole premium.

Refunding

In October 2019, the Authority issued revenue refunding bonds, 2019 series A totaling $61,315, the proceeds of which were combined with $5,519 from reserve funds, and used to refinance the 2010 Series A revenue bonds of $84,515. This refunding resulted in a net deferred accounting gain of $768 which is being amortized over the life of the refunding issue.

(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, 2020:

	Principal	Interest	Total
2021	$ 7,995	$ 9,486	$ 17,481
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
2026-2030	63,700	27,900	91,600
2031-2035	72,680	9,243	81,923
2036-2037	10,124	38	10,162
	$ 190,764	$ 79,969	$ 270,733

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, 2020 and 2019, there were notes outstanding of $29,496 and $33,878, respectively, of which $11,665 and $12,447 was taxable at December 31, 2020 and 2019, respectively. The effective interest rate for the notes outstanding at December 31, 2020 and 2019 was 0.20% and 1.37%, respectively, and the average term was 85 and 46 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 2020 and 2019 is presented below:

	2020	2019
Balances at beginning of year	$ 33,878	$ 38,320
Payments	(4,382)	(4,442)
Balances at end of year	$ 29,496	$ 33,878

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.

Note 9 – Contingencies and Uncertainties

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

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