Report of Independent Auditors
and Financial Statements

Walnut Energy Center Authority

December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 5 through 9 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 29, 2024

Management’s Discussion and Analysis (Unaudited)

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, 2023 and 2022. This management's discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

Background

The Authority is a joint exercise of powers authority formed pursuant to a joint exercise of powers agreement creating the Authority. The Turlock Irrigation District (TID) and the Merced Irrigation District (MeID) formed the Authority by executing the joint powers authority (JPA) in December 2003. The purpose of the Authority is to develop, own, and operate the Walnut Energy Center (the Project), a 250 mega-watt natural gas-fired combined cycle power generating facility. The Authority is authorized to enter into contracts and issue revenue bonds in support of the Project.

Pursuant to the Construction and Operation Agreement between TID and the Authority, TID provides technical and general and administrative services to meet the Authority's needs. Neither TID nor MeID has any obligation or liability beyond that specifically provided in the Joint Powers Agreement and the Project Agreements (the Agreements). Pursuant to the Agreements, TID is responsible for all costs of the Authority and all of the power generation output is owned by TID.

Financial reporting

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

Statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows

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

(dollars in thousands)

Summary of Financial Position and Changes in Net Position as of and for the years ended December 31, 2023, 2022, and 2021:

	2023	2022	2021
ASSETS			
Noncurrent receivable	$ 145,787	$ 151,867	$ 156,817
Restricted cash, cash equivalents, and investments	29,402	28,592	28,781
Other noncurrent assets	22,201	29,486	36,061
Other current assets	15,993	19,252	21,335
Total assets	$ 213,383	$ 229,197	$ 242,994
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Long-term debt	$ 174,471	$ 185,948	$ 197,144
Current liabilities	37,215	41,278	43,591
Deferred inflows of resources	1,697	1,971	2,259
Total liabilities and deferred inflows	213,383	229,197	242,994
NET POSITION	-	-	-
Total liabilities, deferred inflows, and net position	$ 213,383	$ 229,197	$ 242,994

	2023	2022	2021
OPERATING REVENUES			
Revenue	$ 101,898	$ 86,814	$ 59,298
OPERATING EXPENSES			
Fuel	76,611	59,722	35,693
Operations	15,135	13,959	11,642
Maintenance	4,107	5,525	4,722
Total operating expenses	95,853	79,206	52,057
Operating income	6,045	7,608	7,241
NONOPERATING REVENUES AND EXPENSES			
Investment income (loss)	1,009	(376)	(105)
Interest and amortization expense, net	(7,054)	(7,232)	(7,136)
Total nonoperating revenues and expenses	(6,045)	(7,608)	(7,241)
Net change in net position	-	-	-
NET POSITION			
Beginning of year	-	-	-
End of year	$ -	$ -	$ -

Management's Discussion and Analysis as of and for the Year Ended December 31, 2023:

Noncurrent receivable

As of December 31, 2023 and 2022, total costs capitalized by the Authority, which are to be recovered in the form of payments from TID, were $145.8 million and $151.9 million, respectively. The decrease is primarily due to the scheduled bond principal payment of $5.1 million which was collected from TID as set forth in the Agreements and a repayment of investment of $1.0 million by the Authority in the Walnut Energy Center. The collections from TID reduced the receivable balance. The receivable comprises 68% and 66% of the Authority's assets at December 31, 2023 and 2022, respectively. Collections on this receivable balance will be concurrent with the principal maturities of the Authority's long-term debt.

Restricted cash, cash equivalents, and investments

The Authority's restricted cash, cash equivalents, and investments increased $0.8 million to $29.4 million in 2023 compared to $28.6 million in 2022.The change was primarily related to a change in market value of investments.

Other noncurrent assets

Other noncurrent assets decreased $7.3 million to $22.2 million in 2023, compared to $29.5 million in 2022 due to the collection of $7.3 million from TID for the pay down of taxable debt.

Other current assets

Other current assets decreased $3.3 million to $16.0 million in 2023, compared to $19.3 million in 2022. The decrease is a result of a change in the due from TID as a result of current year operations.

Long-term debt

Long-term debt decreased $11.5 million to $174.5 million in 2023, compared to $185.9 million in 2022 due to classifying the current portion of debt as a current liability of $9.1 million and $2.4 million due to the amortization on the Authority's revenue bond premiums.

Current liabilities

Current liabilities decreased $4.1 million to $37.2 million in 2023, compared to $41.3 million in 2022 due to a net decrease of commercial paper of $4.3 million and a decrease in interest payable of $0.1 million offset by an increase in current portion of long-term debt of $0.3 million.

Deferred inflows of resources

Deferred inflow of resources decreased $0.3 million to $1.7 million in 2023, compared to $2.0 million in 2022 due to current amortization of deferred refunding gain.

Revenue

Revenue increased $15.1 million to $101.9 million for the year ended December 31, 2023, compared to revenue of $86.8 million for the year ended December 31, 2022, and is a function of the increase in total operating expenses of the Authority in 2023. Refer to changes in expenses described below.

Fuel, operations, and maintenance
Fuel expense increased $16.9 million to $76.6 million for the year ended December 31, 2023, compared to $59.7 million for the year ended December 31, 2022. Increase in fuel cost is primarily attributed to an increase in price and additional volume. The generating facility produced 1,622 GWh and 1,467 GWh, respectively, for the years ended December 31, 2023 and 2022. The Authority's operations and maintenance expense was $19.3 million for the year ended December 31, 2023, as compared to $19.5 million for the year ended December 31, 2022. The decrease in operations and maintenance expense is primarily due to lower maintenance cost at the Walnut Energy Center in 2023.

Investment income (loss)
Investment income increased by $1.4 million to $1.0 million in 2023 as compared to $(0.4) million in 2022, primarily due to change in market value on investments.

Interest and amortization expense, net
Interest and amortization expense decreased $0.2 million to $7.0 million in 2023 compared to $7.2 million in 2022, due to the pay down of principal debt in 2022 offset by an increase in commercial paper borrowing rates.

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

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

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

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

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

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

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

Deferred inflows of resources
Deferred inflow of resources decreased $0.3 million to $2.0 million in 2022, compared to $2.3 million in 2021 due to current amortization of deferred refunding gain.

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

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

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

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

Financial Statements

Walnut Energy Center Authority
Statements of Net Position
(dollars in thousands)
December 31, 2023 and 2022

	2023	2022
ASSETS		
Noncurrent receivable from Turlock Irrigation District	$ 145,787	$ 151,867
Investments and other noncurrent assets		
Long-term investments, including restricted amounts	7,075	5,386
Short-term investments, restricted for long-term purposes	5,663	9,526
Cash and cash equivalents restricted for long-term purposes	3,242	370
Long-term receivable from Turlock Irrigation District	22,201	29,486
Total investments and other noncurrent assets	38,181	44,768
Current assets		
Restricted cash and cash equivalents	13,422	13,310
Due from Turlock Irrigation District	15,980	19,238
Accrued interest receivable	13	14
Total current assets	29,415	32,562
Total assets	$ 213,383	$ 229,197
LIABILITIES AND NET POSITION		
Long-term debt, net of current portion	$ 174,471	$ 185,948
Current liabilities		
Commercial paper notes	23,581	27,826
Current portion of long-term debt	9,120	8,780
Accrued interest payable	4,514	4,672
Total liabilities	37,215	41,278
COMMITMENTS (Note 8)		
DEFERRED INFLOWS OF RESOURCES		
Deferred refunding gain	1,697	1,971
NET POSITION	-	-
Total liabilities, deferred inflows, and net position	$ 213,383	$ 229,197

See accompanying notes.

Walnut Energy Center Authority
Statements of Revenues, Expenses, and Changes in Net Position
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Revenue	$ 101,898	$ 86,814
OPERATING EXPENSES		
Fuel	76,611	59,722
Operation	15,135	13,959
Maintenance	4,107	5,525
Total operating expenses	95,853	79,206
Operating income	6,045	7,608
NONOPERATING REVENUES AND EXPENSES		
Net investment income (loss)	1,009	(376)
Interest and amortization expense, net	(7,054)	(7,232)
Total nonoperating revenues and expenses	(6,045)	(7,608)
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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from the District	$ 9,303	$ 9,697
Net cash provided by operating activities	9,303	9,697
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of long-term debt	(3,830)	(3,635)
Repayment of taxable commercial paper	(3,245)	(2,745)
Interest payments on taxable commercial paper	(481)	(580)
Interest payments on long-term debt	(1,718)	(1,915)
Net cash used in noncapital financing activities	(9,274)	(8,875)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payments on long-term debt	(7,132)	(7,374)
Repayment received on noncurrent receivable	6,080	4,950
Repayment of long-term debt	(4,950)	(4,635)
Repayment of tax-exempt commercial paper	(1,000)	-
Interest payments on tax-exempt commercial paper	(512)	(145)
Net cash used in capital and related financing activities	(7,514)	(7,204)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment from TID of long-term receivable	7,285	6,575
Net investment income	284	302
Purchase of investments	(7,085)	(1,240)
Sale of investments	9,985	1,241
Net cash provided by investing activities	10,469	6,878
Net increase in cash and cash equivalents	2,984	496
CASH AND CASH EQUIVALENTS		
Beginning of year	13,680	13,184
End of year	$ 16,664	$ 13,680
ADJUSTMENT TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATIONS		
Operating income	$ 6,045	$ 7,608
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	3,258	2,089
Net cash provided by operating activities	$ 9,303	$ 9,697

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 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.

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

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

Debt obligations – Long-term debt and short-term borrowings are recorded at the principal amount of the obligations, adjusted for original issuance premium. The premium on bonds issued and short-term borrowings are amortized over the terms of the bonds using the effective interest method. The premium amortized during the years ended December 31, 2023 and 2022 totaled $2,357 and $2,416, 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.

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

In accordance with provisions of the credit agreements relating to the Authority's long-term debt obligations, restricted funds held by trustees have been established to provide for certain debt service and project funding requirements. The restricted funds held by trustees are invested primarily in CAMP or United States government securities and related instruments with maturities no later than the expected date of the use of such funds. At December 31, 2023 and 2022, 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 2023 and 2022 totaling $7,075 and $6,575, respectively, to the Authority to pay down the associated commercial paper draws and fund principal due on the 2010 revenue refunding bonds, Series B. As TID's net investment and the amount advanced from the Authority can fluctuate, this receivable is reported as a noncurrent asset in the accompanying statements of net position.

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

Due from (to) Turlock Irrigation District – Receivables from and payables to TID are a result of timing differences incurred through the operations of the Authority, which will net to $0 at the termination of the PPA. Amounts due from (to) TID relating to these transactions amounted to $15,980 and $19,238 as of December 31, 2023 and 2022, respectively. Certain improvements have been made to the Project, financed by TID. Such costs are not included in the Authority's accounts.

Leases – Leases are recognized in accordance with GASB Statement No. 87, *Leases*.

A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the Authority and is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments related to a future period which were received prior to the lease commencement; these deferred inflows of resources are amortized equal to the amount of the annual payments.

A lessee is required to recognize a lease payable and an intangible right-to-use lease asset. A lease payable is recognized at the net present value of future lease payments and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments based on index or rate, and reasonably certain residual guarantees. The right-to-use asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement and is subsequently amortized over the life of the lease. The Authority has no lease payables or right-to-use lease assets for the fiscal years ended December 31, 2023 and 2022, respectively.

Subsequent events – Subsequent events have been assessed through April 29, 2024.

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

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The Authority adopted GASB Statement No. 94 during the year ended December 31, 2023, which did not have an impact on the Authority’s financial reporting.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible 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 Statement No. 87, *Leases*, as amended. The Authority adopted GASB Statement No. 96 during the year ended December 31, 2023, which did not have an impact on the Authority's financial reporting.

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.

(dollars in thousands)

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, 2023 and 2022. The credit ratings listed are from Standard and Poor's as of December 31, 2023. NR means not rated.

	Credit Rating	2023	2022
Cash and cash equivalents			
Deposits	NR	$ 13,422	$ 13,310
		13,422	13,310
Cash and cash equivalents restricted for long-term purposes			
Deposits	NR	37	205
California Asset Management Program	AAAm	3,205	165
		3,242	370
Short-term investments restricted for long-term purposes			
Government Sponsored enterprises	AA+	-	6,401
U.S. Treasury Notes	AA+	5,663	3,125
		5,663	9,526
Long-term investments			
US Treasury Note	AA+	7,075	5,386
		7,075	5,386
		$ 29,402	$ 28,592
Restricted funds			
Reserve funds		$ 15,980	$ 15,282
Debt service fund		13,422	13,310
		$ 29,402	$ 28,592

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.

(dollars in thousands)

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, 2023 and 2022, the Authority had deposits of $250, which are insured by the FDIC. The remaining deposits of $13,209 and $13,265 are uninsured and uncollateralized at December 31, 2023 and 2022, respectively. Investments in CAMP at December 31, 2023 and 2022, of $3,205 and $165, respectively, were uninsured and uncollateralized.

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

	2023	2022
Freddie Mac Notes	0%	44%

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, 2023 and 2022, all of the Authority's investments had a stated maturity of less than five 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.

(dollars in thousands)

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, 2023 and 2022, respectively. As required by GASB 72, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Authority's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of liabilities and their placement within the fair value hierarchy levels.

	At Fair Value as of December 31, 2023		
	Level 1	Level 2	Total
Investments, including cash and cash equivalents			
California Asset Management Program	$ -	$ 14	$ 14
U.S. Treasury Notes	12,738	-	12,738
Total investments, including cash equivalents	$ 12,738	$ 14	$ 12,752

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

(dollars in thousands)

Note 5 – Long-Term Debt

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

	2023	2022
2010 revenue refunding bonds, series B, fixed interest rates of 5.4% to 6.2%, maturing through 2029	$ 25,825	$ 29,655
2014 revenue bonds, series A, fixed interest rates of 5% maturing through 2034	78,580	83,530
2019 revenue refunding bonds, series A fixed interest rates of 5% maturing through 2037	61,315	61,315
Total long-term debt outstanding	165,720	174,500
Less		
Current portion	(9,120)	(8,780)
Unamortized premiums	17,871	20,228
Total long-term debt	$ 174,471	$ 185,948

The summarized activity of the Authority's long-term debt during 2023 and 2022 is presented below:

	December 31, 2022	Additions	Payments and Amortization	December 31, 2023	Amounts Due Within One Year
Revenue bonds	$ 174,500	$ -	$ (8,780)	$ 165,720	$ 9,120
Unamortized premiums	20,228	-	(2,357)	17,871	
Total long-term debt, net	$ 194,728	$ -	$ (11,137)	$ 183,591	

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

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.

(dollars in thousands)

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 $25,825 may be subject to redemption by the Authority at any interest date with a make whole premium.

The Authority's scheduled future annual principal maturities and interest, assuming no redemption as noted above, are as follows at December 31, 2023

	Principal	Interest	Total
2024	$ 9,120	$ 8,098	$ 17,218
2025	10,095	7,540	17,635
2026	10,690	6,950	17,640
2027	11,735	6,304	18,039
2028	12,300	5,625	17,925
2029-2033	75,460	16,806	92,266
2034-2037	36,320	1,496	37,816
	$ 165,720	$ 52,819	$ 218,539

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, 2023 and 2022, there were notes outstanding of $23,581 and $27,826, respectively, of which $5,250 and $8,495 was taxable at December 31, 2023 and 2022, respectively. The effective interest rate for the notes outstanding at December 31, 2023 and 2022, was 3.74% and 3.20%, respectively, and the average term was 2 and 5 days, respectively. A letter of credit of $43,600, expiring in August 2025, supports the sale of these outstanding notes and the Authority incurs an annual fee for this service. There has not been a term advance under the letter of credit. The counterparty to the letter of credit is a national bank whose credit rating is A+ Stable (Standard & Poor's).

The summarized activity of the Authority's commercial paper notes during 2023 and 2022 is presented below:

	2023	2022
Balances at beginning of year	$ 27,826	$ 30,571
Additions	-	-
Payments	(4,245)	(2,745)
Balances at end of year	$ 23,581	$ 27,826

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 2037.

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.