

MIDDLE FORK PROJECT FINANCE AUTHORITY

Financial Statements

For the Year Ended December 31, 2020

(With Independent Auditor's Report Thereon)

MIDDLE FORK PROJECT FINANCE AUTHORITY

For the Year Ended December 31, 2020

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet - Governmental Fund	9
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	11
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	12
Notes to the Financial Statements	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance <i>with Government Auditing Standards</i>	24

Independent Auditor's Report

Board of Directors
Middle Fork Project Finance Authority
Auburn, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and debt service fund of the Middle Fork Project Finance Authority ("Authority") as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and debt service fund of the Middle Fork Project Finance Authority, as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* be presented 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
April 30, 2021

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2020

This section presents management's narrative overview and analysis of the Middle Fork Project Finance Authority (Authority) financial activities as of and for the period ended December 31, 2020. This Management's Discussion and Analysis is intended to serve as an introduction to and should be read in conjunction with the Authority's basic financial statements that follow this section.

ORGANIZATION

The Authority was created in January 2006 as a joint powers authority (JPA) by the County of Placer (County) and the Placer County Water Agency (Agency) to serve the mutual interests of the County and the Agency to provide for the financing required to obtain a new Federal Energy Regulatory Commission (FERC) license. The Placer County Water Agency 'Agency Act' states that "no contract for the sale of electrical energy shall be executed, nor shall any revenues received pursuant to any contract for the sale of electrical energy entered into after January 1, 1975, be spent, unless previously approved by the Board of Supervisors of the County". The JPA Agreement effectively conveyed the Agency's and County's interest in the Middle Fork Project (MFP) electric power contained in the California Water Code, Placer County Water Agency Act, Chapter 81, section 7.3 and the related revenues to the Authority. Subsequent to the Agency's existing 50-year power sale agreement with PG&E, which ended in April 2013, the Authority will serve to approve future MFP electrical energy sales and to distribute revenues from those future MFP energy sales.

The Authority is governed by a four-member Board of Directors composed of two members of the Placer County Board of Supervisors and two members of the Placer County Water Agency Board of Directors. Each Board appoints their two members of the Authority Board.

The Authority was formed pursuant to the Joint Exercise of Powers Act and is legally separate and fiscally independent from the County and Agency. As such, the Authority can incur debt, set and modify its own budgets, and enter into contracts. The accompanying financial statements reflect the financial activity of the Authority. The Authority has no component units.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) Governmental Fund financial statements (debt service fund), and 2) Notes to Financial Statements. This financial information together provides a more complete view of the Authority's financial activities and financial position.

Government-wide Financial Statements are designed to provide readers with a broad overview of the Authority's finances used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

The *Statement of Net Position* presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents the change in net position for the year in detail, with emphasis on measuring the net revenues or expenses of the Authority's activities over the course of the fiscal year ending December 31 and information as to how the net position changed during the year.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2020

Fund Financial Statements are designed to report detailed information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives, and focus primarily on the short-term activities of the Authority.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the governmental financial statements. However, their focus is on the near-term inflows and outflows of spendable resources, and the balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements. The governmental fund financial statements provide detailed information about the Authority's fund.

Notes to Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in the government wide financial statements. The notes to basic financial statements can be found on pages 13 through 23 of this report.

FINANCIAL ANALYSIS

Financial Position (Table 1)

During 2020, the Authority's net position decreased \$19.6 million from \$44.2 million to \$24.6 million primarily due to a \$12.2 million distribution of 2019 Net Revenue to the MFPPA parties reducing the total assets of the Authority. In March 2020, the Authority refinanced the 2006 Revenue Bonds for interest savings. The 2020 Revenue Bonds increased long-term debt \$3.9 million because of the \$15.8 million bond premium.

Table 1
Statement of Net Position
As of December 31, 2020

	2020	2019	Increase (Decrease)
Assets			
Cash and Cash Equivalents	\$ 1,561,017	4,885,877	(3,324,860)
Power Sales Receivable	1,771,189	4,436,254	(2,665,065)
Interest Receivable	322,767	621,322	(298,555)
Investments	102,805,708	108,924,349	(6,118,641)
Total Assets	<u>\$ 106,460,681</u>	<u>118,867,802</u>	<u>(12,407,121)</u>
Liabilities			
Accounts Payable	\$ 6,172,742	2,999,515	3,173,227
Interest Payable	757,938	616,349	141,589
Long-term Debt	74,927,589	71,028,392	3,899,197
Total Liabilities	<u>81,858,269</u>	<u>74,644,256</u>	<u>7,214,013</u>
Net Position			
Restricted	14,245,119	-	14,245,119
Unrestricted	10,357,293	44,223,546	(33,866,253)
Total Net Position (Deficit)	<u>\$ 24,602,412</u>	<u>44,223,546</u>	<u>(19,621,134)</u>

The restricted portion of the Authority's net position of \$14.2 million represents resources that are restricted by debt covenant for operations and maintenance of the MFP.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2020

Results of Operations (Table 2)

Table 2
Statement of Activities
For the year-ending December 31, 2020

	2020	2019	Increase (Decrease)
Revenues			
Power Sales	\$ 30,931,876	61,926,756	(30,994,880)
Investment Income	2,514,121	3,226,617	(712,496)
Total Revenues	<u>33,445,997</u>	<u>65,153,373</u>	<u>(31,707,376)</u>
Expenses			
Reimbursements for Middle Fork Project - Operating	21,800,786	21,558,456	242,330
Reimbursements for Middle Fork Project - Capital	16,392,159	11,804,435	4,587,724
Distribution of 2019 Net Revenue	12,278,814	-	12,278,814
Bond Issuance Costs	955,909	-	955,909
Interest on Long-term Debt	1,489,546	2,520,181	(1,030,635)
Miscellaneous	136,137	51,966	84,171
Professional Services	13,780	35,094	(21,314)
Total Expenses	<u>53,067,131</u>	<u>35,970,132</u>	<u>17,096,999</u>
Change in Net Position (Deficit)	(19,621,134)	29,183,241	(48,804,375)
Net Position (Deficit) Beginning of Year	44,223,546	15,040,305	29,183,241
Net Position (Deficit) End of Year	<u>\$ 24,602,412</u>	<u>44,223,546</u>	<u>(19,621,134)</u>

The Authority ended the year with total expenses exceeding total revenues by \$19.6 million. 2020 Power Sales of \$30.9 million were \$31.0 million less than 2019 while total expenses of \$53.1 million reflected an increase of \$17.1 million from 2019. Major contributing factors to this year's results are as follows:

- Power Sales revenue decreased by \$30.9 million over 2019 because of lower prices stemming from significant energy demand reduction as a result of COVID-19 stay-at-home orders and shutdowns, in conjunction with lower generation, as 2020 was substantially drier than average with only 58% of average annual precipitation.
- Total expenses increased by a net \$17.1 million, this is comprised mostly of a \$12.2 million distribution to Authority parties of 2019 Net Revenue, a \$242,330 increase in operating reimbursements, a \$4.6 million increase for capital reimbursements due to increased capital project expenses during 2020, and \$955,909 cost related to issuance of the 2020 Revenue Bond.

CAPITAL ASSETS

The Authority reserves for capital assets, which once appropriated to the Agency, are available for capital asset construction, rehabilitation and improvement. At year-end, the Authority's capital appropriation commitments totaled \$29.5 million. Capital assets of the MFP are owned by the Agency and more detail can be found in the Agency's audited financial statements available at the Agency's finance office.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2020

LONG-TERM DEBT

In March 2020, the Authority refinanced the 2006 Revenue Bonds for interest savings. At December 31, 2020, the Authority had total long-term principal outstanding of \$60.6 million and bond premium outstanding of \$14.3 million. During 2020, the Authority paid \$3.6 million towards outstanding principal on the 2020 Revenue Bonds. More detailed information about the Authority's long-term debt is presented in note 4 to the basic financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Board of Directors, creditors and interested parties with a general overview of the Authority's finances and demonstrate the Authority's accountability for the monies it receives. If you have questions about this report or need additional financial information, please contact: the Authority Treasurer c/o Placer County Water Agency, 144 Ferguson Road, Auburn, California, 95604. The report can also be found on the Authority's website at <https://www.placer.ca.gov/5413/Middle-Fork-Project-Finance-Authority>.

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	Statement of Net Position
ASSETS	
Current Assets:	
Cash and Investments (Note 3)	\$ 68,841,456
Power Sales Receivable	1,771,189
Interest Receivable	322,767
Total Current Assets	70,935,412
Non-current Assets:	
Investments (Note 3)	10,432,998
Restricted Cash and Investments (Note 3)	25,092,271
Total Non-current Assets	35,525,269
Total Assets	106,460,681
LIABILITIES	
Current Liabilities:	
Accounts Payable	6,172,742
Interest Payable	757,938
Total Current Liabilities	6,930,680
Non-Current Liabilities:	
Due Within One Year (Note 4)	3,789,742
Due After One Year (Note 4)	71,137,847
Total Non-Current Liabilities	74,927,589
Total Liabilities	81,858,269
Net Position	
Restricted	14,245,119
Unrestricted	10,357,293
Total Net Position	\$ 24,602,412

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Position Total
Governmental Activities:			
General Government	\$ 38,342,862	30,931,876	(7,410,986)
Distribution of 2019 Net Revenue	12,278,814	-	(12,278,814)
Bond Issuance Costs	955,909	-	(955,909)
Interest on Long-term Debt	1,489,546	-	(1,489,546)
Total governmental activities	\$ 53,067,131	30,931,876	(22,135,255)
General Revenues:			
			2,514,121
			2,514,121
			(19,621,134)
			44,223,546
			\$ 24,602,412

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2020

	Debt Service Fund
ASSETS	
Current Assets:	
Cash and Investments (Note 3)	\$ 68,841,456
Power Sales Receivable	1,771,189
Interest Receivable	322,767
Total Current Assets	70,935,412
Non-current Assets:	
Investments (Note 3)	10,432,998
Restricted Cash and Investments (Note 3)	25,092,271
Total Non-current Assets	35,525,269
Total Assets	106,460,681
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 6,172,742
Total Liabilities	6,172,742
FUND BALANCE	
Fund Balance:	
Assigned for Capital:	
Reserve	20,000,000
Capital Appropriations	29,531,966
Assigned for Emergency Reserve	2,000,000
Assigned for Budgeted Operations	7,122,560
Assigned for Operational Reserve	14,245,119
Restricted for Operational Reserve	14,245,119
Restricted for Debt Service	10,847,152
Unassigned	2,296,023
Total Fund Balance	100,287,939
Total Liabilities and Fund Balance	\$ 106,460,681

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020

Fund balance for Governmental Fund	\$	100,287,939
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-Term Liabilities

Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities.

Revenue Bonds		(60,635,000)
Interest payable - Revenue Bonds		(757,938)
Bond Premium		(14,292,589)

Net position of Governmental Activities	\$	<u>24,602,412</u>
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See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Debt Service Fund</u>
REVENUES	
Power Sales	\$ 30,931,876
Investment Income	2,514,121
Total Revenues	33,445,997
EXPENDITURES	
General Government	38,342,862
Distribution of 2019 Net Revenue to MFPFA Parties - PCWA	6,139,407
Distribution of 2019 Net Revenue to MFPFA Parties - County of Placer	6,139,407
Debt Service:	
Bond Issuance Costs	955,909
Principal	74,673,392
Interest	2,863,647
Total Expenditures	129,114,624
Excess of Revenues over Expenditures	(95,668,627)
Other financing sources (uses)	
2020 Revenue Bond Issuance	64,280,000
Issuance of Bond Premium	15,808,279
Total other financing sources (uses)	80,088,279
Change in Fund Balance	(15,580,348)
FUND BALANCE	
Beginning of Year	115,868,287
End of Year	\$ 100,287,939

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Changes in Fund balances for Governmental Fund \$ (15,580,348)

Amounts reported for governmental activities in the Statement of Activities are different because:

Some expenses reporting the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds

Debt service principal 2020 Bonds	3,645,000
Debt service principal 2006 Bonds	71,028,392
Amortization of Bond Premium	1,515,690
Interest payable - Revenue Bonds	(141,589)

Repayment of long-term principal is an expenditure in the governmental fund and, thus, has the effect of reducing the fund balances because current funds resources have been used. For the Authority as a whole, however, the principal financial payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.

Issuance of 2020 Revenue Bonds	(64,280,000)
Issuance of Bond Premium	(15,808,279)

Change in net position of Governmental Activities \$ (19,621,134)

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

1. Organization and Reporting Entity

The Middle Fork Project Finance Authority (Authority) was created in January 2006 as a joint powers authority by the County of Placer (County) and the Placer County Water Agency (Agency). The Authority is organized and operates pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the joint exercise of powers agreement dated January 10, 2006 between the County and the Agency (JPA Agreement).

The Authority was formed to serve the mutual interests of the County and the Agency, exclusively, to provide for the financing of studies, programs, procedures, projects, services, improvements, modifications and other costs that may be required to obtain a new Federal Energy Regulatory Commission (FERC) license or which may be completed under the current or subsequent FERC license of the Middle Fork American River Hydroelectric Project (MFP) by the Agency, to approve future MFP electrical energy sales and to distribute revenues from those future MFP energy sales.

The JPA Agreement effectively conveyed the Agency's and County's interest in the MFP electric power and related revenues to the Authority.

The Authority is governed by a four-member Board of Directors composed of two members of the Placer County Board of Supervisors and two members of the Placer County Water Agency Board of Directors. Each Board selects their two members to the Authority Board.

The Authority was formed pursuant to the Joint Exercise of Powers Act and is legally separate and fiscally independent from the County and Agency. As such, the Authority can incur debt, set and modify its own budgets, and enter into contracts. The accompanying financial statements reflect the financial activity of the Authority. The Authority has no component units.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Government-wide Financial Statements – The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the non-fiduciary activities of the Authority. The Authority uses only governmental activities.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Fund Financial Statements – The accounts of the Authority are organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For reporting purposes, the Authority presents fund type activities as a governmental type debt service fund. The debt service fund is used to account for the accumulation of resources for, and the payment of, principal and interest and other charges on the bonds issued. The debt service fund is considered a major governmental fund.

The Authority maintains the debt service fund's accounting records on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Accounting Records

The Authority's accounting records are maintained by the Agency. Internal accounting controls are in place to ensure that transactions are initiated, approved and coded by the Authority's management.

Cash, Cash Equivalents, and Investments

The Authority considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains and losses and the unrealized appreciation (depreciation) of those investments.

Power Sales

Power Sales consists of power generation that is scheduled and sold directly into the California Independent System Operator (CAISO) spot market and short-term forward energy sales that are settled through Inter-SC Trades (ISTs) as well as energy products that are transacted bilaterally. The MFP is a merchant generating project and does not serve loads.

Fund Balance/Net Position

In the basic financial statements, governmental funds report assignments of fund balance for amounts that the Board of Directors has set aside for use for a specific purpose. The following is a description of the assignments used by the Authority:

Assigned for Capital Reserve – Used to represent a portion of fund balance assigned by policy for future years capital projects.

Assigned for Capital Appropriations – The portion of the Capital Reserve used to represent a portion of fund balance assigned for capital project appropriations.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Assigned for Emergency Reserve – Used to represent a portion of fund balance assigned by policy for significant unforeseen needs or events. This amount is only intended to meet the insurance deductible amounts.

Assigned for Budgeted Power Operations – Used to represent a portion of fund balance assigned for budgeted operations of the MFP.

Assigned for Operational Reserve – Used to represent a portion of fund balance assigned by policy for operations of the MFP under conditions of significantly reduced revenue due to hydrology, energy prices and/or prolonged minor outages or unanticipated variations in expenses.

Restricted for Operational Reserve – The portion (50%) of the Operational Reserve restricted by 2020 Revenue Bonds debt covenants which may only be used for Operation and Maintenance costs.

Restricted for Debt Service – Used to represent a portion of fund balance restricted for debt service of the MFP.

Unassigned – Used to represent a portion of fund balance, which is available for use at the discretion of the Authority.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in the measuring fair value are observable in the market and are described as follows:

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

Level 2 inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

3. Cash and Investments

Cash and investments as of December 31, 2020 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and Investments \$ 68,841,456

Non-current Assets:

Investments 10,432,998

Restricted Cash and Investments 25,092,271

Total \$ 104,366,725

Cash and investments as of December 31, 2020 consist of the following:

Deposits with Financial Institutions \$ 1,561,017

Investments 102,805,708

Total \$ 104,366,725

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Investments Authorized by the California Government Code and the Authority's Investment Policy

The California Government Code, Authority's Investment Policy and debt agreement allow the Authority to invest in the following authorized and permitted investment types provided the percentage and maturity limits are not exceeded.

Authorized Investment Type	Maximum Maturity	Maximum in Portfolio	Maximum Investment in One Issuer
U.S Government Securities	5 year	100%	No limit
U.S. Government Agencies and Instrumentalities - Primary	5 year	100%	50%
U.S. Government Agencies and Instrumentalities - Secondary	5 year	50%	30%
State of California Notes/Bonds	5 year	25%	10%
Other States in the United States Notes/Bonds	5 year	25%	10%
Local Agencies within the State of California Notes/Bonds	5 year	30%	10%
Commercial Paper	270 days	25%	5%
Corporate or Medium-Term Notes	5 year	30%	5%
Money Market Mutual Funds	N/A	20%	5%
Bonds of Supranationals	5 year	15%	5%
Negotiable Certificates of Deposit	1 year	20%	5%
Repurchase Agreements	1 year	15%	5%
Bankers' Acceptance	180 days	25%	5%
Placer County Treasurer's Investment Pool (PCTPI)	N/A	100%	No limit
Local Agency Investment Fund (LAIF)	N/A	100%	No limit
Collateralized Bank Deposits	5 year	100%	50%

Investments of debt proceeds or reserve funds held by debt trustees or fiscal agents are governed by the provisions of debt agreements and are addressed in the following section.

Investments held by Debt Trustees Are Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by debt trustees and certain provisions of these debt agreements.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Authorized Investment Type	Maximum Maturity	Maximum in Portfolio	Maximum Investment in One Issuer
U.S. Treasury Securities	None	100%	No limit
U.S. Government Agencies and Instrumentalities	None	100%	No limit
Banker's Acceptances	1 Year	100%	No limit
Commercial Paper	None	100%	No limit
Money Market Mutual Funds	N/A	100%	No limit
Investment Contracts	Maturity of debt	100%	No limit
Local Agency Investments Fund (LAIF)	None	100%	No limit
Repurchase Agreements	30 days	100%	No limit
California Arbitrage Management Trust	None	100%	No limit

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer an investment's maturity, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy states that interest rate risk will be mitigated by:

- (a) Structuring the Authority's portfolio so that securities mature to meet the Authority's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market and incurring a possible loss prior to their maturity to meet those requirements; and
- (b) Managing the overall average maturity of the portfolio on a shorter term to maturity basis, not to exceed 2 ½ years.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's year-end investments by maturity:

Investment Type	Fair Value	Remaining Maturity		
		12 Months Or Less	13 to 24 Months	25 to 48 Months
U.S. Treasury Securities	\$ 6,158,910		3,073,470	3,085,440
U.S. Government Agencies - Primary	15,412,860	6,040,770	3,084,900	6,287,190
U.S. Government Agencies - Secondary	5,992,227		2,789,937	3,202,290
Corporate Notes	3,024,390	3,024,390		
Bonds of Supranationals	3,042,810	3,042,810		
CA State Municipalities	3,154,890			3,154,890
LAIF	55,172,469	55,172,469		
Held by bond trustee:				
Money Market	10,847,152	10,847,152		
Total Investments	\$ 102,805,708	78,127,591	8,948,307	15,729,810

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The California Government Code governs the Authority's credit risk requirements and the Authority's investment policy and debt agreement do not place additional requirements relating to credit risk. Presented below are the December 31, 2020, actual credit quality ratings for each investment type as provided by Moody's Investor Services, Inc.

Investment Type	Fair Value	Minimum Authorized Rating	Rating as of Year-End		
			Aaa	Aa	Not Rated
U.S. Treasury Securities	\$ 6,158,910	N/A	6,158,910		
U.S. Government Agencies - Primary	15,412,860	N/A	15,412,860		
U.S. Government Agencies - Secondary	5,992,227	N/A	5,992,227		
Corporate Notes	3,024,390	Aa		3,024,390	
Bonds of Supranationals	3,042,810	AA	3,042,810		
CA State Municipalities	3,154,890	N/A		3,154,890	
LAIF	55,172,469	N/A			55,172,469
Held by bond trustee:					
Money Market	10,847,152	AA-m			10,847,152
Total	<u>\$ 102,805,708</u>		<u>30,606,807</u>	<u>6,179,280</u>	<u>66,019,621</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Authority's investment policy follows California Government Code regarding limitations on the amount that can be invested in any one investment type and does not further limit investments in any one issuer. Authority investments in the securities of any individual issuer, other than U.S. Treasury securities, LAIF, and mutual funds that represent 5% or more of total Authority investments are as follows:

Issuer	Investment Type	Percent of Portfolio	Reported Amount
Federal Farm Credit Bank	U.S. Government Agencies - Primary	11.99%	\$ 12,327,960
Private Export Funding	U.S. Government Agencies - Secondary	5.83%	5,992,227

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law and the Authority's investment policy require banks and savings & loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit as collateral for deposits. The third-party bank trustee agreement must comply with California Government Code, which requires that a financial institution secure deposits made by state or local governmental

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Authority's deposits with financial institutions in excess of Federal Depository Insurance Corporation limits, totals \$1,092,942, which is collateralized with securities held by the pledging financial institution's trust department but not in the Authority's name.

Investment in State Investment Pool – Local Agency Investment Fund

The California State Treasurer maintains an investment pool in a special fund through which local governments may pool investments. The investment pool is named the Local Agency Investment Fund (LAIF). The Authority is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California and the Local Investment Advisory Board (Advisory Board). The Advisory Board consists of five members as designated by State Statute.

The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is the Authority's proportionate share of its investment in the LAIF, which amounted to \$55,172,469 at December 31, 2020.

Included in the LAIF's investment portfolio at December 31, 2020, are collateralized mortgage obligations, mortgaged backed securities, and other asset-backed securities, structured notes, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, US Treasury Notes and Bills and corporations. At December 31, 2020, the amount invested by all public agencies in the LAIF totaled \$107.3 billion, which includes asset-backed securities totaling \$2.5 billion (2.35%). At December 31, 2020, the average days to maturity was 165 days.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

Fair Value Measurement

The Authority categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Authority has the following recurring fair value measurements as of December 31, 2020:

Deposits and withdrawals in governmental investment pools, such as LAIF, are made on the basis of \$1 and not fair value. Accordingly, the Authority's measured fair value of its proportionate share in these types of investments is based on uncategorized inputs not defined as a Level 1, Level 2, or Level 3 input.

Investments at Fair Value	Amount	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 6,158,910	6,158,910		
U.S. Government Agencies - Primary	15,412,860		15,412,860	
U.S. Government Agencies - Secondary	5,992,227		5,992,227	
Corporate Notes	3,024,390		3,024,390	
Bonds of Supranationals	3,042,810		3,042,810	
CA State Municipalities	3,154,890		3,154,890	
Total Investments at Fair Value	<u>36,786,087</u>	<u>6,158,910</u>	<u>30,627,177</u>	<u>-</u>
Investments with Uncategorized Inputs				
LAIF	55,172,469			
Money Market - Held by Bond Trustee	10,847,152			
Total Investments Measured Uncategorized	<u>66,019,621</u>			
Total Investments	<u>\$ 102,805,708</u>			

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

4. Long-term Liabilities

The following is a schedule of long-term debt for the year ended December 31, 2020:

	Balance			Balance	Amount	Non-
	January 1,	Additions	Retirements	December 31,	Due Within	Current
	2020			2020	One Year	Amount
Revenue Bonds	\$ 71,028,392	64,280,000	74,673,392	60,635,000	2,360,000	58,275,000
2020 Bond Premium		15,808,279	1,515,690	14,292,589	1,429,742	12,862,847
Long-term Liabilities	\$ 71,028,392	80,088,279	76,189,082	74,927,589	3,789,742	71,137,847

On March 27, 2006, the Authority's Board of Directors approved and authorized a maximum principal amount of \$100,000,000 Middle Fork Project Finance Authority Revenue Bond, Series 2006 (2006 Revenue Bond). The 2006 Revenue Bond was issued to finance MFP FERC Relicensing Costs and related expenses. Quarterly, through March 31, 2013, amounts advanced in the form of draws to the Authority were added to the 2006 Revenue Bond's principal amount, as well as capitalized interest through March 2015. The quarterly advances were based on projected and budgeted resources needs, primarily Relicensing expenses, for the subsequent quarter. The 2006 Revenue Bond interest rate on the outstanding balance from March 29, 2006 through June 30, 2006 was 5.691%. The interest rate for the period July 1, 2006 – April 1, 2015 was based on the yield on the United States Treasury Bond maturing February 15, 2036, plus 1% per annum. On April 1, 2015, per the requirements of the 2006 Revenue Bond, the interest rate converted from a variable rate to a fixed rate at 3.47%. The outstanding balance was then fully amortized over 20 years with semi-annual principal and interest payments starting October 1, 2015 and maturing April 1, 2036. The payment of principal and interest is secured by all revenues and all other funds after 2013 and accounts held by the Authority, which is primarily the MFP electric power and related revenues.

On March 17, 2020, the Authority refinanced the 2006 Revenue Bond with the issuance of Revenue Bonds, Series 2020 Refunding (2020 Bonds) in the amount of \$64,280,000 to refund the outstanding 2006 Bonds in the amount of \$71,028,392. The bond issue also included a bond premium of \$15,808,279. The 2020 Bonds were issued with a fixed coupon of 5% over a seventeen-year period maturing April 2036. The refunding was performed to save total debt service costs and the results of the refunding saved an average of over \$455,000 annually or \$7.7 million in gross savings over seventeen years. The present value savings of the refunding totaled \$6.7 million and the borrowing had a True Interest Cost of 2.143%. With the issuance of the 2020 Revenue Bonds, there are new debt covenants that change the allocation of the Authority's revenues, establish a debt service reserve fund, and restrict a portion of the Authority's Operational Reserve.

As part of the refunding process, the Authority's 2020 Bonds was assigned an investment grade credit rating of Baa3 by Moody's Investors Service.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2020

As of December 31, 2020, annual debt service requirements to maturity are as follows:

Year Ending	Series 2020 Refunding Bonds	
December 31:	Principal	Interest
2021	\$ 2,360,000	2,972,750
2022	2,480,000	2,851,750
2023	2,610,000	2,724,500
2024	2,745,000	2,590,625
2025	2,885,000	2,449,875
2026-2030	16,800,000	9,873,000
2031-2035	21,575,000	5,099,375
2036	9,180,000	229,500
Total	\$ 60,635,000	28,791,375

Future Revenues Pledged

The Authority has pledged revenues from the energy sales generated by the MFP in amounts sufficient to cover the principal and interest requirements on the Authority's 2020 Bonds. As of December 31, 2020, the total principal and interest remaining on the debt is \$60.6 million with an average annual amount of \$5.5 million. The bond matures April 1, 2036. For the current year, principal and interest paid by the Authority and the total power sales revenue recognized were \$5.4 million and \$30.9 million, respectively.

Pursuant to the Bond Purchase Contract, the allocation of all revenues, are to be as follows:

- First, to pay or set-aside amounts for the payment of Maintenance and Operating costs;
- Second, to pay debt service to the next principal payment date;
- Third, to pay or set-aside amounts to fund or maintain Reserves;
- Fourth, for any other Authority purpose such as Capital and distributions to the County and the Agency, provided that no event of default has occurred and the Authority reasonably expects it will have sufficient revenues to pay operation and maintenance costs for the current year.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Board of Directors
Middle Fork Project Finance Authority
Auburn, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and debt service fund of the Middle Fork Project Finance Authority (Authority), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California
April 30, 2021