

MIDDLE FORK PROJECT FINANCE AUTHORITY

Financial Statements

For the Year Ended December 31, 2021

(With Independent Auditor's Report Thereon)

MIDDLE FORK PROJECT FINANCE AUTHORITY

For the Year Ended December 31, 2021

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Insert Opinion

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MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2021

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, 2021. 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) Financial statements, and 2) Notes to Financial Statements. This financial information together provides a more complete view of the Authority's financial activities and financial position.

Fund 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. Beginning with the year ending December 31, 2021 the Authority has changed how the financial statements are prepared as a Governmental fund (debt service fund) to Proprietary fund. The Authority's proprietary fund statements include the following:

The *Statement of Net Position (Balance Sheet)* presents information on the Authority's assets plus deferred outflow of resources, and liabilities plus deferred inflow of resources, with the difference between 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.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses and Changes in Net Position* presents

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2021

the results of the Authority's operations over the course of the fiscal year ending December 31st and information as to how the net position changed during the year. This statement can be used as an indicator to determine the Agency's credit worthiness and information as to how the net position changed during the year.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash accounting measures of depreciation and amortization of assets. It also provides answers to such questions as where cash came from, what was cash used for, and what was the change in cash balance during the reporting period.

Notes to Basic Financial Statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 10 through 21 of this report.

FINANCIAL ANALYSIS

Financial Position

During 2021, the Authority's net position increased \$10.0 million from \$24.6 million to \$34.6 million.

Statement of Net Position As of December 31, 2021

	2021	2020	Increase (Decrease)
Assets			
Cash and Cash Equivalents	\$ 11,848,872	12,408,169	(559,297)
Power Sales Receivable	5,435,222	1,771,189	3,664,033
Interest Receivable	193,279	322,767	(129,488)
Investments	94,539,190	91,958,556	2,580,634
Total Assets	<u>\$ 112,016,563</u>	<u>106,460,681</u>	<u>5,555,882</u>
Liabilities			
Accounts Payable	\$ 5,511,883	6,172,742	(660,859)
Interest Payable	743,438	757,938	(14,500)
Long-term Debt	71,137,847	74,927,589	(3,789,742)
Total Liabilities	<u>77,393,168</u>	<u>81,858,269</u>	<u>(4,465,101)</u>
Net Position			
Restricted	25,496,162	14,245,119	11,251,043
Unrestricted	9,127,233	10,357,293	(1,230,060)
Total Net Position (Deficit)	<u>\$ 34,623,395</u>	<u>24,602,412</u>	<u>10,020,983</u>

The restricted portion of the Authority's net position of \$25.5 million represents resources that are restricted by debt covenant for debt service and operations and maintenance of the MFP.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Results of Operations

Changes in Net Position For the year-ending December 31, 2021

	2021	2020	Increase (Decrease)
Revenues			
Power Sales	\$ 47,363,137	30,931,876	16,431,261
Investment Income	(270,438)	2,514,121	(2,784,559)
Total Revenues	<u>47,092,699</u>	<u>33,445,997</u>	<u>13,646,702</u>
Expenses			
Reimbursements for Middle Fork Project - Operating	26,426,449	21,800,786	4,625,663
Reimbursements for Middle Fork Project - Capital	8,995,361	16,392,159	(7,396,798)
Distribution of 2019 Net Revenue	-	12,278,814	(12,278,814)
Bond Issuance Costs	-	955,909	(955,909)
Interest on Long-term Debt	1,529,508	1,489,546	39,962
Miscellaneous	103,136	136,137	(33,001)
Professional Services	17,262	13,780	3,482
Total Expenses	<u>37,071,716</u>	<u>53,067,131</u>	<u>(15,995,415)</u>
Change in Net Position (Deficit)	10,020,983	(19,621,134)	29,642,117
Net Position (Deficit) Beginning of Year	<u>24,602,412</u>	<u>44,223,546</u>	<u>(19,621,134)</u>
Net Position (Deficit) End of Year	<u>\$ 34,623,395</u>	<u>24,602,412</u>	<u>10,020,983</u>

The Authority ended the year with total revenues exceeding total expenses by \$10.0 million. 2021 Power Sales of \$47.4 million were \$16.4 million more than 2020 while total expenses of \$37.1 million reflected a decrease of \$16.0 million from 2020. Major contributing factors to this year's results are as follows:

- Power Sales revenue increased by \$16.4 million over 2020, \$7.9 million is directly related to energy sales, despite the low generation and continuing dry hydrologic conditions (critically dry) with only 52% of average annual precipitation, the significantly higher energy prices in 2021 pushed power sales higher. Energy products contracts, specifically Resource Adequacy, were also increased \$8.5 million over 2020.
- Total expenses decreased by a net \$16.0 million, which is primarily because of atypical activity that occurred in 2020 such as the \$12.2 million distribution to Authority JPA parties of 2019 Net Revenue, in addition to \$955,909 in costs related to issuance of the 2020 Revenue Bond. Capital reimbursements decreased \$7.4 million as major multi-year capital efforts including the Hell Hole Dam Core Raise and Communications Upgrade projects were substantially completed during 2020. Operating reimbursements increased \$4.6 million as the Authority reimbursed the Agency for a \$3.2 million discretionary payment towards the Agency's unfunded pension liability for the employees of the power division which operate the MFP.

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 \$30.6 million. Capital assets of the MFP are owned by the

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Agency and more detail can be found in the Agency's audited financial statements available at the Agency's finance office.

LONG-TERM DEBT

During 2021, the Authority paid \$2.4 million towards outstanding principal on the 2020 Revenue Bonds. At December 31, 2021, the Authority had total long-term principal outstanding of \$58.3 million and bond premium outstanding of \$12.9 million. 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, 2021

ASSETS

Current assets:

Cash and investments (note 2)	\$ 72,255,020
Accounts receivable	5,435,222
Interest receivable	<u>193,279</u>
Total current assets	<u>77,883,521</u>

Non-current assets:

Investments (note 2)	8,636,880
Restricted cash and investments (note 2)	<u>25,496,162</u>
Total non-current assets	<u>34,133,042</u>

Total assets	<u>112,016,563</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	5,511,883
Interest payable	743,438
Current portion of long-term liabilities (note 4)	<u>3,854,095</u>
Total current liabilities	<u>10,109,416</u>

Non-current liabilities:

Revenue Bonds, including premiums/discounts (note 4)	<u>67,283,752</u>
Total non-current liabilities	<u>67,283,752</u>

Total liabilities	<u>77,393,168</u>
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NET POSITION

Restricted for Operational Reserve	15,130,655
Restricted for debt service	<u>10,365,507</u>
Total restricted net position	25,496,162
Unrestricted	<u>9,127,233</u>
Total net position	<u>\$ 34,623,395</u>

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2021

OPERATING REVENUES	
Power sales	\$ 47,363,137
Total operating revenues	47,363,137
OPERATING EXPENSES	
Reimbursements for Middle Fork Project - Operations	26,426,449
Reimbursements for Middle Fork Project - Capital	8,995,361
Administrative and general	120,472
Total operating expenses	35,542,282
Operating income (loss)	11,820,855
NON-OPERATING REVENUES (EXPENSES)	
Investment income (loss)	(270,438)
Interest expense	(1,529,508)
Other income (expense)	74
Total non-operating revenues (expenses)	(1,799,872)
Increase in net position	10,020,983
Net position, beginning of year	24,602,412
Net position, end of year	\$ 34,623,395

See accompanying notes to financial statements.

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Statement of Cash Flows

For the year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 43,699,104
Cash paid to suppliers for goods and services	<u>(36,203,067)</u>
Net cash provided by (used for) operating activities	<u>7,496,037</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payment on debt	(2,360,000)
Interest payment on debt	<u>(2,973,750)</u>
Net cash provided by (used for) capital and related financing activities	<u>(5,333,750)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(27,233,014)
Proceeds from maturity of investments	23,600,000
Investment income	<u>911,430</u>
Net cash flows from investing activities	<u>(2,721,584)</u>

Net increase (decrease) in cash and cash equivalents	(559,297)
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Cash and cash equivalents, beginning of year	<u>12,408,169</u>
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Cash and cash equivalents, end of year	<u><u>\$ 11,848,872</u></u>
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(Continued)

See accompanying notes to financial statements.

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Statement of Cash Flows

For the year ended December 31, 2021

Reconciliation of operating income (loss) to net cash provided by
(used for) operating activities:

Operating income (loss)	\$ 11,820,855
Adjustments to reconcile operating income (loss) to cash flows provided by (used for) operating activities:	
Other non-operating income	74
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,664,033)
Increase (decrease) in accounts payable and other liabilities	<u>(660,859)</u>
Net cash provided by (used for) operating activities	<u><u>\$ 7,496,037</u></u>

Reconciliation to Statement of Net Position:

Cash and investments	\$ 72,255,020
Restricted cash and investments	25,496,162
Investments	<u>8,636,880</u>
Less long-term investments	(94,539,190)
Total cash and cash equivalents	<u><u>\$ 11,848,872</u></u>

Non-cash investing, capital and financing activities:

Change in fair value of investments	(1,052,380)
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See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

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

For accounting purposes, the Authority is a special-purpose governmental entity that is engaged in a business-type activity, principally as a supplier of wholesale electricity. As such, the Authority's financial statements are presented as an enterprise type fund. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). 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.

Proprietary funds are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets, and deferred outflows of resources; and liabilities and deferred inflows of resources associated with operations are included on the statement of net position, and revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Statement of Net Position – The statement of net position is designed to display the financial position of the Agency. The Agency's net position is segregated into three categories defined as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets,

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

including restricted capital assets, net of accumulated depreciation and deferred outflows of resources; reduced by the outstanding balances of debt and deferred inflows of resources that are attributable to the acquisition, construction or improvement of these assets. This investment in capital assets is considered non-expendable.

- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. Amounts included as unrestricted net position are available for designation for specific purposes as established by the Authority’s Board of Directors.

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. These statements distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses, and non-operating revenues (expenses).

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.

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

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

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.

Reserves

The Authority has established various funded reserves, in accordance with bond indentures, project agreements, and prudent utility practice, for anticipated periodic operating costs and related liabilities including, but not limited to, scheduled maintenance other than ordinary repairs and replacements. Changes to reserve levels are periodically evaluated during the annual budgeting process.

Capital Reserve – assigned by policy to provide funds for appropriation of unforeseen and unplanned capital needs.

Emergency Reserve – assigned by policy for significant unforeseen needs or events. This amount is currently only intended to meet certain insurance deductible amounts.

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

Changes in long-term reserves for the year ended December 31, 2021, are as follows:

	Balance	Year-to-Date	Year-End	Balance
	1/1/2021	Use	Funding	12/31/2021
Capital Reserve	\$ 20,000,000	-	-	20,000,000
Emergency Reserve	2,000,000	-	-	2,000,000
Operating Reserve	28,490,238	-	1,771,071	30,261,309
Total	\$ 50,490,238	-	1,771,071	52,261,309

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

3. Cash and Investments

Cash and investments as of December 31, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and Investments	\$ 72,255,020
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Non-current Assets:

Investments	8,636,880
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Restricted Cash and Investments	<u>25,496,162</u>
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Total	<u><u>\$ 106,388,062</u></u>
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Cash and investments as of December 31, 2021 consist of the following:

Deposits with Financial Institutions	\$ 1,282,045
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Investments	<u>105,106,017</u>
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Total	<u><u>\$ 106,388,062</u></u>
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MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

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, 2021

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	\$ 6,032,400	3,002,400	3,030,000	-
U.S. Government Agencies - Primary	15,116,410	3,013,590	3,993,840	8,108,980
U.S. Government Agencies - Secondary	5,839,848	2,736,828	3,103,020	-
Money Market Mutual Funds	201,320	201,320	-	-
CA State Municipalities	5,531,695	-	3,074,970	2,456,725
LAIF	62,018,837	62,018,837	-	-
Held by bond trustee:				
Money Market	10,365,507	10,365,507	-	-
Total Investments	\$ 105,106,017	81,338,482	13,201,830	10,565,705

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2021

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, 2021, 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	\$ 6,032,400	N/A	6,032,400	-	-
U.S. Government Agencies - Primary	15,116,410	N/A	15,116,410	-	-
U.S. Government Agencies - Secondary	5,839,848	N/A	5,839,848	-	-
Money Market Mutual Funds	201,320	AA-m	201,320	-	-
CA State Municipalities	5,531,695	N/A	-	5,531,695	-
LAIF	62,018,837	N/A	-	-	62,018,837
Held by bond trustee:					
Money Market	10,365,507	AA-m	10,365,507	-	-
Total	<u>\$ 105,106,017</u>		<u>37,555,485</u>	<u>5,531,695</u>	<u>62,018,837</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	11.4%	\$ 12,102,820
Private Export Funding	U.S. Government Agencies - Secondary	5.6%	5,839,848

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 units by pledging securities in an undivided collateral pool held by a depository regulated under state

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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 \$1,032,045, 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 \$62,018,837 at December 31, 2021.

Included in the LAIF's investment portfolio at December 31, 2021, 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, 2021, the amount invested by all public agencies in the LAIF totaled \$181.4 billion, which includes asset-backed securities totaling \$2.1 billion (1.16%). At December 31, 2021, the average days to maturity was 332 days.

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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, 2021:

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	\$ 6,032,400	6,032,400	-	-
U.S. Government Agencies - Primary	15,116,410	-	15,116,410	-
U.S. Government Agencies - Secondary	5,839,848	-	5,839,848	-
CA State Municipalities	5,531,695	-	5,531,695	-
Total Investments at Fair Value	32,520,353	6,032,400	26,487,953	-
Investments with Uncategorized Inputs				
LAIF	62,018,837			
Money Market Mutual Funds	201,320			
Money Market - Held by Bond Trustee	10,365,507			
Total Investments Measured Uncategorized	72,585,664			
Total Investments	\$ 105,106,017			

4. Long-term Liabilities

The following is a schedule of long-term debt for the year ended December 31, 2021:

	Balance January 1, 2021	Additions	Retirements	Balance December 31, 2021	Amount Due Within One Year	Non- Current Amount
Revenue Bonds	\$ 60,635,000	-	2,360,000	58,275,000	2,480,000	55,795,000
2020 Bond Premium	14,292,589	-	1,429,742	12,862,847	1,374,095	11,488,752
Long-term Liabilities	\$ 74,927,589	-	3,789,742	71,137,847	3,854,095	67,283,752

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.

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As of December 31, 2021, annual debt service requirements to maturity are as follows:

Year Ending	Series 2020 Refunding Bonds	
December 31:	Principal	Interest
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	3,030,000	2,302,000
2027-2031	17,665,000	9,011,375
2032-2036	26,860,000	3,888,500
Add: Unamortized Premium, net	12,862,847	-
Total	\$ 71,137,847	25,818,625

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, 2021, the total principal and interest remaining on the debt is \$84.1 million with an average annual debt service 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 \$5.3 million and \$47.4 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.

Restricted Net Position

As of December 31, 2021 the Authority had the following restrictions to net position:

Restricted Cash and Investments held by Bond Trustee	\$ 10,365,507
Restricted Operational Reserve held by the Authority	15,130,655
Total - Restricted Net Position	\$ 25,496,162