

MIDDLE FORK PROJECT FINANCE AUTHORITY

Financial Statements

For the Year Ended December 31, 2022

(With Independent Auditor's Report Thereon)

MIDDLE FORK PROJECT FINANCE AUTHORITY

For the Year Ended December 31, 2022

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Independent Auditor's Report

Board of Directors
Middle Fork Project Finance Authority
Auburn, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Middle Fork Project Finance Authority ("Authority") as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2022 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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

The Authority's 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 one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, 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 the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

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 is the responsibility of management and, 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 5, 2023 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 solely 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 the effectiveness of 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.

Davis Ferr LLP

April 5, 2023
Irvine, California

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2022

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, 2022. 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. 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 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

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2022

indicator to determine the Agency's creditworthiness 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 12 through 21 of this report.

FINANCIAL ANALYSIS

Financial Position

During 2022, the Authority's net position increased \$30.7 million from \$34.6 million to \$65.3 million.

Statement of Net Position December 31, 2022

	2022	2021	Increase (Decrease)
Assets			
Cash and Cash Equivalents	\$ 16,280,492	11,848,872	4,431,620
Power Sales Receivable	1,376,597	5,435,222	(4,058,625)
Interest Receivable	734,527	193,279	541,248
Investments	118,192,286	94,539,190	23,653,096
Total Assets	\$ 136,583,902	112,016,563	24,567,339
Liabilities			
Accounts Payable	\$ 3,765,802	5,511,883	(1,746,081)
Interest Payable	697,438	743,438	(46,000)
Long-term Debt	66,767,883	71,137,847	(4,369,964)
Total Liabilities	71,231,123	77,393,168	(6,162,045)
Net Position			
Restricted	26,400,647	25,496,162	904,485
Unrestricted	38,952,132	9,127,233	29,824,899
Total Net Position	\$ 65,352,779	34,623,395	30,729,384

The restricted portion of the Authority's net position of \$26.4 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, 2022

Results of Operations

Changes in Net Position For the year-ending December 31, 2022

	2022	2021	Increase (Decrease)
Revenues			
Power Sales	\$ 62,387,720	47,363,137	15,024,583
Investment Income	(1,248,579)	(270,438)	(978,141)
Total Revenues	<u>61,139,141</u>	<u>47,092,699</u>	<u>14,046,442</u>
Expenses			
Reimbursements for MFP - Operating	24,933,526	26,426,449	(1,492,923)
Reimbursements for MFP - Capital	4,403,134	8,995,361	(4,592,227)
Interest on Long-term Debt	915,786	1,529,508	(613,722)
Administrative and General	157,311	120,398	36,913
Total Expenses	<u>30,409,757</u>	<u>37,071,716</u>	<u>(6,661,959)</u>
Change in Net Position (Deficit)	30,729,384	10,020,983	20,708,401
Net Position Beginning of Year	<u>34,623,395</u>	<u>24,602,412</u>	<u>10,020,983</u>
Net Position End of Year	<u>\$ 65,352,779</u>	<u>34,623,395</u>	<u>30,729,384</u>

The Authority ended the year with total revenues exceeding total expenses by \$30.7 million. 2022 Power Sales of \$62.4 million were \$15.0 million more than 2021 while total expenses of \$30.4 million reflected a decrease of \$6.7 million from 2021. Major contributing factors to this year's results are as follows:

- Power Sales revenue increased by \$15.0 million over 2021, \$14.9 million is directly related to energy sales. The Mosquito Fire, which started the evening of September 6 on the north side of the Oxbow reservoir forced PG&E to submit a Transmission Induced Generation Outage (TIGO) causing the MFP powerhouses to be unable to transmit power to the Grid (CAISO) for the remaining days of 2022. The results of the hydrologic conditions coupled with the continued TIGO has resulted in low overall 2022 generation, totaling 478,000 MWh, or 56% of the Middle Fork Project's 20-year average generation, 860,000 MWh. Generation, up until the start of the fire, was almost double what it was for the same period in 2021. Despite the lower generation and continuing below normal hydrologic conditions with only 87% of average annual precipitation, the significantly higher energy prices in 2022 pushed power sales higher.
- Total expenses decreased by a net \$6.7 million, operating costs reflect a \$1.5 million decrease which is largely attributed to a \$3.2 million lump-sum payment made in 2021 to the CalPERS unfunded accrued pension liability of the Agency's power division employees who operate the MFP netted with increases in FERC License implementation monitoring costs, insurance and cost share partnerships. Capital reimbursements decreased \$4.6 million as resources were prioritized for upcoming FERC required projects which were then delayed access to the Project was restricted and all staff resources were focused on the Mosquito Fire, recovery from the fire followed by heavy winter storms which wreaked havoc on MFP access roads. Operating reimbursements decreased \$1.5 million almost entirely related to a decrease in General & Administrative expenses from a decrease in overhead costs from a methodology change in the Agency's cost allocation plan.

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Management's Discussion and Analysis

December 31, 2022

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 \$61.0 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.

LONG-TERM DEBT

During 2022, the Authority paid \$2.5 million towards outstanding principal on the 2020 Revenue Bonds. At December 31, 2022, the Authority had total long-term principal outstanding of \$55.8 million and bond premium outstanding of \$10.9 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://mfdfa.pcwa.net/budgets-and-audits>.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Statement of Net Position

December 31, 2022

ASSETS

Current assets:

Cash and investments (note 3)	\$ 85,039,681
Power sales receivable	1,376,597
Interest receivable	<u>734,527</u>
Total current assets	<u>87,150,805</u>

Non-current assets:

Investments (note 3)	23,032,450
Restricted cash and investments (note 3)	<u>26,400,647</u>
Total non-current assets	<u>49,433,097</u>
Total assets	<u>136,583,902</u>

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	3,765,802
Interest payable	697,438
Current portion of long-term liabilities (note 4)	<u>4,359,254</u>
Total current liabilities	<u>8,822,494</u>

Non-current liabilities:

Revenue bonds, including premiums/discounts (note 4)	<u>62,408,629</u>
Total non-current liabilities	<u>62,408,629</u>
Total liabilities	<u>71,231,123</u>

NET POSITION

Restricted for operational reserve	15,875,370
Restricted for debt service	<u>10,525,277</u>
Total restricted net position	26,400,647
Unrestricted	<u>38,952,132</u>
Total net position	<u>\$ 65,352,779</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, 2022

OPERATING REVENUES	
Power sales	\$ 62,387,720
Total operating revenues	62,387,720
OPERATING EXPENSES	
Reimbursements for Middle Fork Project - Operations	24,933,526
Reimbursements for Middle Fork Project - Capital	4,403,134
Administrative and general	157,311
Total operating expenses	29,493,971
Operating income	32,893,749
NON-OPERATING REVENUES (EXPENSES)	
Investment income (loss)	(1,248,579)
Interest expense	(915,786)
Total non-operating revenues (expenses)	(2,164,365)
Increase in net position	30,729,384
Net position, beginning of year	34,623,395
Net position, end of year	\$ 65,352,779

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 66,446,345
Cash paid to suppliers for goods and services	<u>(31,240,052)</u>
Net cash provided by (used for) operating activities	<u>35,206,293</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payment on debt	(2,480,000)
Interest payment on debt	<u>(2,851,750)</u>
Net cash provided by (used for) capital and related financing activities	<u>(5,331,750)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(39,977,640)
Proceeds from maturity of investments	13,450,000
Investment income	<u>1,084,717</u>
Net cash flows from investing activities	<u>(25,442,923)</u>
Net increase (decrease) in cash and cash equivalents	4,431,620
Cash and cash equivalents, beginning of year	<u>11,848,872</u>
Cash and cash equivalents, end of year	<u>\$ 16,280,492</u>

(Continued)

See accompanying notes to financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2022

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

Operating income (loss)	\$ 32,893,749
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Adjustments to reconcile operating income (loss) to cash flows
provided by (used for) operating activities:

Change in assets and liabilities:

(Increase) decrease in power sales receivable	4,058,625
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Increase (decrease) in accounts payable and other liabilities	<u>(1,746,081)</u>
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Net cash provided by (used for) operating activities	<u>\$ 35,206,293</u>
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Reconciliation to Statement of Net Position:

Cash and investments	\$ 85,039,681
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Restricted cash and investments	26,400,647
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Investments	<u>23,032,450</u>
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Less long-term investments	(118,192,286)
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Total cash and cash equivalents	<u>\$ 16,280,492</u>
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Non-cash investing, capital and financing activities:

Change in fair value of investments	(2,874,544)
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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, 2022

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:

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2022

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

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2022

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.

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 reserves for the year ended December 31, 2022, are as follows:

	Balance 1/1/2022	Year-to-Date Use	Year-End Funding	Balance 12/31/2022
Capital Reserve	\$ 20,000,000	(17,400,000)	2,456,589	5,056,589
Emergency Reserve	2,000,000	-	3,000,000	5,000,000
Operating Reserve	30,261,309	-	1,489,431	31,750,740
Total	\$ 52,261,309	(17,400,000)	6,946,020	41,807,329

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2022

3. Cash and Investments

Cash and investments as of December 31, 2022 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and Investments	\$ 85,039,681
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Non-current Assets:

Investments	23,032,450
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Restricted Cash and Investments	<u>26,400,647</u>
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Total	<u><u>\$ 134,472,778</u></u>
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Cash and investments as of December 31, 2022 consist of the following:

Deposits with Financial Institutions	\$ 2,345,033
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Investments	<u>132,127,745</u>
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Total	<u><u>\$ 134,472,778</u></u>
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MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2022

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	5 year	100%	50%
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, 2022

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	37 to 48 Months
U.S. Treasury Securities	\$ 2,940,930	2,940,930	-	-	-
U.S. Government Agencies	34,655,600	3,843,600	16,345,760	14,466,240	-
Corporate Notes	5,784,870	-	2,937,420	-	2,847,450
Money Market Mutual Funds	3,410,182	3,410,182	-	-	-
CA State Municipalities	5,266,790	2,955,840	2,310,950	-	-
LAIF	69,544,096	69,544,096	-	-	-
Held by bond trustee:					
Money Market	10,525,277	10,525,277	-	-	-
Total Investments	\$ 132,127,745	93,219,925	21,594,130	14,466,240	2,847,450
Percentage of portfolio:	100.0%	70.6%	16.3%	10.9%	2.2%

MIDDLE FORK PROJECT FINANCE AUTHORITY

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For the Year Ended December 31, 2022

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, 2022, 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	A	Not Rated
U.S. Treasury Securities	\$ 2,940,930	N/A	2,940,930	-	-	-
U.S. Government Agencies	34,655,600	N/A	31,722,920	-	-	2,932,680
Corporate Notes	5,784,870	Aa	-	-	5,784,870	-
Money Market Mutual Funds	3,410,182	AA-m	3,410,182	-	-	-
Bonds of Supranationals	-	AA	-	-	-	-
CA State Municipalities	5,266,790	N/A	-	5,266,790	-	-
LAIF	69,544,096	N/A	-	-	-	69,544,096
Held by bond trustee:						
Money Market	10,525,277	AA-m	10,525,277	-	-	-
Total	<u>\$ 132,127,745</u>		<u>48,599,309</u>	<u>5,266,790</u>	<u>5,784,870</u>	<u>72,476,776</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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percent of Portfolio</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Agencies	10.8%	\$ 14,288,210
Federal Home Loan Bank	U.S. Government Agencies	6.7%	8,844,360

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

MIDDLE FORK PROJECT FINANCE AUTHORITY

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For the Year Ended December 31, 2022

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 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 \$2,095,033, 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 \$69,544,096 at December 31, 2022.

Included in the LAIF's investment portfolio at December 31, 2022, 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, 2022, the amount invested by all public agencies in the LAIF totaled \$199.6 billion, which includes asset-backed securities totaling \$1.6 billion (0.84%). At December 31, 2022, the average days to maturity was 287 days.

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Notes to the Financial Statements
For the Year Ended December 31, 2022

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, 2022:

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	\$ 2,940,930	2,940,930	-	-
U.S. Government Agencies - Primary	34,655,600	-	34,655,600	-
Corporate Notes	5,784,870	-	5,784,870	-
CA State Municipalities	5,266,790	-	5,266,790	-
Total Investments at Fair Value	48,648,190	2,940,930	45,707,260	-
Investments with Uncategorized Inputs				
LAIF	69,544,096			
Money Market Mutual Funds	3,410,182			
Money Market - Held by Bond Trustee	10,525,277			
Total Investments Measured Uncategorized	83,479,555			
Total Investments	\$ 132,127,745			

4. Long-term Liabilities

The following is a schedule of long-term debt for the year ended December 31, 2022:

	Balance January 1, 2022	Additions	Retirements	Balance December 31, 2022	Amount Due Within One Year	Non- Current Amount
2020 Revenue	\$ 58,275,000	-	2,480,000	55,795,000	2,610,000	53,185,000
2020 Bond Premium	12,862,847	-	1,889,964	10,972,883	1,749,254	9,223,629
Long-term Liabilities	\$ 71,137,847	-	4,369,964	66,767,883	4,359,254	62,408,629

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.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2022

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.

As of December 31, 2022, annual debt service requirements to maturity are as follows:

Year Ending	<u>Series 2020 Refunding Bonds</u>	
<u>December 31:</u>	<u>Principal</u>	<u>Interest</u>
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	3,190,000	2,146,500
2028-2032	18,570,000	8,105,500
2033-2036	22,765,000	2,647,875
Add: Unamortized Premium, net	<u>10,972,883</u>	<u>-</u>
Total	<u>\$ 66,767,883</u>	<u>22,966,875</u>

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, 2022, the total principal and interest remaining on the debt is \$78.8 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 \$5.4 million and \$62.4 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, 2022 the Authority had the following restrictions to net position:

Restricted Cash and Investments held by Bond Trustee	\$ 10,525,277
Restricted Operational Reserve held by the Authority	<u>15,875,370</u>
Total - Restricted Net Position	<u>\$ 26,400,647</u>

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 Middle Fork Project Finance Authority (Authority), as of and for the year ended December 31, 2022, 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 5, 2023.

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) as a basis for designing 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 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.

Davis Farr LLP

Irvine, California
April 5, 2023