

A G E N D A

MIDDLE FORK PROJECT FINANCE AUTHORITY

**Thursday, July 18, 2013
10:00 a.m., Regular Meeting**

Placer County Water Agency
Business Center
144 Ferguson Road
Auburn, California

Members of the Board of Directors:

PLACER COUNTY WATER AGENCY

Primo Santini, District 2
Mike Lee, District 4, Vice-Chair

COUNTY OF PLACER

Robert Weygandt, District 2
Jim Holmes, District 3, Chair

A. Call to Order

1. Roll call
2. Pledge of Allegiance

B. Public Comment: Any member of the public may address the Authority Board on any matter within the jurisdictional authority of the Authority Board, or on any item of this agenda before or during the Authority Board's consideration of that item. Public comment is limited to three minutes per person or spokesperson of any group or such other time limit as may be imposed by the Chair in order to enable the Authority Board to complete its agenda within a reasonable period of time.

C. Agenda Review and Changes

D. Consent Calendar: All items listed under the consent calendar are considered to be routine and will be approved by one motion. There will be no separate discussion of these items unless a member of the Board, audience, or staff requests a specific item be removed from the consent calendar for separate action. Any item so removed will be taken up following the motion to approve the consent calendar.

Pg. 1 1. Approve February 21, March 7, and April 25, 2013, minutes.

Pg. 11 2. Receive and file Check Register 13-02 expenses disbursed.

Pg. 13 3. Receive and file Treasurer's Investment Report for the quarters ended March 31, 2013, and June 30, 2013.

E. General Items

- Pg. 17 1. Report on Middle Fork Project Operations; take action as appropriate.
- a. Unit availability and performance
 - b. California market conditions
 - c. Middle Fork Project market operations
- Pg. 19 2. Middle Fork Project Finance Authority year-to-date Budget and Actual Schedules through June 30, 2013. Take action as appropriate.
- a. Approve Budget Amendments in Exhibits A & B.
- Pg. 25 3. Receive audited Middle Fork Project Finance Authority Statements dated December 31, 2012, and Memorandum on Internal Control and Required Communications.

F. Remarks/Reports by Directors: In accordance with Government Code § 54954.2(a), Directors may make brief announcements or brief reports on their own activities. They may ask questions for clarification, make a referral to staff or take action to have staff place a matter of business on a future agenda.

G. Remarks/Reports by Legal Counsel

H. Remarks/Reports by Secretary

I. Remarks/Reports by Executive Director

J. Adjournment

THE NEXT RESOLUTION NUMBER IS 13-07

The administrative affairs of the MFP Finance Authority are managed by PCWA. Inquiries regarding the MFP Finance Authority should be directed to the PCWA General Manager's office (530) 823-4860 for reply.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact PCWA at (530) 823-4860. Notification by Friday noon preceding the meeting will enable the Authority to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR 35.102-35.104 ADA Title II]

In accordance with Government Code Sec. 54954.2(a) this notice and agenda were posted in the Agency's outdoor bulletin board at the Placer County Water Agency Business Center at 144 Ferguson Road, Auburn, California, on or before July 12, 2013.

Any writing that is a public record under the Public Records Act that relates to an agenda item for an open session of the Board meeting that is distributed less than 72 hours prior to the meeting will be made available for public inspection at the time the writing is distributed to any Board members. Also, any such writing will be available for public inspection at the Agency's office located at 144 Ferguson Road, Auburn, California, during normal business hours.

Tentative Schedule of Upcoming Middle Fork Project Finance Authority Board Meetings

- **Thursday, October 17, 2013, 10:00 a.m.** – Regular Board of Directors’ meeting at Placer County Water Agency Business Center, 144 Ferguson Road, Auburn, California.

**MINUTES
MIDDLE FORK PROJECT
FINANCE AUTHORITY**

**Thursday, February 21, 2013
10:00 a.m., Regular Meeting**

American River Room
Placer County Water Agency
144 Ferguson Road
Auburn, California

Members of the Board of Directors:

**Placer County Water Agency
Alex Ferreira, District 2
Mike Lee, District 4, Chair**

**Placer County
Robert Weygandt, District 2
Jim Holmes, District 3, Vice Chair**

Authority Personnel Present

Janet Goldsmith, General Counsel; Einar Maisch, Agency Director; David Boesch, Secretary.

County of Placer Staff Present

Gerald Carden, County Counsel; Jenine Windeshausen, Treasure Tax Collector; Brett Storey, Sr. Management Analyst; Beverly Roberts, Clerk.

Placer County Water Agency Staff Present

Joseph Parker, Treasurer; Andy Fecko, Director of Resource Development; Michael Willihnganz, Director of Administrative Services; Bryan Dilts, Hydro Engineer

Others Present

Dean Tibbs, Advanced Energy Strategies

A. Call to Order

1. Roll call: Beverly Roberts, Clerk.
2. Pledge of Allegiance: Einar Maisch, Agency Director of Strategic Affairs
3. Election of Chair and Vice-Chair 2013

February 21, 2013
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MFP Finance Authority

Motion by Director Lee nominating Director Holmes as 2013 Chair, second by Director Weygandt and approved by all Directors.

Motion by Director Weygandt nominating Director Lee as 2013 Vice Chair, second by Director Holmes and approved by all Directors.

B. Public Comment: None.

C. Agenda Review and Changes: None.

D. Consent Calendar:

1. Approve November 15, 2012, minutes.
2. Receive and file Check Register 13-01 expenses disbursed.
3. Receive and file Treasurer's Investment Reports for the quarter ended December 31, 2012.

Motion by Director Holmes to approve Consent Calendar, motion second by Director Weygandt and unanimously approved by all Directors present.

4. Adopt **Resolution 13-__Adopting the Annual Investment Policy.**

Discussions by all Directors to approve the Authority's 2013 Investment Policy.

Roll call vote: Unanimous/Ayes (Holmes, Lee, Weygandt, Ferreira)
Approved adoption of Resolution 13-01.

E. General Items

1. Receive report on power marketing and license implementation management. Take action as appropriate.

Director of Resource Development gave an update on:

- California Public Utilities Commission's (CPUC) approval of the Power Purchase Agreement
- Grid interconnection agreements with PG&E and the California Independent System Operator (CAISO).

Some discussions by Directors. No action needed.

2. Receive report on power generation, operations, and maintenance. Take action as appropriate.

Resource Planning Administrator gave an update on the Federal Energy Regulatory Commission licensing (FERC), implementation activities related to the new power sale agreement with PG&E, 2013 California energy market conditions, operations and maintenance considerations, and renewal and replacement projects.

Some discussions and questions by Directors. No action needed.

3. Receive report on the preparation of Middle Fork Project Finance Authority policies. Take action as appropriate.

Agency Treasurer gave a summary update on the status of the Middle Fork Project Finance Authority policies. No action needed.

4. Receive and file Middle Fork Project Finance Authority and Middle Fork Project Relicensing Project year-to date Budget and Actual Schedules through February 12, 2013. Take action as appropriate.

Agency Treasurer gave a briefing on the Middle Fork Project Finance Authority and Middle Fork Project Relicensing Project year-to date Budget and Actual Schedules through February 12. Some discussions by Directors. No action needed.

- F. Reports by Directors: None.
- G. Reports by Legal Counsel: None.
- H. Reports by Secretary: None.
- I. Reports by Executive Director: None.
- J. Adjournment: 10:22 a.m.

Chairman Lee moved to adjourn meeting, second by Director Ferreira and unanimously approved by all Directors present. Meeting adjourned at 10:22 a.m.

David Boesch, Secretary

Date

Beverly Roberts, Clerk

Date

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**MINUTES
MIDDLE FORK PROJECT
FINANCE AUTHORITY**

**Thursday, March 7, 2013
1:00 p.m., Adjourned Meeting**

Board of Supervisors' Chambers
Placer County Administrative Center
175 Fulweiler Avenue
Auburn, California

Members of the Board of Directors:

PLACER COUNTY WATER AGENCY

Gray Allen, District 2
Mike Lee, District 4, Vice-Chair

COUNTY OF PLACER

Robert Weygandt, District 2
Jim Holmes, District 3, Chair

Authority Personnel Present

Janet Goldsmith, General Counsel; Einar Maisch, Agency Director; David Boesch, Secretary.

County of Placer Staff Present

Gerald Carden, County Counsel; Brett Storey, Sr. Management Analyst; Beverly Roberts, Clerk.

Placer County Water Agency Staff Present

Joseph Parker, Treasurer; Andy Fecko, Director of Resource Development;

- A. Call to Order
1. Roll call: Beverly Roberts, Clerk
 2. Pledge of Allegiance: Beverly Roberts, Clerk
- B. Public Comment: None
- C. Agenda Review and Changes: None
- D. General Items
1. Receive report on power marketing and license implementation management.
Take action as appropriate.

a. **Adopt Resolution 13-02 of the Board of Directors of the Middle Fork Project Finance Authority Approving an Interim Power Purchase Agreement with Pacific Gas and Electric Company.**

Director of Resource Development gave a background of the negotiation and approval process of a new Power Purchase Agreement with Pacific Gas and Electric (PG&E) company, noting that despite interventions by PG&E and PCWA legal & regulatory counsel on a regular basis, the California Public Utilities Commission (CPUC) failed to act in a timely manner and therefore the Agency and PG&E faced the prospect of not having approval of the Agreement by the May 1 contract start date. He noted it was necessary to put in place an interim agreement to bridge the period between May 1 and the date that the long-term Agreement is approved by CPUC.

Discussions by all Directors.

Roll call vote: Unanimous/Ayes (Holmes, Lee, Weygandt, Allen)
Approved adoption of Resolution 13-02.

- E. Reports by Directors: None
- F. Reports by Legal Counsel: None
- G. Reports by Secretary: None
- H. Reports by Executive Director: None
- I. Adjournment: 1:15 p.m.

Chairman Holmes moved to adjourn meeting, second by Director Lee and unanimously approved by all Directors present. Meeting adjourned at 1:15 p.m.

David Boesch, Secretary

Date

Beverly Roberts, Clerk

Date

**MINUTES
MIDDLE FORK
PROJECT FINANCE
AUTHORITY**

**Thursday, April 25, 2013
10:00 a.m., Adjourned Meeting**

Placer County Water Agency
Business Center
144 Ferguson Road
Auburn, California

Members of the Board of Directors:

PLACER COUNTY WATER AGENCY

Grey Allen, District 2
Mike Lee, District 4, Vice-Chair

COUNTY OF PLACER

Robert Weygandt, District 2
Jim Holmes, District 3, Chair

Authority Personnel Present

Janet Goldsmith, General Counsel; Einar Maisch, Agency Director; David Boesch, Secretary.

County of Placer Staff Present

Gerald Carden, County Counsel; Brett Storey, Sr. Management Analyst; Beverly Roberts, Clerk.

Placer County Water Agency Staff Present

Joseph Parker, Treasurer; Andy Fecko, Director of Resource Development;

A. Call to Order

1. Roll call: Beverly Roberts, Clerk
2. Pledge of Allegiance: Einar Maisch, Director of Strategic Affairs

B. Public Comment: None.

C. Agenda Review and Changes: None.

D. General Items

1. Consider and **Adopt Resolution 13-__ approving the Middle Fork Project Finance Authority (MFPFA) General Administrative Policies.**

Principal Management Analyst gave a briefing on the finalized three policy documents for consideration by the MFPFA, noting Placer County & Placer County Water Agency staffs have jointly worked on these documents:

- General Administrative Policies
- General Financial Policies
- Project Operations Protection Policies

He further noted these policies are necessary to formalize several important procedures related to the administration of the MFPFA.

Roll call vote: Unanimous/Ayes (Allen, Holmes, Lee, Weygandt,)
Approved adoption of Resolution 13-03.

2. Consider and Adopt **Resolution 13-__ approving the MFPFA General Financial Policies.**

Roll call vote: Unanimous/Ayes (Lee, Weygandt, Holmes, Allen)
Approved adoption of Resolution 13-04.

3. Consider and Adopt **Resolution 13-__ approving the MFPFA Project Operations Protection Policies.**

Roll call vote: Unanimous/Ayes (Weygandt, Lee, Holmes, Allen)
Approved adoption of Resolution 13-05.

4. Rescind Resolution 06-01 and adopt **Resolution 13-__ approving a new MFPFA regular Board meeting schedule.**

Director of Resource Development gave a background on the February 2006 Board adoption of Resolution No. 06-01 establishing regular meeting dates the third Thursdays of February, May, August, and November of each year. He noted to meet Agency and County budgeting and reporting deadlines, staff is recommending moving meetings to the third Thursday of January, April, July, and October of each year. He further noted that the time of 10:00 a.m. and location of the Placer County Water Agency Administrative Center in Auburn would remain the unchanged.

Roll call vote: Unanimous/Ayes (Lee, Weygandt, Holmes, Allen)
Approved adoption of Resolution 13-06.

5. Review and approve a Planning and Scheduling Protocol for the Middle Fork Project

Director of Resource Development gave a briefing on the Interim Planning and Scheduling Protocol.

Director of Strategic Affairs gave a detailed summary of the Energy Transaction Working Group Protocol, covering the following items:

- Working Group Composition – noted the General Manager of the Placer County Water Agency and the County Executive Officer of the County of Placer shall each designate representatives of their respective organization as an energy transaction working group of the MFPFA.
- Purpose of Working Group – detailed coverage on the duties and responsibilities of this group and to include a presentation to the Authority Board by August 1, 2014 a proposed power sales policy and protocol.
- Terms of Operation – noted Working Group shall have their first meeting by May 3, 2013 and the Working Group shall make a report to the Authority Board at each of their regular meetings subsequent to May 1, 2013.

Discussions by all Directors.

Motion by Director Allen approving the Planning and Scheduling Protocol for the Middle Fork Project, second by Director Weygandt and approved by all Directors.

E. Reports by Directors: None.

F. Reports by Legal Counsel: None.

G. Reports by Secretary: Agency Secretary noted a thank you to both Placer County Water Agency and Placer County Staff for their collaboration and hard work on this project throughout the years.

H. Reports by Executive Director: Agency Director agreed this project has been the work of the two agencies working together to bring this project to fruition. Agency Director gave a reminder that the 50th Anniversary celebration of the Placer County Water Agency's Middle Fork American River Hydroelectric Project was upcoming on Thursday, May 2 at 4:00 p.m. at the Placer County Water Agency Business Center.

I. Adjournment:

Chairman Holmes moved to adjourn meeting, second by Director Lee and unanimously approved by all Directors present. Meeting adjourned at 10:45 a.m.

David Boesch, Secretary

Date

Beverly Roberts, Clerk

Date

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CHECK REGISTER 13-02

MIDDLE FORK PROJECT FINANCE AUTHORITY

The Board of Directors of the Middle Fork Project Finance Authority as of this date 7/18/2013, do hereby receive and file the following check register listing for the period from 2/9/2013 to 7/5/2013 from the MFP Finance Authority Checking Account.

PAYEE	DESCRIPTION	AMOUNT
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	930,129.01
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	894,501.30
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	724,620.75
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	593,886.54
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	411,026.98
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	261,132.59
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	231,384.82
PLACER COUNTY WATER AGENCY	RELICENSING REIMBURSEMENT	140,266.41
MAZE & ASSOCIATES	PROFESSIONAL SERVICES	5,920.00
KRONICK MOSKOVITZ TIEDEMANN	LEGAL SERVICES	5,512.30
KRONICK MOSKOVITZ TIEDEMANN	LEGAL SERVICES	2,875.00
KRONICK MOSKOVITZ TIEDEMANN	LEGAL SERVICES	2,325.00
MAZE & ASSOCIATES	PROFESSIONAL SERVICES	1,497.00
KRONICK MOSKOVITZ TIEDEMANN	LEGAL SERVICES	525.00
ADVANTAGE PRINT MARKETING AND PRINTING EXPENSE		271.44
	TOTAL	\$4,205,874.14

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M E M O R A N D U M

TO: Board of Directors
FROM: Joseph Parker, CPA, Treasurer *JHP*
DATE: July 10, 2013
RE: Treasurer's Investment Report – March 31, 2013 and June 30, 2013
CC:

Attached is the Middle Fork Project Finance Authority's investment portfolio summary at March 31, 2013 and June 30, 2013.

The cash and investments held in the portfolio are in accordance with the Investment Policy of the Middle Fork Project Finance Authority. The ability of the Middle Fork Project Finance Authority to meet cash flows is demonstrated by all the funds in liquid accounts.

The attached schedules were prepared in Excel as the Sympro Software was unavailable to meet the Board Agenda deadline. Although the format is very similar, in the future the usual Sympro report format will be provided.

The Middle Fork Project Authority funds continue to be invested short term to meet anticipated cash flow projections.

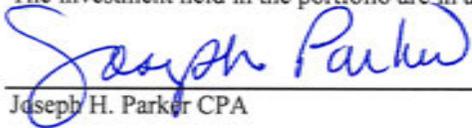
At March 31, 2013 and June 30, 2013, the MFP Finance Authority's investment funds were held at Union Bank in a Premier Checking Account (interest bearing) and in the Local Agency Investment Fund (State's Investment Pool). As such, the par value, book value and market value are the same.

Recommended Action: Receive and file.

**MFP Finance Authority
Portfolio Management
Portfolio Summary
March 31, 2013**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Mat/Call	YTM 365 Equiv
Local Agency Investment Fund	5,966,646.27	5,966,646.27	5,966,646.27	79.50%	1	1	0.285
Checking Accounts	1,538,647.22	1,538,647.22	1,538,647.22	20.50%	1	1	0.100
Total Cash and Investments Value	7,505,293.49	7,505,293.49	7,505,293.49	100.00%	1	1	0.247
Total Earnings	Fiscal Year to Date						
Current Year	4,155.28						
Average Daily Balance	6,835,793.02						

The investment held in the portfolio are in accordance with the investment policy of the Middle Fork Project Finance Authority.



 Joseph H. Parker CPA

**MFP Finance Authority
Portfolio Management
Portfolio Summary
June 30, 2013**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Mat/Call	YTM 365 Equiv
Local Agency Investment Fund	4,470,801.55	4,470,801.55	4,470,801.55	48.41%	1	1	0.244
Checking Accounts	4,763,975.30	4,763,975.30	4,763,975.30	51.59%	1	1	0.100
Total Cash and Investments Value	9,234,776.85	9,234,776.85	9,234,776.85	100.00%	1	1	0.170

Total Earnings	Fiscal Year to Date
Current Year	4,155.28 *
Average Daily Balance	7,700,534.95

* The June 30, 2013 interest earning from LAIF was not yet available at the time of publication.

The investment held in the portfolio are in accordance with the investment policy of the Middle Fork Project Finance Authority.



 Joseph H. Parker CPA

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M E M O R A N D U M

TO: Middle Fork Finance Authority
FROM: Andrew Fecko, Director of Resource Development
DATE: July 10, 2013
RE: Middle Fork Project Operations Update
CC:

RECOMMENDATION

Information item—no action necessary.

BACKGROUND

Staff will provide a presentation on 2013 Middle Fork Project operations.

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M E M O R A N D U M

TO: Board of Directors

FROM: Joseph H. Parker, CPA 

DATE: July 10, 2013

RE: 2013 BUDGET AND ACTUAL SCHEDULES

CC:

Attached for the Board's information are three year-to-date Budget and Actual schedules as follows:

Exhibit A – MFP Finance Authority Budget Schedule through June 30, 2013. This schedule summarizes the MFP Finance Authority year-to-date budget and actual activity.

Exhibit B – PCWA MFP Relicensing, Power Resources Management (Business Marketing Plan) and Betterments, Improvements and Modernizations Projects Project-to-Date Budget and Expenses through June 30, 2013. PCWA manages and administers these projects and are included here because they are funded by the MFP Finance Authority.

This schedule summarizes the Project budget and expense for 1) Relicensing 2) Power Resources Management (formerly Business & Marketing Plan) and 3) Betterments, Improvements and Modernizations. As the scope of these activities is multi-year, the project-to-date budget and expense information is included. More details on the MFP Relicensing Project are exhibited in **Exhibit C**.

Exhibit C – PCWA Middle Fork American River Project Relicensing Project Budget and Expenses through June 30, 2013. This schedule includes the category and task detail for the 2013 Budget, 2012 and prior budgets and project-to-date budget, expense and available budget. The Relicensing Budget totals \$39.1 million and expenses-to-date total \$37,767,489.

Exhibit D – MFP Finance Authority Reserve Accounts through June 20, 2013. This schedule summarizes the MFP Finance Authority Reserve Accounts 2013 funding targets and year-to-date activity.

Recommended Action: Receive and file report and approve project level budget amendments (Exhibit B).

MIDDLE FORK PROJECT FINANCE AUTHORITY

2013 Budget and Actual Schedule

Exhibit A

	2013 Adopted Budget	2013 Budget Amendments	2013 Adjusted Budget	2013 Year-to-Date Actual (June 30, 2013)
Revenues and Other Financing Sources:				
Power Sales	\$ 38,000,000	(5,300,000) (1)	32,700,000	7,520,092
Bond Proceeds Including Interest Expense (New Draws)	4,997,697	390,774 (2)	5,388,471	3,681,041
Interest Income	200,000	-	200,000	4,571
Total Revenues and Other Financing Sources	<u>43,197,697</u>	<u>(4,909,226)</u>	<u>38,288,471</u>	<u>11,205,704</u>
Expenditures:				
Administration:				
Office Supplies	5,000	-	5,000	-
Professional Services	95,000	-	95,000	44,250
Bond Interest	2,789,697	390,774	3,180,471	1,473,041
Total Administration Expenditures	<u>2,889,697</u>	<u>390,774</u>	<u>3,280,471</u>	<u>1,517,291</u>
Draws Appropriated to Projects:				
MFP Relicensing	165,000	-	165,000	165,000
Power Resources Management (Business & Marketing Plan)	400,000	-	400,000	400,000
MFP Infrastructure Projects	1,643,000	-	1,643,000	1,643,000
Total Draws Appropriated to Projects	<u>2,208,000</u>	<u>-</u>	<u>2,208,000</u>	<u>2,208,000</u>
Appropriation - PCWA Power Division:				
Power Operations	10,938,141	88,000 (3)	11,026,141	1,948,514
Natural Resources Management	2,412,851	-	2,412,851	267,282
Power Resources Management	1,171,185	(88,000) (3)	1,083,185	130,255
Routine Capital	706,100	-	706,100	30,635
Minor Capital Projects	-	-	-	-
Major Capital Projects > \$1m	6,449,000	-	6,449,000	312,990
Total Appropriation - PCWA Power Division	<u>21,677,277</u>	<u>-</u>	<u>21,677,277</u>	<u>2,689,676</u>
Total Expenditures	<u>26,774,974</u>	<u>390,774</u>	<u>27,165,748</u>	<u>6,414,967</u>
Reserve Funding	<u>20,458,697</u>	<u>(3,167,946)</u>	<u>17,290,751</u>	<u>-</u>
Use of Carryover From Prior Year	<u>4,035,974</u>	<u>2,132,054</u> (4)	<u>6,168,028</u>	<u>-</u>
Net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>4,790,737</u>

Notes:

- (1) The decrease in 2013 Power Sales Revenue is based on revised energy price forecast and actual MFP hydrology for 2013.
- (2) The capitalized bond interest expense attributed to bond proceeds has been updated to reflect current interest rates.
- (3) Transfer of budget from Power Resources Management to Power Operations for professional services contract for settlement services.
- (4) Carryover From Prior Year adjusted based on final year-end audit report.

PLACER COUNTY WATER AGENCY
Relicensing, Power Resources Management and MFP Infrastructure Projects
As Funded by the Middle Fork Project Finance Authority

Exhibit B

Project No.	Project Description (Note 2)	Project-to-Date Budget (Note 1)	2013 Budget Amendments	Project-to-Date Adjusted Budget (Note 1)	Project-to-Date Expenses (June 30, 2013)	Project-to-Date Available Budget
13003P	CMMS Implementation	\$ -	62,500	62,500	22,438	40,063
12015A	Communications Upgrades	1,825,000		1,825,000	306,574	1,518,426
12005P	French Meadows Fall Protection	100,000		100,000	-	100,000
	French Meadows Tunnel Intake Inspection	25,000		25,000	-	25,000
09009A	Hell Hole Seasonal Storage	685,000		685,000	319,930	365,070
12016P	Hell Hole Substation	300,000		300,000	-	300,000
12006P	IBAY/ABAY Elevation Instrumentation Replacement	50,000		50,000	-	50,000
12006P	IBAY/ABAY Inclinometer Replacement	20,000		20,000	-	20,000
12006P	Interbay Gate Control Replacement	50,000		50,000	-	50,000
12002P	L.L. Anderson Low Level Pipe Inlet Gate Modification	250,000		250,000	-	250,000
09023A	L.L. Anderson Spillway Modification (Note 3)	20,210,000		20,210,000	18,740,539	1,469,461
12019A	License Implementation and Permitting	450,000	74,974	524,974	524,974	-
01030A	MFP FERC Relicensing (See Detail on Exhibit C)	39,099,518		39,099,518	37,767,489	1,332,029
12017P	MFP Outlets Works Upgrades	390,000		390,000	98,889	291,111
	Middle Fork Powerhouse Cooling Water and Sump Pump Control Upgrades	50,000		50,000	-	50,000
	Middle Fork Unit Breakers	500,000		500,000	-	500,000
	Middle Fork, Ralston and French Meadows Penstock Interior Inspection	100,000		100,000	-	100,000
	NERC/WECC Compliance Support	155,000		155,000	-	155,000
13010P	New Trails	95,000		95,000	8,521	86,479
	North Fork Long Canyon Intake Sediment Removal	50,000		50,000	-	50,000
	Oxbow Cooling Water Strainer Upgrades	100,000		100,000	-	100,000
13008P	Oxbow Governor Upgrade	450,000	(62,500)	387,500	8,521	378,979
	Oxbow RTU Replacement	125,000		125,000	-	125,000
12004P	Oxbow Tunnel Intake Stem Straightening and Guides Replacement	50,000		50,000	-	50,000
	PG&E Engineering and Estimating	57,000		57,000	-	57,000
12023A	PI Data Server	325,000		325,000	26,186	298,814

PLACER COUNTY WATER AGENCY
Relicensing, Power Resources Management and MFP Infrastructure Projects
As Funded by the Middle Fork Project Finance Authority

Project No.	Project Description (Note 2)	Project-to-Date Budget (Note 1)	2013 Budget Amendments	Project-to-Date Adjusted Budget (Note 1)	Project-to-Date Expenses (June 30, 2013)	Project-to-Date Available Budget
08008A	Power Resources Management (Business and Marketing Plan)	3,542,000	(74,974)	3,467,026	2,789,173	677,853
12011P	Ralston Penstock Hillside Stability	150,000		150,000	87,947	62,053
	Ralston Transformer	1,500,000		1,500,000	-	1,500,000
	Ralston Tunnel Inspection (Brushy Canyon Adit) and Middle Fork Tunnel Rollout Section	150,000		150,000	-	150,000
	Recreation Facilities	45,000		45,000	-	45,000
12003P	Review Slope Stability Study Above Three Butterfly Valve Houses	50,000		50,000	-	50,000
12024A	RIG Installation	243,485		243,485	45,585	197,900
08006A	Risk Assessment and Management	435,000		435,000	91,505	343,495
12029A	SCADA Reliability Upgrades	450,000		450,000	-	450,000
12018P	Small Diversion Upgrades (Duncan Creek, North Fork of Long Canyon and South Fork of Long Canyon)	1,105,000		1,105,000	354,719	750,281
08007A	Standard Operating Plan and Procedures	2,025,000		2,025,000	924,248	1,100,752
TOTAL RELICENSING, POWER RESOURCES MANAGEMENT AND MFP INFRASTRUCTURE PROJECTS		\$ 75,207,003	-	75,207,003	62,117,238	13,089,766

Note 1: Project-to-Date Budget includes the 2013 full year appropriation as authorized by the Middle Fork Project Finance Authority.

Note 2: Projects reported on this schedule are current, active projects only.

Note 3: The L.L. Anderson Dam Spillway Modification project is reported at 100%. It is funded by the Middle Fork Project Finance Authority and PG&E, 60% and 40% respectively.

PLACER COUNTY WATER AGENCY

Middle Fork American River Project Relicensing

Project Budget and Expenses through June 30, 2013

Exhibit C

Category/Task	2013			2012 and Prior Budgets	PROJECT-TO-DATE		
	Original Budget	Budget Amendment	Amended Budget		Total Budget	Total Expenses June 30, 2013	Available Budget
	A	B	C=(A+B)		E=(C+D)	F	G=(E-F)
Preliminary Activities							
Relicensing Activities Prior to 2006	\$ -	-	-	3,589,673	3,589,673	3,589,673	-
General & Administrative (Project level)							
PCWA Direct Labor	40,000	-	40,000	2,896,819	2,936,819	2,765,310	171,509
MFP Finance Authority Administration	5,000	-	5,000	173,212	178,212	248,960	(70,748)
Placer County Direct Labor & Consultants	5,000	-	5,000	1,419,101	1,424,101	1,286,302	137,799
Program Coordination & Support - Consulting	50,000	-	50,000	4,637,891	4,687,891	3,945,139	742,752
Legal Services	20,000	-	20,000	428,024	448,024	455,292	(7,268)
Supplies & Services	5,000	-	5,000	1,060,634	1,065,634	1,138,819	(73,185)
Facilities	-	-	-	-	-	-	-
Contingency (working capital)	-	-	-	-	-	-	-
Category Total	125,000	-	125,000	10,615,681	10,740,681	9,839,822	900,859
Relicensing Process Activities							
Develop Relicensing Process Plan	-	-	-	45,040	45,040	45,040	-
Stakeholder Outreach	40,000	-	40,000	1,189,626	1,229,626	1,089,241	140,385
Settlement Negotiations	-	-	-	2,377,082	2,377,082	2,380,724	(3,642)
Category Total	40,000	-	40,000	3,611,748	3,651,748	3,515,005	136,743
Relicensing Project Description							
Resource Utilization Study	-	-	-	546,045	546,045	546,045	-
Develop Relicensing Project Description	-	-	-	349,859	349,859	349,859	-
Category Total	-	-	-	895,904	895,904	895,904	-
Existing Environment Studies							
Develop/Negotiate Study Plans	-	-	-	142,626	142,626	142,626	-
Water Temperature Study	-	-	-	116,040	116,040	116,040	-
Physical Habitat Characterization Study	-	-	-	1,359,511	1,359,511	1,359,511	-
Hydrology Studies & Model Development	-	-	-	902,429	902,429	907,866	(5,437)
Cultural Resource research	-	-	-	41,769	41,769	41,769	-
Category Total	-	-	-	2,562,375	2,562,375	2,567,812	(5,437)
Prepare Pre-Application Document (PAD)							
Prepare Existing Resource Information Report	-	-	-	655,163	655,163	655,163	-
Prepare Pre-Application Document (PAD)	-	-	-	434,735	434,735	434,735	-
Notice of Intent/Notice of Preparation (NOI/NOP)	-	-	-	29,960	29,960	29,960	-
Category Total	-	-	-	1,119,858	1,119,858	1,119,858	-
Technical Studies & Activities							
Develop/Negotiate Study Plans	-	-	-	1,285,883	1,285,883	1,285,883	-
Water Use/Water Quality	-	-	-	350,507	350,507	350,507	-
Geomorphology/Riparian Resources	-	-	-	787,005	787,005	787,005	-
Aquatic Resources	-	-	-	5,664,522	5,664,522	5,632,474	32,048
Terrestrial Resources	-	-	-	778,786	778,786	808,303	(29,517)
Recreation Resources	-	-	-	1,452,864	1,452,864	1,452,864	-
Land Management/Aesthetics	-	-	-	585,523	585,523	585,523	-
Cultural Resources	-	-	-	477,310	477,310	471,618	5,692
Mapping & GIS	-	-	-	797,947	797,947	800,272	(2,325)
Operations Modeling/Hydrology	-	-	-	827,735	827,735	804,122	23,613
Category Total	-	-	-	13,008,082	13,008,082	12,978,571	29,511
License Application							
Prepare License Application	-	-	-	2,170,049	2,170,049	2,152,191	17,858
Biological Assessment/Evaluation	-	-	-	71,148	71,148	50,015	21,133
Category Total	-	-	-	2,241,197	2,241,197	2,202,206	38,991
Post-License Application Activities							
Post-License Application Activities	-	-	-	1,000,000	1,000,000	872,666	127,334
401 Certification CEQA Process	-	-	-	290,000	290,000	185,972	104,028
Category Total	-	-	-	1,290,000	1,290,000	1,058,638	231,362
Total	\$ 165,000	-	165,000	38,934,518	39,099,518	37,767,489	1,332,029

MIDDLE FORK PROJECT FINANCE AUTHORITY

Schedule of Reserve Accounts

Exhibit D

June 30, 2013

	Reference	2013 Funding Target Per MFP FA Policy	Beginning Balance May 1, 2013	2013 Year-to-Date Activity Funded (Used) [Note 4]	Current Balance June 30, 2013
Operating Reserve	<i>Note 1</i>	\$ 18,300,000	-	-	-
Capital Reserve	<i>Note 2</i>	8,800,000	-	-	-
Emergency Reserve	<i>Note 3</i>	-	-	-	-
Total		<u>\$ 27,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note 1: The MFP FA General Financial Policies established a **Operating Reserve** with a target amount set at a minimum of one-year of operating expenses. This Operating Reserve target will likely vary annually with each budget and hence, the amount will vary accordingly. The 2013 target amount is based upon operational appropriations, not including capital.

Note 2: The MFP FA General Financial Policies established a **Capital Reserve** with a target amount that is based on the funding needs of Authorized and Planned Projects. The Capital Reserve account is intended to work as a sinking fund to provide funding for capital projects when needed, thus, this account will have frequent activity as capital projects are funded.

Note 3: The MFP FA General Financial Policies established a **Emergency Reserve** with a full funding target amount that will be based on an evaluation of resource needs. This funding target is pending the completion of a comprehensive study of a severe outage contingency.

Note 4: The reserve accounts will be funded in accordance with MFP FA General Financial Policies as resources are needed, at year-end or before any distributions of net revenue.



M E M O R A N D U M

TO: Board of Directors
FROM: Joseph Parker, CPA, Treasurer 
DATE: July 10, 2013
RE: 2012 Audited Middle Fork Project Finance Authority Financial Statements
CC:

Attached herewith are the Authority's financial statements audit for the year ending 2012, as well as, the auditor's the Memorandum on Internal Controls and Required Communications for the year.

As in the past, again, this year's audit has an unqualified "clean" audit opinion meaning the financial statements are fairly presented in conformity with the accounting principles.

Recommendation:

Receive and file the 2012 audited Financial Statement reports and Memorandum on Internal Control and Required Communications for the Middle Fork Project Finance Authority.

**MIDDLE FORK PROJECT
FINANCE AUTHORITY**

Financial Statements

**For the Year Ended
December 31, 2012**

(With Independent Auditor's Report Thereon)

MIDDLE FORK PROJECT FINANCE AUTHORITY

For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of the
Middle Fork Project Finance Authority
Auburn, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and debt service fund of the Middle Fork Project Finance Authority as of and for the year ended December 31, 2012, 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 the 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 Authority'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 Authority'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 Authority as of December 31, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 63-*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective during the year ended December 31, 2012 and required certain title changes to the Statement of Net Position and Statement of Activities. See Note 2 to the financial statements for the relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 March 8, 2013, 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.



Pleasant Hill, California
March 8, 2013

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2012

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, 2012. 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 of costs for the Middle Fork American River Hydroelectric Project (MFP) Federal Energy Regulatory Commission (FERC) Relicensing Project being lead by the Agency. 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 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 ends in 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 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.

Financial Highlights

On March 27, 2006, the Authority's Board approved the issuance of a bond in the maximum amount of \$100 million to finance the FERC Relicensing costs. Funds are provided by quarterly advanced draws based on budgeted funding needs. The Placer County Treasurer is the bondholder and the draws are added to the outstanding bond principal as well as capitalized interest, through 2015. The Authority draws are to pay Relicensing and other related expenses in conjunction with the FERC license renewal date in March 2013. The existing 50-year MFP power sales agreement with PG&E expires April 30, 2013, after which the Authority will receive revenues of the MFP electrical energy sales.

During 2012, the Authority drew a total of \$6.2 million, and remitted to the Agency \$1.0 million for Relicensing costs, \$2.3 million for Betterments, Improvements and Modernizations costs and \$0.8 million for the Power Resources Management (Business and Marketing Plan). At December 31, 2012, the outstanding bond principal balance, including capitalized interest expense totaled \$74.8 million.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2012

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) Government 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 Assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Through 2015, the Authority is the mechanism to finance the MFP Relicensing Project; hence, net assets will be negative as debt increases (Net Deficit).

The *Statement of Activities* presents the change in net assets 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 assets changed during the year.

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 9 through 16 of this report.

FINANCIAL ANALYSIS

Since its creation in January 2006 through the FERC Relicensing process anticipated ending in March 2013, the Authority's primary function is a financing conduit for the Relicensing and related expenses. Based on the 2006 Revenue Bond agreement and budgeted spending, funds are drawn from the Placer County Treasurer based on quarterly draw requests and reimbursed to the Agency based on submitted claim requests for their incurred Relicensing and related expenses. As the Agency will continue to own and operate the MFP and will hold title to the new FERC license, the relicensing project and other expenses are Agency expenses, thereby the County submits expense claims to the Agency for reimbursement and the Agency is reimbursed by the Authority.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2012

The drawn amounts together with the capitalized interest costs will be added to the debt principal.

Adopted Budget

Annually, the Authority's Board of Directors adopts a budget. The budget is comprised of MFP relicensing, betterments, improvements and modernizations, power resources management (business and marketing plan) and authority administration expenses. A 2012 adjusted budget in comparison with actual amounts is presented in Table 1 below:

**Table 1
Statement of Activities
2012 Budget vs. Actual**

	2012 Budget	2012 Actual	Variance	%
Revenues and Other Financing Sources:				
Bond Proceeds (New Draws)	\$ 9,030,678	8,892,907	(137,771)	-2%
Interest Income	34,500	10,919	(23,581)	-68%
Total Revenues and Other Financing Sources	9,065,178	8,903,826	(161,352)	-2%
Expenditures:				
Administration:				
Professional Services	34,500	59,443	(24,943)	-72%
Bond Interest	2,793,678	2,655,907	137,771	5%
Total Administration Expenditures	2,828,178	2,715,350	112,828	4%
Draws Appropriated to Projects:				
MFP Relicensing	1,335,000	971,632	363,368	27%
Power Resources Management	1,232,000	760,491	471,509	38%
MFP Infrastructure Projects	3,670,000	2,324,299	1,345,701	37%
Total Draws Appropriated to Projects	6,237,000	4,056,422	2,180,578	35%
Total Expenditures	9,065,178	6,771,772	2,293,406	25%
Total Revenues and Other Financing Sources Over (Under) Expenditures	\$ -	(2,132,054)	2,132,054	

* For financial statement presentation, proceeds from debt issuance (bond proceeds) has been adjusted out of the Statement of Activities.

**Until the debt conversion date of April 1, 2015, the debt interest cost is capitalized and accrues with the debt principal without any cash payments. The bond interest expense is an estimate because it is based on a floating interest rate and actual amounts will vary. As the bond documents bind the Authority, any variance between budget and actual will not require a budget adjustment.

LONG-TERM DEBT

At December 31, 2012, the Authority had total long-term debt outstanding of \$74.8 million. This amount is based on draw requests to provide financing of the MFP FERC Relicensing effort through the fourth quarter of 2012.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Management's Discussion and Analysis

December 31, 2012

NEXT YEAR'S BUDGET

Management and the Board assessed the available working capital, the Relicensing Project and other related expense needs of the Authority. Based on this assessment and management's recommendation, the annual budget was adopted by the Board. The Budget may be modified to meet changes in funding needs.

Table 2
2013 Budget vs. 2012 Actual

	2013 Budget	2012 Actual	Variance	%
Revenues and Other Financing Sources:				
Power Sales	\$ 38,000,000	-	(38,000,000)	-100%
Bond Proceeds (New Draws)	4,997,697	8,892,907	3,895,210	78%
Interest Income	200,000	10,919	(189,081)	-95%
Total Revenues and Other Financing Sources	43,197,697	8,903,826	(34,293,871)	-79%
Expenditures:				
Administration:				
Professional Services and Office Supplies	100,000	59,443	40,557	41%
Bond Interest	2,789,697	2,655,907	133,790	5%
Total Administration Expenditures	2,889,697	2,715,350	174,347	6%
Draws Appropriated to Projects:				
MFP Relicensing	165,000	971,632	(806,632)	-489%
Power Resources Management	400,000	760,491	(360,491)	-90%
MFP Infrastructure Projects	1,643,000	2,324,299	(681,299)	-41%
Total Draws Appropriated to Projects	2,208,000	4,056,422	(1,848,422)	-84%
Appropriation - PCWA Power Division:				
Power Operations	11,644,241	-	11,644,241	100%
Natural Resources Management	2,412,851	-	2,412,851	100%
Power Resources Management	1,171,185	-	1,171,185	100%
MFP Infrastructure Projects	6,449,000	-	6,449,000	100%
Total Appropriation-PCWA Power Division	21,677,277	-	21,677,277	100%
Total Expenditures	26,774,974	6,771,772	20,003,202	75%
Reserve Funding	20,458,697	-	20,458,697	
Carryover (To) From Prior Year	4,035,974	(2,132,054)	(6,168,028)	
Net	\$ -	-	-	

* For financial statement presentation, proceeds from debt issuance (bond proceeds) has been adjusted out of the Statement of Activities.

**Until the debt conversion date of April 1, 2015, the debt interest cost is capitalized and accrues with the debt principal without any cash payments. The bond interest expense is an estimate because it is based on a floating interest rate and actual amounts will vary. As the bond documents bind the Authority, any variance between budget and actual will not require a budget adjustment.

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2012

	Debt Service Fund	Adjustments	Statement of Net Position
ASSETS			
Current Assets:			
Restricted Cash and Cash Equivalents	\$ 6,166,293		6,166,293
Interest Receivable	1,735		1,735
Total Current Assets	6,168,028		6,168,028
Non-Current Assets:			
Deferred Issuance Costs		65,875	65,875
Total Assets and Deferred Outflows	\$ 6,168,028	65,875	6,233,903
LIABILITIES			
Non-Current Liabilities:			
Long-Term Debt, Due After One Year		74,754,010	74,754,010
Total Liabilities and Deferred Inflows		74,754,010	74,754,010
FUND BALANCE/NET DEFICIT			
Fund Balance:			
Restricted for FERC Relicensing	6,168,028	(6,168,028)	
Total Fund Balance	6,168,028	(6,168,028)	
Total Liabilities and Fund Balance	\$ 6,168,028	68,585,982	
Net Position (Deficit)			
Unrestricted		(68,520,107)	(68,520,107)
Total Net Position (Deficit)		\$ (68,520,107)	(68,520,107)

See accompanying notes to financial statements

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Debt Service Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES			
Relicensing	\$ 971,632		971,632
Betterments, Improvements and Modernizations	2,324,299		2,324,299
Power Resources Management (Business and Marketing Plan)	760,491		760,491
Professional Services	7,846		7,846
Interest		2,655,907	2,655,907
Amortization		2,833	2,833
Other	51,597		51,597
	<u>4,115,865</u>	<u>2,658,740</u>	<u>6,774,605</u>
Total Expenditures/Net Program Expense			
GENERAL REVENUES			
Interest Income	10,919		10,919
	<u>10,919</u>		<u>10,919</u>
Total General Revenues			
Deficiency of Revenues over Expenditures/Expenses	<u>(4,104,946)</u>	<u>(2,658,740)</u>	<u>(6,763,686)</u>
OTHER FINANCING SOURCES			
Proceeds from Debt Issuance	6,237,000	(6,237,000)	
	<u>6,237,000</u>	<u>(6,237,000)</u>	
Total Other Financing Sources			
Change in Fund Balance/Net Position (Deficit)	2,132,054	(8,895,740)	(6,763,686)
FUND BALANCE/NET POSITION (DEFICIT)			
Beginning of Year	4,035,974	(65,792,395)	(61,756,421)
End of Year	<u>\$ 6,168,028</u>	<u>(74,688,135)</u>	<u>(68,520,107)</u>

See accompanying notes to financial statements

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

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, which are almost all supported by debt proceeds.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

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 60 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.

All revenue items are considered to be measurable and available only when cash is received by the Authority.

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.

Annual Financial Statements

These financial statements are intended to reflect the financial position, results of operation and net position of the Authority.

Restricted – Cash and Investments

Debt financing proceeds, which compose almost all the Authority's cash and investments, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Long-Term Debt

In the financial statements long-term debt is reported as a liability in the applicable governmental activities. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

The governmental fund type financial statements recognize issuance costs during the current period. The face amount of the debt issued is reported as other financial sources. Issuance costs are reported as debt service expenditures. For the period ended December 31, 2012, the amortization of the bond issuance costs was \$2,833.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

Fund Balance/Net Position

In the basic financial statements, governmental funds report restrictions commitments or assignments of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The following is a description of the restrictions:

Restricted for FERC Relicensing – Used to represent a portion of fund balance restricted for FERC relicensing expense payments.

3. Restricted Cash and Cash Equivalents

Restricted cash and equivalents at December 31, 2012 consist of the following:

Deposits with financial institutions	\$	201,382
Investment in Local Agency Investment Fund		5,964,911
Total cash and investments	\$	<u>6,166,293</u>

Cash and cash equivalents shown on the statement of net assets and the balance sheet represent the Authority's cash in the State's investment pool and its deposits with financial institutions. The Authority currently maintains all of its cash and investments as cash and cash equivalents in order to meet its anticipated cash resource needs. Virtually all the Authority's cash and cash equivalents are restricted by bond covenants.

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

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (LAIF)	N/A	Up to 100%	No limit
Placer County Treasurer's Investment Pool	N/A	Up to 100%	No limit
Time Certificates of Deposit	2 years	Up to 100%	No limit
Money Market Mutual Funds	N/A	20%	10%
Passbook Deposits	N/A	Up to 100%	No limit

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. At December 31, 2012, the Authority had \$5,964,911 invested with LAIF. LAIF is not rated by a nationally recognized statistical rating organization.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

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 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.

At year end the Authority's deposits with financial institutions in excess of Federal Depository Insurance Corporation limits, totals \$0.

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 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 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 \$5,964,911 at December 31, 2012.

Included in the LAIF's investment portfolio at December 31, 2012, are collateralized mortgage obligations, mortgaged backed securities, and other asset-back 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, 2012, the amount invested by all public agencies in the LAIF totaled \$63,196,977,710, which includes structured notes totaling \$4 billion (.6%) and asset-backed securities totaling \$.782 billion (1.2%). At December 31, 2012, the LAIF investments mature in an average of 208 days.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

4. Long-term Debt

The following is a schedule of long-term debt for the year ended December 31, 2012:

	Balance January 1, 2012	Additions	Retirements	Balance December 31, 2012	Amount Due Within One Year	Non- Current Amount
2006 Revenue Bond	\$ 56,933,429	6,237,000	-	63,170,429	-	63,170,429
Add: bond interest	8,927,674	2,655,907	-	11,583,581	-	11,583,581
	\$ 65,861,103	8,892,907	-	74,754,010	-	74,754,010

On March 27, 2006, the Authority 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, amounts advanced in the form of draws to the Authority are added to the 2006 Revenue Bond's principal amount. These quarterly advances are based on projected and budgeted resources needs, primarily Relicensing expenses, for the subsequent quarter. The 2006 Revenue Bond bears interest on the outstanding balance from March 29, 2006 through June 30, 2006 at 5.691% then bears interest at the yield on the United States Treasury Bond maturing February 15, 2036, plus 1% per annum for the outstanding balance July 1, 2006 – April 1, 2036 (bond maturity). The interest rate at December 31, 2012 for the United States Treasury Bond maturing February 15, 2036 is 2.681%. For the period from March 29, 2006 through April 1, 2015 the interest is calculated quarterly (January 1, April 1, July 1 and October 1) accrued and capitalized to the principal amount. Thereafter, principal and interest is due and payable semiannually on April 1 and October 1. 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.

Future Revenues Pledged

The pledge of future Revenues ends upon the repayment of the 2006 Revenue Bond scheduled to be repaid in 2036. The remaining debt service as of December 31, 2012 is \$82,366,771. Pursuant to the Bond Purchase Contract, the allocation of all revenues after April 1, 2015, are to be as follows:

- First, to pay or set-aside amounts for the payment of Maintenance and Operating costs;
- Second, to pay interest on the Bond;
- Third, to pay or set-aside amounts for the repayment of Relicensing Costs, Capital Improvements or to fund or maintain Reserves;
- Fourth, to pay principal then due and payable on the Bond; and

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

- Fifth, for any other Authority purpose; provided, if any amounts are distributed to the County and the Agency, the Authority shall apply an amount equal to the aggregate amount distributed to the County and the Agency to prepay the principal on the Bond.

5. Adjustment to Government-Wide Statements

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

Total Fund Balance – Debt Service Fund \$ 6,168,028

Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:

Long-term debt, due after one year (74,754,010)
Deferred issuance costs 65,875

Net Deficit of Governmental Activities \$ (68,520,107)

Net Change in Fund Balance – Debt Service Fund \$ 2,132,054

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Proceeds from issuance of long-term debt (6,237,000)
Current year amortization of deferred issuance costs (2,833)

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

Accrued interest payable (2,655,907)

Change in Net Deficit of Governmental Activities \$ (6,763,686)

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2012

6. Net Position (Deficit)

At December 31, 2012 the Authority had a net position (deficit) balance of \$68,520,107, primarily as a result of the issuance of the 2006 Revenue Bonds and will be eliminated with future MFP electric power and related revenues collected after April, 2013.

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**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
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors of the
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 basic financial statements of the Middle Fork Project Finance Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2013. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Authority'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.

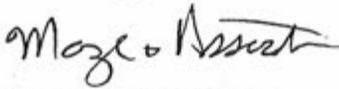
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
March 8, 2013

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MIDDLE FORK PROJECT FINANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

MIDDLE FORK PROJECT FINANCE AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended December 31, 2012

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MEMORANDUM ON INTERNAL CONTROL

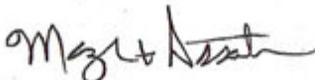
To the Board of Directors of
the Middle Fork Project Finance Authority
Auburn, California

We have audited the basic financial statements of the Middle Fork Project Finance Authority for the year ended December 31, 2012, and have issued our report thereon dated March 8, 2013. In planning and performing our audit of the basic financial statements of the Authority, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

This communication is intended solely for the information and use of management, Authority Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Maze & Associates'.

Pleasant Hill, California
March 8, 2013

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REQUIRED COMMUNICATIONS

March 8, 2013

To the Board of Directors of
the Middle Fork Project Finance Authority
Auburn, California

We have audited the basic financial statements of the Middle Fork Project Finance Authority for the year ended December 31, 2012. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Middle Fork Project Finance Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

GASB 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

The following pronouncement became effective, and required a format change to the Statement of Net Assets and Statement of Activities and certain nomenclature revisions in the footnotes accompanying the financial statements.

GASB 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. *Concepts Statement No. 4, Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in *Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated March 8, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the required supplementary information accompanying the financial statements, 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 did not express an opinion nor 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.

This information is intended solely for the use of the Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

