

**MIDDLE FORK PROJECT  
FINANCE AUTHORITY**

**Financial Statements**

**For the Year Ended  
December 31, 2014**

**(With Independent Auditors' Report Thereon)**

This Page Left Intentionally Blank

MIDDLE FORK PROJECT FINANCE AUTHORITY

December 31, 2014

---

Table of Contents

|   | Page |
|---|------|
| Independent Auditors' Report  | 1    |
| Management's Discussion and Analysis  | 3    |
| Basic Financial Statements:   |      |
| Statement of Net Position and Governmental Fund Balance Sheet   | 7    |
| Statement of Activities and Governmental Fund Revenues,<br>Expenditures and Changes in Fund Balance   | 8    |
| Notes to the Financial Statements   | 9    |
| Independent Auditors' Report on Internal Control Over Financial Reporting and<br>on Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance <i>with Government Auditing Standards</i> | 17   |

This Page Left Intentionally Blank

## 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 (Authority) as of and for the year ended December 31, 2014, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that 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 31, 2015, 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.

*Mazze + Associates*

Pleasant Hill, California  
March 31, 2015

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Management's Discussion and Analysis

December 31, 2014

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, 2014. 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) 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 Position* presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. Through 2015, the Authority is the mechanism to finance the MFP Relicensing Project; hence, net position will continue to be negative until sufficient revenues are received to pay off the debt (Net Deficit).

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Management's Discussion and Analysis

**December 31, 2014**

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

*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 15 of this report.

## FINANCIAL ANALYSIS

### 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. Through March 2013, funds were 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 paid Relicensing and other related expenses in conjunction with the FERC license renewal date in March 2013 and advanced operations through the second quarter of 2013. The existing 50-year MFP power sales agreement with PG&E expired April 30, 2013, after which the Authority began receiving revenues of the MFP electrical energy sales under a new power purchase agreement with PG&E.

**MIDDLE FORK PROJECT FINANCE AUTHORITY**

Management's Discussion and Analysis

**December 31, 2014**

**Financial Position**

During 2014, the Authority's net position increased \$12.9 million which is a result of assets increasing \$15.7 million and liabilities decreasing \$0.7 million. Key components of the increase are as follows:

- Cash and investments increased by \$16.1 million which is the net effect of operations under the new power purchase agreement.
- Non-current liabilities increased by \$3.5 million for capitalized bond interest.
- The net position (deficit) balance at December 31, 2014 is (\$46.1) million primarily as a result of the issuance of the 2006 Revenue Bonds and will be eliminated with future MFP electric power and related revenues.

Table 1  
Net Position

|                                 | 2014                   | 2013                | Increase<br>(Decrease) |
|---------------------------------|------------------------|---------------------|------------------------|
| <b>ASSETS:</b>                  |                        |                     |                        |
| Restricted Cash and Investments | \$ 35,584,050          | 19,519,645          | 16,064,405             |
| Other Assets                    | 1,975,576              | 2,292,975           | (317,399)              |
| Total Assets                    | <u>\$ 37,559,626</u>   | <u>21,812,620</u>   | <u>15,747,006</u>      |
| <b>LIABILITIES:</b>             |                        |                     |                        |
| Current Liabilities             | \$ 3,333               | 681,755             | (678,422)              |
| Non-Current Liabilities         | 83,644,860             | 80,127,262          | 3,517,598              |
| Total Liabilities               | <u>83,648,193</u>      | <u>80,809,017</u>   | <u>2,839,176</u>       |
| <b>NET POSITION (DEFICIT):</b>  |                        |                     |                        |
| Unrestricted                    | (46,088,567)           | (58,996,397)        | 12,907,830             |
| Total Net Position (Deficit)    | <u>\$ (46,088,567)</u> | <u>(58,996,397)</u> | <u>12,907,830</u>      |

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Management's Discussion and Analysis

December 31, 2014

### Results of Operations

The Authority ended the year with total revenues exceeding total expenditures by \$12.9 million. Total 2014 revenues of \$42.0 million were \$15.4 million higher than 2013 while total expenditures of \$29.1 million reflected an increase of \$12.1 million. Major contributing factors to this year's results are as follows:

- Revenues increased by \$15.4 million when comparing years 2013 and 2014 as 2014 was an entire year (12 months) compared to only 8 months in 2013 as the prior PPA contract ended April 30, 2013. In addition, there was enhanced water resource management and energy market pricing that also increased revenues. Power sales revenue is subject to significant volatility due to variations in hydrology, energy market prices and other factors, thus the drought year continues to have a significant impact on power sales revenues.
- Expenditures increased by \$12.1 million due to increased resources needed for the first full year under the new power purchase agreement with PG&E compared to two-thirds of the year in 2013 to provide for a variety of additional functions pursuant to the new power purchase agreement, new FERC license, various compliance programs and infrastructure needs.

Table 2  
Statement of Activities

|   | 2014                   | 2013                | Increase<br>(Decrease) |
|---|------------------------|---------------------|------------------------|
| Revenues:                                 |                        |                     |                        |
| Power Sales                               | \$ 41,961,671          | 26,595,301          | 15,366,370             |
| Interest Income                           | 59,304                 | 26,632              | 32,672                 |
| Total Revenues                            | <u>42,020,975</u>      | <u>26,621,933</u>   | <u>15,399,042</u>      |
| Expenditures:                             |                        |                     |                        |
| Reimbursements for Middle Fork Project    | 25,504,161             | 13,742,263          | 11,761,898             |
| Professional Services and Office Supplies | 91,386                 | 124,833             | (33,447)               |
| Bond Interest                             | <u>3,517,598</u>       | <u>3,165,252</u>    | <u>352,346</u>         |
| Total Expenditures                        | <u>29,113,145</u>      | <u>17,032,348</u>   | <u>12,080,797</u>      |
| Change in Net Position (Deficit)          | 12,907,830             | 9,589,585           | 3,318,245              |
| Net Position (Deficit) Beginning of Year  | <u>(58,996,397)</u>    | <u>(68,585,982)</u> | <u>9,589,585</u>       |
| Net Position (Deficit) End of Year        | <u>\$ (46,088,567)</u> | <u>(58,996,397)</u> | <u>12,907,830</u>      |

### LONG-TERM DEBT

At December 31, 2014, the Authority had total long-term debt outstanding of \$83.6 million. This amount is based on draw requests to provide financing of the MFP FERC Relicensing effort through the final draw for the second quarter of 2013 and capitalized interest through December 31, 2014.

MIDDLE FORK PROJECT FINANCE AUTHORITY  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2014

|  | Debt Service Fund    | Adjustments<br>(Note 5) | Statement of<br>Net Position |
|--|----------------------|-------------------------|------------------------------|
| <b>ASSETS</b>                                  |                      |                         |                              |
| Current Assets:                                |                      |                         |                              |
| Restricted Cash and Investments (Note 3)       | \$ 35,584,050        |                         | 35,584,050                   |
| Accounts Receivable                            | 1,952,870            |                         | 1,952,870                    |
| Interest Receivable                            | 22,706               |                         | 22,706                       |
|  | <u>\$ 37,559,626</u> |                         | <u>37,559,626</u>            |
| <b>LIABILITIES</b>                             |                      |                         |                              |
| Current Liabilities:                           |                      |                         |                              |
| Accounts Payable                               | \$ 3,333             |                         | 3,333                        |
|  | <u>3,333</u>         |                         | <u>3,333</u>                 |
| Non-Current Liabilities:                       |                      |                         |                              |
| Long-Term Debt, Due After One Year (Note 4)    |                      | 83,644,860              | 83,644,860                   |
|  | <u>3,333</u>         | <u>83,644,860</u>       | <u>83,648,193</u>            |
| <b>FUND BALANCE/NET DEFICIT</b>                |                      |                         |                              |
| Fund Balance:                                  |                      |                         |                              |
| Restricted for Capital Appropriations Reserves | 12,151,454           | (12,151,454)            |                              |
| Restricted for Operational Contingencies       | 20,072,717           | (20,072,717)            |                              |
| Restricted for Budgeted Power Operations       | 5,332,122            | (5,332,122)             |                              |
|  | <u>37,556,293</u>    | <u>(37,556,293)</u>     |                              |
| Total Fund Balance                             | <u>37,556,293</u>    | <u>(37,556,293)</u>     |                              |
| Total Liabilities and Fund Balance             | <u>\$ 37,559,626</u> | <u>46,088,567</u>       |                              |
| Net Position (Deficit)                         |                      |                         |                              |
| Unrestricted (Note 6)                          |                      | <u>(46,088,567)</u>     | <u>(46,088,567)</u>          |
| Total Net Position (Deficit)                   |                      | <u>\$ (46,088,567)</u>  | <u>(46,088,567)</u>          |

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, 2014

|  | <u>Debt Service Fund</u> | <u>Adjustments<br/>(Note 5)</u> | <u>Statement of<br/>Activities</u> |
|--|--------------------------|---------------------------------|------------------------------------|
| <b>EXPENDITURES</b>                            |                          |                                 |                                    |
| Reimbursement for Middle Fork Project (Note 4) | \$ 25,504,161            |                                 | 25,504,161                         |
| Professional Services                          | 14,253                   |                                 | 14,253                             |
| Interest                                       |                          | 3,517,598                       | 3,517,598                          |
| Miscellaneous                                  | <u>77,133</u>            |                                 | <u>77,133</u>                      |
| Total Expenditures/Net Program Expense         | <u>25,595,547</u>        | <u>3,517,598</u>                | <u>29,113,145</u>                  |
| <b>REVENUES</b>                                |                          |                                 |                                    |
| Power Sales (Note 2)                           | 41,961,671               |                                 | 41,961,671                         |
| Interest Income                                | <u>59,304</u>            |                                 | <u>59,304</u>                      |
| Total General Revenues                         | <u>42,020,975</u>        |                                 | <u>42,020,975</u>                  |
| Revenues over (under) Expenditures/Expenses    | <u>16,425,428</u>        | <u>(3,517,598)</u>              | <u>12,907,830</u>                  |
| Change in Fund Balance/Net Position (Deficit)  | 16,425,428               | (3,517,598)                     | 12,907,830                         |
| <b>FUND BALANCE/NET POSITION (DEFICIT)</b>     |                          |                                 |                                    |
| Beginning of Year                              | <u>21,130,865</u>        | <u>(80,127,262)</u>             | <u>(58,996,397)</u>                |
| End of Year                                    | <u>\$ 37,556,293</u>     | <u>(83,644,860)</u>             | <u>(46,088,567)</u>                |

See accompanying notes to financial statements

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

For the Year Ended December 31, 2014

---

### 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.

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, 2014

---

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 of the Authority.

#### ***Restricted Assets – 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.

#### ***Accounts Receivable***

At December 31, 2014, Pacific Gas & Electric (PG&E) owed the Authority \$1,952,870 in power sales for the month of December. The electricity generated is metered by the California Independent System Operator (CAISO) and shadow settled by the Agency. PG&E is billed monthly for the previous month by the Agency with payment made to the Authority. The receivable is comprised of a monthly payment amount (capacity), energy and ancillary services.

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2014

---

**Power Sales**

On May 1, 2013, the Authority began to receive power sales revenue for electricity generated from the MFP via a new Power Purchase Agreement between the Agency and PG&E. The MFP is generation only and carries no load. Under this agreement, PG&E buys all power generated & ancillary services provided by the MFP through December 31, 2017.

**Fund Balance/Net Position**

In the basic financial statements, governmental funds report reservations 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 reserves used by the Authority:

**Restricted for Capital Appropriations Reserves** – Used to represent a portion of fund balance restricted for future years capital projects. This reserve works as a sinking fund to provide for the planning, design and construction of capital projects.

**Restricted for Operational Contingency Reserves** – Used to represent a portion of fund balance restricted for operations of the Middle Fork Project under conditions of significantly reduced revenue due to hydrology, energy prices and/or prolonged minor outages or unanticipated variations in expenses.

**Restricted for Budgeted Power Operations** – Used to represent a portion of fund balance restricted for budgeted operations of the Middle Fork Project.

**3. Restricted Cash and Investments**

Restricted cash and equivalents at December 31, 2014 consist of the following:

|  |    |                   |
|--|----|-------------------|
| Deposits with financial institutions       | \$ | 31,635            |
| Investment in Local Agency Investment Fund |    | <u>35,552,415</u> |
| Total cash and investments                 | \$ | <u>35,584,050</u> |

Cash and cash equivalents shown on the statement of net position 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.

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

For the Year Ended December 31, 2014

---

### 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.

| Authorized Investment Type                | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|------------------|---------------------------------|----------------------------------|
| Local Agency Investment Fund (LAIF)       | N/A              | Up to 100%                      | No limit                         |
| US Treasury Securities                    | 5 years          | Up to 100%                      | No limit                         |
| US Government Agencies/Instrumentalities  | 5 years          | Up to 100%                      | No limit                         |
| State of California Notes/Bonds           | 5 years          | 25%                             | No limit                         |
| Bankers Acceptances                       | 180 days         | 25%                             | 5%                               |
| Commercial Paper                          | 270 days         | 25%                             | 10%                              |
| Collateralized Certificates of Deposit    | 2 years          | 30%                             | No limit                         |
| Corporate Notes                           | 5 years          | 30%                             | 5%                               |
| Local Municipal Bonds                     | 5 years          | 30%                             | 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, 2014, the Authority had \$35,552,415 invested with LAIF. LAIF is not rated by a nationally recognized statistical rating organization.

### 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.

# MIDDLE FORK PROJECT FINANCE AUTHORITY

## Notes to the Financial Statements

### For the Year Ended December 31, 2014

---

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.

The Authority's deposits with financial institutions in excess of Federal Depository Insurance Corporation limits, totals \$0, 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 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 \$35,552,415 at December 31, 2014.

Included in the LAIF's investment portfolio at December 31, 2014, 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, 2014, the amount invested by all public agencies in the LAIF totaled \$60,268,887,722, which includes asset-backed securities totaling \$0.797 billion (1.3%). At December 31, 2014, the LAIF investments mature in an average of 200 days.

**MIDDLE FORK PROJECT FINANCE AUTHORITY**

Notes to the Financial Statements

**For the Year Ended December 31, 2014**

**4. Long-term Debt**

The following is a schedule of long-term debt for the year ended December 31, 2014:

|                    | Balance<br>January 1,<br>2014 | Additions        | Retirements | Balance<br>December 31,<br>2014 | Amount<br>Due<br>Within<br>One Year | Non-<br>Current<br>Amount |
|--------------------|-------------------------------|------------------|-------------|---------------------------------|-------------------------------------|---------------------------|
| 2006 Revenue Bond  | \$ 65,378,429                 | -                | -           | 65,378,429                      | -                                   | 65,378,429                |
| Add: bond interest | 14,748,833                    | 3,517,598        | -           | 18,266,431                      | -                                   | 18,266,431                |
|                    | <u>\$ 80,127,262</u>          | <u>3,517,598</u> | <u>-</u>    | <u>83,644,860</u>               | <u>-</u>                            | <u>83,644,860</u>         |

On March 27, 2006, the Authority's Board of Directors approved and authorized a maximum principal amount of \$100,000,000 Middle Fork Project Finance Authority Revenue Bond, Series 2006 (2006 Revenue Bond). The 2006 Revenue Bond was issued to finance MFP FERC Relicensing Costs and related expenses. Quarterly, through March 31, 2013, amounts advanced in the form of draws to the Authority were added to the 2006 Revenue Bond's principal amount. These quarterly advances were 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, 2014 for the United States Treasury Bond maturing February 15, 2036 is 3.46%. 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, 2014 is \$84,359,097. 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;

MIDDLE FORK PROJECT FINANCE AUTHORITY

Notes to the Financial Statements

For the Year Ended December 31, 2014

- Fourth, to pay principal then due and payable on the Bond; and
- 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   | \$ 37,556,293          |
| 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   | <u>(83,644,860)</u>    |
| Net Deficit of Governmental Activities   | \$ <u>(46,088,567)</u> |
| Net Change in Fund Balance – Debt Service Fund   | \$ 16,425,428          |

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 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 | - |
|--|---|

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                         | <u>(3,517,598)</u>   |
| Change in Net Deficit of Governmental Activities | \$ <u>12,907,830</u> |

6. Deficit Net Position

The Authority had a deficit net position balance of \$46,088,567 at December 31, 2014, 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 30, 2013.

This Page Left Intentionally Blank

**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 (Authority), as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

*Maze + Associates*

Pleasant Hill, California  
March 31, 2015