MIDDLE FORK PROJECT FINANCE AUTHORITY

Financial Statements

For the Year Ended December 31, 2017

(With Independent Auditor’s Report Thereon)

MIDDLE FORK PROJECT FINANCE AUTHORITY

For the Year Ended December 31, 2017

Table of Contents

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Directors
Middle Fork Project Finance Authority
Auburn, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and debt service fund of the Middle Fork Project Finance Authority as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and debt service fund of the Middle Fork Project Finance Authority, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018 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.

Davis Farr LLP

Irvine, California
March 28, 2018

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, 2017. This Management's Discussion and Analysis is intended to serve as an introduction to and should be read in conjunction with the Authority's basic financial statements that follow this section.

ORGANIZATION

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

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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 19 of this report.

FINANCIAL ANALYSIS

Financial Highlights

In 2017, hydroelectric generation was 41% greater than an average year's generation, which is 1 million MWh with a total of 1.418 MW hours of energy. The reason for this is that 2017 was the wettest year on record for the MFP watershed. However, the record hydrology coupled with the loss of riparian vegetation from the King fire (2014) caused significant erosion and sediment movement into the powerhouse tailrace resulting in a reduction of power generation.

Financial Position

During 2017, the Authority's net position increased $31.2 million from a deficit net position of ($26.3 million) to $4.9 million. This increase is the result of assets increasing $29.2 million and liabilities decreasing $2.0 million. Key components of the increase are as follows:

- Cash and cash equivalents increased by $9.9 million from the increased power sales revenue.

- Power sales receivable increased by $0.5 million and accounts payable decreased by $1.0 million.

- Investments (non-current) increasing $18.7 million with the investment of monies in a bond ladder.

- Interest payable decreased by $25,461 for the change in accrued interest on long-term debt.

- Non-current liabilities decreased by $2.9 million which is the net effect of the debt service payments in 2017.

Table 1
Net Position

	2017	2016	Increase (Decrease)
ASSETS:			
Cash and Cash Equivalents	$ 59,439,861	49,550,379	9,889,482
Power Sales Receivable	5,889,747	5,358,672	531,075
Interest Receivable	220,492	78,309	142,183
Investments	18,676,381	-	18,676,381
Total Assets	$ 84,226,481	54,987,360	29,239,121
LIABILITIES:			
Accounts Payable	$ 1,413,565	426,179	987,386
Interest Payable	669,978	695,439	(25,461)
Long-term Debt	77,208,609	80,142,823	(2,934,214)
Total Liabilities	79,292,152	81,264,441	(1,972,289)
NET POSITION (DEFICIT):			
Unrestricted	4,934,329	(26,277,081)	31,211,410
Total Net Position (Deficit)	$ 4,934,329	(26,277,081)	31,211,410

Results of Operations

The Authority ended the year with total revenues exceeding total expenditures by $31.2 million. Total 2017 Power Sales of $60.9 million were $15.5 million higher than 2016 while total expenditures of $30.3 million reflected an increase of $4.7 million from 2016. Major contributing factors to this year's results are as follows:

- Power Sales revenue increased by $15.5 million over 2016 because of the record-breaking hydrologic year experienced in 2017.

- Total expenditures increased by $4.7 million as a result of capital project activity including storm damage and sediment removal efforts.

Table 2
Statement of Activities

	2017	2016	Increase (Decrease)
REVENUES:			
Power Sales	$ 60,883,357	45,366,385	15,516,972
Interest Income	635,259	228,469	406,790
Total Revenues	61,518,616	45,594,854	15,923,762
EXPENDITURES:			
Reimbursements for Middle Fork Project	27,342,238	22,707,961	4,634,277
Bond Interest	2,731,054	2,831,169	(100,115)
Miscellaneous	217,926	75,421	142,505
Professional Services and Office Supplies	15,988	11,568	4,420
Total Expenditures	30,307,206	25,626,119	4,681,087
Change in Net Position (Deficit)	31,211,410	19,968,735	11,242,675
Net Position (Deficit) Beginning of Year	(26,277,081)	(46,245,816)	19,968,735
Net Position (Deficit) End of Year	$ 4,934,329	(26,277,081)	31,211,410

CAPITAL ASSETS

The Authority reserves for capital assets, which once appropriated to the Agency, are available for capital asset construction, rehabilitation and improvement. At year end, the Authority's capital appropriation commitments totaled $23.9 million. Capital assets of the Middle Fork Project are owned by the Agency and more detail can be found in the Agency's audited financial statements available at the Agency's finance office.

LONG-TERM DEBT

During 2017, the Authority paid $2.9 million towards outstanding principal. At December 31, 2017, the Authority had total long-term debt outstanding of $77.2 million.

More detailed information about the Authority's long-term debt is presented in note 4 to the basic financial statements.

MIDDLE FORK PROJECT FINANCE AUTHORITY
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	Debt Service Fund	Adjustments	Statement of Net Position
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 3)	$ 59,439,861		59,439,861
Power Sales Receivable	5,889,747		5,889,747
Interest Receivable	220,492		220,492
Total Current Assets	65,550,100		65,550,100
Non-current Assets:			
Investments (Note 3)	18,676,381		18,676,381
Total Non-current Assets	18,676,381		18,676,381
Total Assets	$ 84,226,481		84,226,481
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 1,413,565		1,413,565
Interest Payable		669,978	669,978
Total Current Liabilities	1,413,565	669,978	2,083,543
Non-Current Liabilities:			
Long-Term Debt, Due Within One Year (Note 4)		3,036,945	3,036,945
Long-Term Debt, Due After One Year (Note 4)		74,171,664	74,171,664
Total Non-Current Liabilities		77,208,609	77,208,609
Total Liabilities	1,413,565	77,878,587	79,292,152
FUND BALANCE/NET POSITION			
Fund Balance:			
Assigned for Operational Reserve	25,750,000	(25,750,000)	
Assigned for Emergency Reserve	2,000,000	(2,000,000)	
Assigned for Capital:			
Reserve	16,886,420	(16,886,420)	
Capital Appropriations	23,933,905	(23,933,905)	
Assigned for Budgeted Power Division	14,242,591	(14,242,591)	
Total Fund Balance	82,812,916	(82,812,916)	
Total Liabilities and Fund Balance	$ 84,226,481	(4,934,329)	
Net Position			
Unrestricted (Note 5)		4,934,329	4,934,329
Total Net Position		4,934,329	4,934,329

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, 2017

	Debt Service Fund	Adjustments	Statement of Activities
EXPENDITURES			
Reimbursements for Middle Fork Project (Note 4)	$ 27,342,238		27,342,238
Miscellaneous	217,926		217,926
Professional Services	15,988		15,988
Debt Service:			
Principal	2,934,214	(2,934,214)	-
Interest	2,756,515	(25,461)	2,731,054
Total Expenditures/Net Program Expense	33,266,881	(2,959,675)	30,307,206
GENERAL REVENUES			
Power Sales	60,883,357		60,883,357
Interest Income	635,259		635,259
Total General Revenues	61,518,616		61,518,616
Excess of Revenues over Expenditures	28,251,735	2,959,675	31,211,410
Change in Fund Balance/Net Position (Deficit)	28,251,735	2,959,675	31,211,410
FUND BALANCE/NET POSITION (DEFICIT)			
Beginning of Year	54,561,181	(80,838,262)	(26,277,081)
End of Year	$ 82,812,916	(77,878,587)	4,934,329

See accompanying notes to financial statements.

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.

<u>Government-wide financial statements</u> – 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.

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.

Cash and Cash Equivalents

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

Investments

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

Power Sales

On May 1, 2013, the Authority began to receive power sales revenue for electricity generated from the MFP via a Power Purchase Agreement between the Agency and PG&E. Under this agreement, PG&E purchased all power generated & ancillary services provided by the MFP through December 31, 2017.

Subsequently, power generation will be sold to the California Independent System Operator (CAISO) market, while ancillary services will be sold through bilateral contracts. The MFP is generation only and carries no load.

Fund Balance/Net Position

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

Assigned for Operational Reserve – Used to represent a portion of fund balance assigned 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.

Assigned for Emergency Reserve – Used to represent a portion of fund balance assigned for significant unforeseen needs or events.

Assigned for Capital Reserve – Used to represent a portion of fund balance assigned for future years capital projects. This reserve works as a sinking fund to provide for the planning, design and construction of capital projects.

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

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

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

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

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

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

3. Cash and Investments

Cash and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Cash Equivalents	$ 59,439,861
Investments	18,676,381
Total	$ 78,116,242

Cash and investments as of December 31, 2017 consist of the following:

Deposits with Financial Institutions	$ 4,403
Investments	78,111,839
Total	$ 78,116,242

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

Interest Rate Risk

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

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

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

		Remaining Maturity			
Investment Type	Fair Value	12 Months Or Less	13 to 24 Months	25 to 36 Months	49 to 60 Months
U.S. Treasury Securities	$ 2,981,880	2,981,880			
U.S. Government Agencies:					
FFCB	4,963,790		3,974,000	989,790	
FHLB	5,971,930	1,997,180	3,974,750		
FAMCA	997,780	997,780			
PEFCO	991,100		991,100		
TVA	1,000,130	1,000,130			
Corporate Notes	1,769,771	1,769,771			
LAIF	59,435,458	59,435,458			
Total Investments	$ 78,111,839	$ 68,182,199	$ 8,939,850	$ 989,790	$ -
Percentage of portfolio:	100.0%	87.3%	11.4%	1.3%	0.0%

Acronyms references:

FFCB - Federal Farm Credit Bank
FHLB - Federal Home Loan Bank
FAMCA - Federal Agricultural Mortgage Corporation
PEFCO - Private Export Funding Corporation
TVA - Tennessee Valley Authority
LAIF - Local Agency Investment Fund

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. Also, presented below are the December 31, 2017, actual credit quality ratings for each investment type as provided by Moody's Investor Services, Inc.

		Minimum	Rating as of Year-End		
Investment Type	Fair Value	Authorized Rating	Aaa	Aa2, Aa3	Not Rated
U.S. Treasury Securities	$ 2,981,880	N/A	2,981,880		
U.S. Government Agencies:					
FFCB	4,963,790	N/A	4,963,790		
FHLB	5,971,930	N/A	5,971,930		
FAMCA	997,780				997,780
PEFCO	991,100	N/A	991,100		
TVA	1,000,130	N/A	1,000,130		
Corporate Notes	1,769,771	Aa	1,769,771		
LAIF	59,435,458	N/A			59,435,458
Total	$ 78,111,839		17,678,601	-	60,433,238

Concentration of Credit Risk

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

Issuer	Investment Type	Percent of Portfolio	Reported Amount
U.S. Government Agencies:			
Federal Farm Credit Bank	Federal agency securities	6.35%	$ 4,963,790
Federal Home Loan Bank	Federal agency securities	7.65%	5,971,930

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.

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 $ 59,435,458 at December 31, 2017.

Included in the LAIF's investment portfolio at December 31, 2017, 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, 2017, the amount invested by all public agencies in the LAIF totaled $74,272,397,118 which includes asset-backed securities totaling $1.840 billion (2.48%). At December 31, 2017, the average days to maturity was 186 days.

Fair Value Measurement

The Authority categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Authority has the following recurring fair value measurements as of December 31, 2017:

	Fair Value Hierarchy			Investments Not Categorized at Fair Value	Total
	Level 1	Level 2	Level 3		
U.S. Treasury Securities	$2,981,880				2,981,880
U.S. Government Agencies:					
FFCB		4,963,790			4,963,790
FHLB		5,971,930			5,971,930
FAMCA		997,780			997,780
PEFCO		991,100			991,100
TVA		1,000,130			1,000,130
Corporate Notes		1,769,771			1,769,771
LAIF				59,435,458	59,435,458
Total Investments	$2,981,880	15,694,501	-	59,435,458	78,111,839

4. Long-term Debt

The following is a schedule of long-term debt for the year ended December 31, 2017:

	Balance January 1, 2017	Additions	Retirements	Balance December 31, 2017	Amount Due Within One Year	Non-Current Amount
2006 Revenue Bond	$ 80,142,823	-	2,934,214	77,208,609	3,036,945	74,171,664

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

As of December 31, 2017, annual debt service requirements to maturity are as follows:

Year Ending	2006 Revenue Bond	
December 31:	Principal	Interest
2018	$ 3,036,945	2,653,784
2019	3,143,272	2,547,457
2020	3,253,321	2,437,408
2021	3,367,224	2,323,505
2022	3,485,114	2,205,614
2023-2027	19,343,557	9,110,087
2028-2032	22,975,321	5,478,324
2033-2036	18,603,855	1,313,696
Total	$ 77,208,609	28,069,875

Future Revenues Pledged

In 2006, Resolution 06-66 authorized the issuance of a bond in the amount not to exceed $100 million to provide financing for the MFP FERC relicensing costs and associated improvements and modifications. The Authority has pledged revenues from the energy sales generated by the MFP in amounts sufficient to cover the principal and interest requirements on the Authority's debt. As of December 31, 2017, the total principal and interest remaining on the debt is $105.3 million with an annual amount of $5.69 million. The bond matures April 1, 2036. For the current year, principal and interest paid by the Authority and the total power sales revenue recognized were $5.69 million and $60.9 million, respectively.

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
- 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

Total Fund Balance – Debt Service Fund	$	82,812,916
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds.		(669,978)
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		(77,208,609)
Net Position of Governmental Activities	$	4,934,329
Net Change in Fund Balance – Debt Service Fund	$	28,251,735
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		
Repayment of the principal of long-term debt		2,934,214
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.		
Interest payable on long-term debt		25,461
Change in Net Position of Governmental Activities	$	31,211,410

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Directors
Middle Fork Project Finance Authority
Auburn, California

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

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and debt service fund of the Middle Fork Project Finance Authority (Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Davis Farr LLP

Irvine, California
March 28, 2018