

**SOUTH PLACER WASTEWATER AUTHORITY**  
**CITY OF ROSEVILLE, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

# **SOUTH PLACER WASTEWATER AUTHORITY**

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## INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors of the  
South Placer Wastewater Authority  
Roseville, California

### **Report of the Financial Statements**

We have audited the accompanying financial statements of the South Placer Wastewater Authority (Authority), as of and for the year ended June 30, 2015, 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion 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. 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Analysis of Rate Stabilization Restricted Net Position on page 19 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The Analysis of Rate Stabilization Restricted Net Position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Analysis of Rate Stabilization Restricted Net Position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Sacramento, California  
January 20, 2016

# SOUTH PLACER WASTEWATER AUTHORITY

## STATEMENT OF NET POSITION JUNE 30, 2015

### ASSETS

Investments in City of Roseville Treasury (Note 2)	\$ 13,316,945
Investments (Note 2)	89,963,630
Restricted investments with fiscal agent (Note 2)	8,114,911
Accrued interest receivable	224,488
Due from other governments	1,444,953
Permit fees receivable	<u>1,608,964</u>
Total Assets	<u>114,673,891</u>

### DEFERRED OUTFLOWS OF RESOURCES

Accumulated decrease in fair value of hedging derivatives (Note 4E)	<u>10,050,507</u>
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### LIABILITIES

#### Current Liabilities:

Accounts payable and other liabilities	710,051
Long-term debt (Note 4)	
Due in one year	3,710,000
Long-term liabilities:	
Derivative at fair value (Note 4E)	10,050,507
Long-term debt (Note 4)	
Due in more than one year	<u>142,968,147</u>
Total Liabilities	<u>157,438,705</u>

### NET POSITION (Note 5)

Restricted for:	
Rate stabilization	105,807,235
Debt service	7,833,251
Unrestricted (deficit)	<u>(146,354,793)</u>
Total Net Position (Deficit)	<u>\$ (32,714,307)</u>

See accompanying notes to financial statements.

**SOUTH PLACER WASTEWATER AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES

Connection fees contributed by members \$ 15,156,521

OPERATING EXPENSES

Costs of capital assets contributed to the City (Note 3):

Construction costs 430,094

Personnel services and administration 154,750

Total operating expenses 584,844

Operating income 14,571,677

NON-OPERATING REVENUES (EXPENSES):

Payments from County under repayment agreement 500,000

Interest earned on connection fees 792,462

Interest earned on investments with fiscal agent 243,297

Net increase in the fair value of investments (38,241)

Other reimbursements 126,516

Debt service interest, variable bond interest and fiscal agent fees (5,841,095)

Total nonoperating revenues (expenses) (4,217,061)

Change in Net Position 10,354,616

Net Position (Deficit) - Beginning (43,068,923)

Net Position (Deficit) - Ending \$ (32,714,307)

See accompanying notes to financial statements.

**SOUTH PLACER WASTEWATER AUTHORITY**

**STATEMENT OF CASH FLOWS  
JUNE 30, 2015**

**CASH FLOW FROM OPERATING ACTIVITIES:**

Receipts from members	\$ 14,577,753
Payments to contractors	(324,573)
Payments to the City of Roseville for personnel services and administration	(154,750)
Net cash provided by operating activities	<u>14,098,430</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Receipts from Placer County under repayment agreement	500,000
Principal payments on capital debt	(33,460,000)
Debt proceeds	29,120,000
Interest paid on long-term debt	(6,168,653)
Other payments	126,516
Net cash used for capital and related financing activities	<u>(9,882,137)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received	<u>1,000,005</u>
Net increase in cash and cash equivalents	5,216,298
Cash and investments at beginning of year	<u>106,179,188</u>
Cash and investments at end of year	<u>\$ 111,395,486</u>

**Reconciliation of program expense to net cash provided (used) by operating activities:**

Operating income	\$ 14,571,677
Change in assets and liabilities:	
Accounts receivable	3,702
Due from other governments	(216,942)
Permit fees receivable	(361,826)
Accounts payable and other liabilities	101,819
Net cash used for operating activities	<u>\$ 14,098,430</u>

**NONCASH CAPITAL FINANCING ACTIVITIES**

Contribution of construction in progress to the City of Roseville	<u>\$ 584,844</u>
Amortization of deferred bond premium	<u>\$ 327,558</u>

See accompanying notes to financial statements.

## **SOUTH PLACER WASTEWATER AUTHORITY**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. *Organization and Purpose***

The South Placer Wastewater Authority (the Authority) is a Joint Powers Agreement created in October, 2000 which is financing the construction of the Pleasant Grove Wastewater Treatment Plant and improvements to the Dry Creek Wastewater Treatment Plant, referred to collectively as the Regional Wastewater Facilities.

The members of the Authority are the City of Roseville (the City), South Placer Municipal Utilities District (SPMUD) and the County of Placer (the County). The Authority's governing board is comprised of five directors as appointed by the member agencies. Two directors are appointed by the City, one director is appointed by SPMUD, and two directors are appointed by the County. Each representative of the governing board has one vote.

In addition, the members entered into a Funding Agreement and Operations Agreement to provide for the funding and operation of the Regional Wastewater Facilities. Under the Funding Agreement the members agreed that the City of Roseville will own and operate the Regional Wastewater Facilities and that the other members will have an interest in the capacity of those facilities. Capital construction costs are transferred to the City of Roseville annually.

The members of the Authority amended the Joint Powers Authority Agreement and also entered into an Amended and Restated Funding Agreement and a Reallocation and Repayment Agreement effective October 1, 2012. The Amended and Restated Funding Agreement changed the proportionate shares of each member for cost allocations as follows:

- 1) Roseville from 54.17% to 61.66%
- 2) South Placer Municipal Utility District from 25.00% to 22.43%
- 3) Placer County from 20.83% to 15.91%

The intent of the Amended and Restated Funding Agreement is that, notwithstanding short-term variances in the respective member contributions of Regional Connection Fees or other funds, the members' total respective financial contributions to capital costs (whether financed by Bonds, funded by Regional Connection Fees, or other sources) should be directly proportional to the members' respective actual usage of the wastewater treatment capacity made available by the construction of Regional Wastewater Facilities.

The Reallocation and Repayment Agreement also provides for the County's elimination of the deficit in its Rate Stabilization Fund subaccount. The Agreement required the County to make an initial deposit of \$5,000,000 during fiscal year 2013, followed by quarterly payments of \$125,000. The County made deposits in excess of the required amounts and made payments totaling \$500,000 during fiscal year 2015.

Finally, the Reallocation and Repayment Agreement provides for the transfer of Recycled Water Facilities to the City to own and operate for its own account. The City is to reimburse the County for the cost of design and construction related to the recycled water line being constructed as part of the County's relocation of the Cook-Riolo Bridge, provided that the reimbursement amount will not exceed \$721,000. The City made the reimbursement payments of \$721,000 during fiscal year 2014.

## **SOUTH PLACER WASTEWATER AUTHORITY**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Members contribute connection fees they collect from developers as the properties to be served by the Plant are developed. These connection fees are expected to be sufficient to fund the entire cost of the debt service on the Plant's construction, including principal and interest. These contributions are made monthly.

The Authority may not be terminated, and no member agency may withdraw its membership, until all bonds or other indebtedness issued by the Authority have been paid in full.

The Authority has no employees and substantially all staff services are performed by the City personnel. Costs incurred by the City to provide such services are reimbursed by the Authority.

The Authority is considered to be a separate legal entity and is not a component unit of the above members.

The accounting records of the Authority are maintained by the City.

#### ***B. Basis of Presentation***

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position display information about the primary government (the Authority). These statements include the financial activities of the Authority overall. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Authority. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Revenues, Expenses and Changes in Net Position presents operating revenues and expenses and non-operating activities. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenue for the Authority is connection fees contributed by members. Operating expenses include the costs of personnel services and administration and construction costs of assets contributed to the City. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### ***C. Basis of Accounting***

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets, all liabilities and all deferred inflows/outflows of resources of the enterprise are recorded on its statement of net position and, under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

The Authority has only one fund which is the main operating fund of the Authority. It is used to account for all financial resources of the Authority. This fund is used to pay all administrative, operating, construction and other expenses incurred by the Authority, and to account for member contributions and charges.

**D. *Deferred Outflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category. It is the accumulated decrease in the fair value of hedging derivatives reported in the fiduciary statement of net position. An accumulated decrease in the fair value of hedging is equal to the fair value of the associated derivative instrument liability so long as the instrument is deemed effective under the provisions of GASB Statement No. 53.

**E. *Cash and Cash Equivalents***

All cash and investments are held either in the City's investment pool or by a fiscal agent. For purposes of the statement of cash flows, the Authority considers the cash and investment balance to be cash and cash equivalents.

**F. *Interest Income Allocation***

Interest income is credited to capital construction costs and member contributions based on the source of the interest earned. Interest earned on restricted investments with fiscal agents is credited to capital construction costs and all other interest is accounted for as interest on contributions.

**G. *Use of 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, liabilities, deferred outflows/inflows 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.

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 2 – CASH AND INVESTMENTS**

The Authority pools cash from all sources and all funds except cash with fiscal agents so that it can be invested at the maximum yield, consistent with safety and liquidity.

The Authority and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Authority’s fiscal agents as required under its debt issues. In order to maximize security, the Authority employs the Trust Department of a bank as the custodian of all Authority managed investments, regardless of their form.

**A. Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

Investments in the City's Treasury	\$ 13,316,945
Investments	89,963,630
Restricted investments with fiscal agent	<u>8,114,911</u>
Total Investments	<u><u>\$ 111,395,486</u></u>

The Authority’s investment policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority’s Investment Policy where the Authority’s Investment Policy is more restrictive.

**B. Investments Authorized by the California Government Code and the Authority’s Investment Policy**

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years	None	No Limit	No Limit
U.S. Agency	5 Years	None	No Limit	No Limit
Mortgage Pass-Through Securities	5 Years	None	20%	No Limit
State of California or California Local Agency Bonds	5 Years	One of two highest rating categories	No Limit	No Limit
Registered State Treasury Notes or Bonds of the other 49 States	5 Years	None	No Limit	No Limit
Repurchase Agreements	30 days	None	No Limit	No Limit
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10%
Medium-Term Notes	5 Years	A	30%	No Limit
Collateralized Time Deposits	5 Years	None	30%	No Limit
Negotiable Certificates of Deposit	5 Years	A	30%	No Limit
Local Agency Investment Fund (LAIF)	N/A	None	No Limit	\$50
Insured Saving Accounts	N/A	None	No Limit	No Limit
Money Market Mutual Funds	N/A	(A)	20%	10%
Shares in a California Common Law Trust	N/A	None	No Limit	No Limit
Interest Rate Swaps	N/A	None	No Limit	No Limit
City of Roseville Pooled Investment Fund	N/A	None	No Limit	No Limit
Supranationals	5 years	AA-	30%	No Limit

(A) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of \$500,000,000.

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**C. Investments Authorized by Debt Agreements**

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quantity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	N/A	None	None	None
U.S. Agency Securities of Certain Agencies (A) (B)	N/A	None	None	None
Money Market Funds	N/A	AAAm-G or AAAM	None	None
Certificates of Deposit	360 days	A-1+	None	None
Savings Accounts/Deposit Accounts (fully insured)	N/A	None	None	None
Investment Agreements including Forward Delivery Agreements	N/A	AA	None	None
State or Municipality Bonds/Notes	N/A	One of two highest rating categories	None	None
Federal Funds or Bankers' Acceptances	360 days	A-1+	None	None
Commercial Paper	270 days	A-1+	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	\$50 million/account
California Asset Management Program	N/A	None	None	None

- (A) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the Agency, provided they are backed by the full faith and credit of the United States of America, as follows:
  - a. Certificates of beneficial ownership of the Farmers Home Administration
  - b. Federal Housing Administration debentures
  - c. Participations certificates of the General Services Administration
  - d. Guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association
  - e. Guaranteed Title XI financings of the U.S. Maritime Administration
  - f. Project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development
- (B) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit of the U.S. government agencies:
  - a. Senior debt obligations of the Federal Home Loan Bank System
  - b. Participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation
  - c. Mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association
  - d. Senior debt obligations of the Student Loan Marketing Association
  - e. Obligations of the Resolution Funding Corporation
  - f. Consolidated system-wide bonds and notes of the Farm Credit System

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**D. 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 the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Authority’s investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity or earliest call date:

	Remaining Maturity (in Months)			Total
	12 Months or Less	13 to 24 Months	25-60 Months	
City of Roseville Investment Pool	\$ 13,316,945	\$ -	\$ -	\$ 13,316,945
U.S. Government Securities	-	14,432,216	11,110,756	25,542,972
Federal Agency Securities	-	8,275,587	6,212,530	14,488,117
Corporate Notes	-	10,474,278	11,493,890	21,968,168
Forward Delivery Agreement	4,605,249	-	-	4,605,249
Municipal Bonds	877,065	-	99,753	976,818
Money Market Mutual	249,691	-	-	249,691
Negotiable CD's	5,676,401	8,339,965	1,823,982	15,840,348
California Asset Management Program	3,471,283	-	-	3,471,283
Local Agency Investment Fund	10,108,653	-	-	10,108,653
Supranationals	-	-	444,407	444,407
Federal Agencies Collateralized Mortgage Obligations	-	-	382,835	382,835
Total Investments	<u>\$ 38,305,287</u>	<u>\$ 41,522,046</u>	<u>\$ 31,568,153</u>	<u>\$ 111,395,486</u>

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015, these investments had an average maturity of 239 days.

The Authority is a participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The Authority reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2015, the fair value approximated is the Authority’s cost, and these investments had an average maturity of 41 days.

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**D. Interest Rate Risk (Continued)**

Money market mutual funds were available for withdrawal on demand and at June 30, 2015 and had an average maturity of 22 days for the Dreyfus U.S. Treasury Money Market Fund and 33 days for the First American Money Market Fund.

**E. 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. Presented below is the actual rating as of June 30, 2015, for each investment type as provided by Standard and Poor’s investment rating system:

	AAA/AAA <sub>m</sub>	AA+/AA/AA-	A+/A/A-	Total
<b>Investments:</b>				
Federal Agency Securities	\$ -	\$ 14,488,117	\$ -	\$ 14,488,117
Medium-Term Corporate Notes	1,458,814	11,609,781	8,899,572	21,968,167
Municipal Bonds	-	976,818	-	976,818
Forward Delivery Agreements	-	4,605,249	-	4,605,249
Negotiable Certificates of Deposit	-	1,794,825	-	1,794,825
California Asset Management Program	3,471,283	-	-	3,471,283
Supranationals	444,407	-	-	444,407
Totals	<u>\$ 5,374,504</u>	<u>\$ 33,474,790</u>	<u>\$ 8,899,572</u>	47,748,866
<b>Exempt from Credit Rating Disclosure:</b>				
U.S. Treasury Notes				25,542,972
<b>Not Rated:</b>				
Negotiable Certificates of Deposit				14,045,524
Local Agency Investment Fund				10,108,653
US Bank Money Market				249,691
Federal Agencies Collateralized Mortgage Obligations				382,835
City of Roseville Investment Pool				13,316,945
Total Investments				<u>\$ 111,395,486</u>

**F. Concentration of Credit Risk**

The California Government Code stipulates certain percentage limitations on the amount that can be invested in any one issuer as noted on the table at Section B above. The Authority’s Investment Policy does not place any further restrictions on the maximum investment in any one issuer. Investments in any one issuer, other than U. S. Treasury securities, money market mutual funds, the California Local Agency Investment Fund, the California Asset Management Pool and the City of Roseville Investment Pool, that represent 5% or more of total Authority investments are as follows at June 30, 2015

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	\$ 5,632,074
Federal National Mortgage Association	Federal Agency Securities	5,655,703

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 3 – CAPITAL ASSETS CONTRIBUTED TO THE CITY OF ROSEVILLE**

Capital construction costs incurred by the Authority are transferred annually, in the form of construction in progress, to the City of Roseville, which owns and operates the Regional Wastewater Facilities. Capital construction costs of the Authority, as defined by the Funding Agreement, include personnel services and administration and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds. Since the Regional Wastewater Facilities construction project was accepted as complete at the end of fiscal year 2004-2005, the debt service and interest income on unexpended bond proceeds are no longer a component of the capital construction costs of the Authority.

Costs incurred by the Authority in fiscal year 2014-2015 totaling \$584,844 were transferred as construction in progress to the City of Roseville as of June 30, 2015.

**NOTE 4 – LONG-TERM DEBT**

**A. Current Year Transactions and Balances**

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
<b>Revenue Bonds:</b>						
2011 Refunding Wastewater Revenue Bonds, Series C 1.00-5.25%, due 11/1/25	\$ 67,040,000	\$ 58,085,000	\$ -	\$ 3,460,000	\$ 54,625,000	\$ 3,710,000
Add: deferred bond premium	5,240,941	3,930,705	-	327,558	3,603,147	-
2011 Refunding Wastewater Revenue Bonds, Series D variable rate (SIFMA rate plus 0.83%), due 11/1/14	30,000,000	30,000,000	-	30,000,000	-	-
2013 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series 2013 variable rate, due 11/1/35	59,330,000	59,330,000	-	-	59,330,000	-
2014 Wastewater Revenue Refunding Bonds, Series 2014 variable rate (SIFMA rate plus 0.33%), due 11/1/17	29,120,000	-	29,120,000	-	29,120,000	-
<b>TOTAL</b>		<u>\$ 151,345,705</u>	<u>\$ 29,120,000</u>	<u>\$ 33,787,558</u>	<u>\$ 146,678,147</u>	<u>\$ 3,710,000</u>

**B. 2011 South Placer Wastewater Authority Wastewater Refunding Revenue Bonds, Series A, B, C and D**

On April 7, 2011, the Authority issued Variable Rate Demand Refunding Wastewater Revenue Bonds Series 2011A and 2011B in the original principal amounts of \$30,165,000 and \$30,160,000, respectively, and Revenue Refunding Bonds Series 2011C and 2011D (SIFMA Index Bonds) in the original principal amounts of \$67,040,000 and \$30,000,000, respectively.

The Series 2011ABCD Bonds were issued to refund the remaining outstanding balance of the 2008 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds Series A and Series B. During fiscal year 2013, the 2011A and 2011B Bonds were refunded by the 2013 South Placer Wastewater Authority Refunding Wastewater Bonds. The 2011D Bonds were refunded in August 2014 by the 2014 Wastewater Revenue Refunding Bonds discussed in Note 4D.

**C. 2013 South Placer Wastewater Authority Wastewater Refunding Revenue Bonds**

On April 1, 2013, the Authority issued Variable Rate Demand Refunding Wastewater Revenue Bonds Series 2013 in the original principal amount of \$59,330,000. The 2013 Bonds were issued to refund the remaining outstanding balance of the 2011 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series A and Series B.

## **SOUTH PLACER WASTEWATER AUTHORITY**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015**

#### **NOTE 4 – LONG-TERM DEBT (Continued)**

The 2013 Bonds were issued as variable rate securities with interest calculated monthly equal to the LIBOR Index Rate. The LIBOR Index Rate is defined in the Indenture to mean the per annum rate of interest established on each Computation Date (monthly) and effective on each related LIBOR Index Reset Date equal to the sum of the Applicable Spread (initially 0.625%, but adjustable based on the credit rating of the Roseville Finance Authority's long-term unenhanced debt secured or evidenced by a parity obligation) plus the product of the LIBOR Index multiplied by the Applicable Factor (initially 70.5%). The interest rate of the Bonds cannot exceed 12% per year and may be converted by the Authority into a Daily Rate, a Weekly Rate, a Long-Term Rate, a Commercial Paper Rate, or a subsequent Index Rate, subject to certain conditions defined in the Indenture. The interest rate at June 30, 2015 was 0.580%. The Bonds are subject to mandatory redemption annually beginning November 1, 2029 through 2035.

The Authority originally entered into a 19 year interest rate swap agreement for the entire amount of the 2008B Bonds, and as part of the issuance of the 2011 ABCD Bonds, the swap agreement was amended and remains in effect, but the notional amount of the swap is based on the notional amount of the 2008B Bonds. The interest rate swap agreement remains outstanding after the refunding and issuance of the 2013 Bonds, and the notional amount of the swap continues to be based on the notional amount of the 2008B Bonds. The combination of the variable rate bonds and the floating rate swap creates a synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the 2011C and 2013 Bonds at June 30, 2015 was 4.13%.

#### ***D. 2014 South Placer Wastewater Authority Refunding Revenue Bonds***

On August 7, 2014, the South Placer Wastewater Authority issued the Wastewater Revenue Refunding bonds, Series 2014, in the amount of \$29,120,000 to refund the Authority's Wastewater Revenue Refunding Bonds, Series 2011D.

The 2014 Bonds were issued as SIFMA Index Bonds and the interest rate is the rate of the SIFMA index, adjusted weekly, plus a spread of .33%. The SIFMA Municipal Swap Index, represents a seven-day high-grade market index composed of selected tax-exempt variable-rate demand obligations meeting specific criteria. The SIFMA Index is calculated weekly.

The 2014 Bonds are secured by a pledge of Authority Revenues, which include all amounts received by, or entitled to be received by, the Authority from the Participants (consisting of the City, SPMUD and Placer County) under provisions of the Funding Agreement. The Authority Revenues generally exclude Regional Connection Fees and amounts held in the Rate Stabilization Fund, unless certain conditions are met.

Interest is due monthly commencing in September 2014. Principal payments are due annually beginning in November 2025 and continuing through 2029.

As of June 30, 2015, the total principal and interest remaining to be paid on the 2011C Bonds, 2013 Bonds and the 2014 Bonds was \$183,164,723. As disclosed in the Indenture, net revenues of the respective systems of the members are expected to provide coverage over debt service of 110% over the lives of the Bonds, however the Funding Agreement established a Rate Stabilization Account to be used for the payment of debt service on the Bonds and other costs of the Authority. As discussed in Note 1A, the members' monthly contributions of regional connection fees are deposited into the Rate Stabilization Account, and the Authority pays the debt service and other costs from the Account, based on each member's proportionate share. For fiscal year 2015, \$9,253,778 in debt service was paid from the Rate Stabilization Account.

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 4 – LONG-TERM DEBT (Continued)**

***E. Interest Rate Swap Agreement***

The Authority entered into an interest rate swap agreement in connection with the 2008 Refunding Wastewater Revenue Bonds, Series B. The Authority amended the swap with the issuance of the 2013 Bonds, but the swap continues to be based on the notional amount of the 2008B Bonds.

The combination of variable rate bonds and a floating swap effectively changes the Authority’s variable interest rate on the bonds to a synthetic rate, protecting the Authority against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement are disclosed below.

*Terms.* The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2015, is included below. The Authority’s swap agreement contains scheduled reductions to the outstanding notional amount, which is based on the notional amount of the 2008 Refunding Wastewater Revenue Bonds, Series B.

Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Maturity/Termination Date
\$74,025,000	9/17/2003, amended 4/10/2008	Morgan Stanley Capital Services Inc.	A-	3.67%	62% of 1m LIBOR plus 26 bps	11/1/2027

Based on the swap agreement, the Authority owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the Authority interest based on the variable rate that approximates the rate required by the Bonds. Debt principal is not exchanged; it is only the basis on which swap receipts and payments are calculated.

*Fair value.* Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The Authority has accounted for the change in fair value of the swap as a deferred outflow. As of June 30, 2015, the fair value of the swap was not in favor of the Authority as follows:

Related Bond Issue	Fair Value
2011 Refunding Wastewater Revenue Bonds, series C and 2013 Refunding Wastewater Revenue Bonds (based on notional amount of 2008 Refunding Wastewater Revenue Bonds, Series B)	\$ (10,050,507)

*Credit risk.* Since the fair value of the swap is negative, the Authority is not currently exposed to credit risk. The fair values may increase if interest rates increase in the future. Should interest rates increase to the point where fair values become positive, the Authority would be exposed to credit risk on the outstanding swap. The Authority will be exposed to interest rate risk only if the counterparty to a swap defaults or if the swap is terminated.

## SOUTH PLACER WASTEWATER AUTHORITY

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE 4 – LONG-TERM DEBT (Continued)

*Basis risk.* Basis risk is the risk that the interest rate paid by the Authority on underlying variable rate bond to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The Authority bears basis risk on the swap. The swap has basis risk since the Authority receives a percentage of LIBOR index to offset the actual variable bond rate the Authority pays on its bonds. The Authority is exposed to the basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Authority pays on the underlying bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The Authority is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the Authority is exposed to this basis risk.

*Termination risk.* The Authority may terminate if the other party fails to perform under the terms of the contract. The Authority will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the Authority's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Rollover risk.* Rollover risk is the risk that the swap associated with a debt issue matures or may be terminated prior to the maturity of the associated debt. When the swap terminates or a termination option is exercised by the counterparty, the Authority will be re-exposed to the risks being hedged by the swap. The swap based on the 2008 Refunding Wastewater Revenue Bonds, Series B, associated with the 2011C Refunding Wastewater Revenue Bonds and 2013 Refunding Wastewater Revenue Bonds, exposes the Authority to rollover risk because the swap terminates on November 1, 2027 while the 2011 A and B mature on November 1, 2035, the 2011C Bonds mature on November 1, 2025, and the 2013 Bonds mature on November 1, 2035.

*Swap payments and associated debt.* Using rates as of June 30, 2015, debt service requirements of the Bonds and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary

For the Year Ending June 30	Principal	Interest	Interest Rate Swap, Net	Total
2016	\$ 3,710,000	\$ 3,146,044	\$ 2,284,659	\$ 9,140,703
2017	3,985,000	2,962,219	2,135,012	9,082,231
2018	4,275,000	2,755,719	1,979,465	9,010,184
2019	4,590,000	2,534,094	1,818,019	8,942,113
2020	4,925,000	2,296,219	1,650,940	8,872,159
2021 - 2025	30,480,000	7,195,720	5,525,393	43,201,113
2026 - 2030	38,095,000	2,015,504	885,007	40,995,511
2031 - 2035	43,310,000	886,946	-	44,196,946
2036	9,705,000	18,763	-	9,723,763
Totals	<u>\$ 143,075,000</u>	<u>\$ 23,811,228</u>	<u>\$ 16,278,495</u>	<u>\$ 183,164,723</u>

**SOUTH PLACER WASTEWATER AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

***E. Debt Service Requirements***

Annual debt service requirements, using interest rates as of June 30, 2015, are shown below for all long-term debt:

For the Year Ending June 30	Principal	Interest
2016	\$ 3,710,000	\$ 3,916,910
2017	3,985,000	3,779,537
2018	4,275,000	3,573,129
2019	4,590,000	3,351,776
2020	4,925,000	3,116,814
2021-2025	30,480,000	11,286,177
2026-2030	38,095,000	6,249,571
2031-2035	43,310,000	3,245,087
2036	9,705,000	84,225
Total	143,075,000	\$ 38,603,226

**Reconciliation of long-term debt**

Add deferred bond premium costs	3,603,147
Net long-term debt	\$ 146,678,147

***F. Original Issue Discounts and Premiums and Deferred Amount on Refunding***

For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any differences between proprietary refunded debt and the debt issued to refund it is reported as a deferred inflow/outflow of resources, as applicable, and is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

## SOUTH PLACER WASTEWATER AUTHORITY

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE 5 – NET POSITION

Net Position is the excess of all the Authority's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. The Authority's net position is divided into two segments, restricted and unrestricted.

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. At June 30, 2015, restrictions included:

Restricted for **rate stabilization** represents the portion of net position restricted for future use in the event development fees are not adequate to meet the required ratio of revenue to expenses required under bond indentures.

Restricted for **debt service** represents the portion of net position held in reserve in the event other resources of the Authority are not adequate to make required debt service payments.

*Unrestricted* describes the portion of net position which is not legally or contractually restricted as to use.

#### NOTE 6 – RISK MANAGEMENT

The Authority has purchased commercial insurance for general, property and public officials' liability. During the fiscal year ended June 30, 2015, the Authority paid \$18,122 for current year coverage.

The following types of loss risks are covered by the above commercial insurance policies as follows:

Type of Coverage	Coverage Limit	Deductible
Personal Injury, Including Bodily Injury and Property Damage	\$ 1,000,000	\$ 2,500
Automobile Liability	1,000,000	2,500
Public Officials Errors and Omissions	1,000,000	2,500
Employment Practices Liability	1,000,000	10,000
Crime Bond	10,000,000	2,500
Cyber Liability	250,000	10,000

The Authority has not had any claims that exceeded coverage in the past 3 years.

#### NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the management, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

**SUPPLEMENTARY INFORMATION**

**SOUTH PLACER WASTEWATER AUTHORITY**

**ANALYSIS OF RATE STABILIZATION RESTRICTED NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

	City of Roseville	South Placer Municipal Utility District	Placer County	Totals
<b>Balance at June 30, 2014</b>	\$ 64,793,687	\$ 40,350,405	\$ (6,090,213)	\$ 99,053,879
<b>Additions July 1, 2014 to June 30, 2015</b>				
Payments under repayment agreement	-	-	500,000	500,000
Reimbursement costs - others	88,170	32,074	22,751	142,995
Regional connection fees	6,979,521	3,047,933	5,129,067	15,156,521
Interest allocation	505,965	317,483	(30,986)	792,462
Capital construction costs	(265,194)	(96,471)	(68,429)	(430,094)
Debt service	(5,705,879)	(2,075,623)	(1,472,276)	(9,253,778)
Administrative costs	(95,420)	(34,710)	(24,620)	(154,750)
<b>Total</b>	<u>1,507,163</u>	<u>1,190,686</u>	<u>4,055,507</u>	<u>6,753,356</u>
<b>Balance at June 30, 2015</b>	<u>\$ 66,300,850</u>	<u>\$ 41,541,091</u>	<u>\$ (2,034,706)</u>	<u>\$ 105,807,235</u>

	Net Position of	
	Bond Proceeds	Member Contributions
Investments in City of Roseville Treasury	\$ -	\$ 13,316,945
Investments	-	89,963,630
Restricted investments with fiscal agent	8,114,911	-
Unallocated loss on investments	80,146	(80,146)
Accrued interest receivable	-	224,488
Due from other governments	-	1,444,953
Permit fees receivable	-	1,608,964
Accumulated decrease in fair value of hedging derivatives	10,050,507	-
Accounts payable and other liabilities	(38,452)	(671,599)
Derivative at fair value	(10,050,507)	-
Long-term debt:		
Due in one year	(3,710,000)	-
Due in more than one year	(142,968,147)	-
<b>Net Position (Deficit)</b>	<u>\$ (138,521,542)</u>	<u>\$ 105,807,235</u>