

\$97,000,000
SOUTH PLACER WASTEWATER AUTHORITY
Refunding Wastewater Revenue Bonds, Series 2003
(Auction Rate)

Dated: Date of Delivery**Due: November 1, 2027**

The South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the "Series 2003 Bonds") are being issued as Auction Rate Securities (as defined below). Interest on the Series 2003 Bonds will accrue from the date of original delivery (the "Date of Delivery") at Dutch Auction Rates determined by the Underwriter for the applicable initial Auction Periods as shown on the inside cover. Thereafter, interest with respect to the Auction Rate Securities will accrue for subsequent Auction Periods at the Dutch Auction Rates determined in accordance with the Dutch Auction Procedures described in APPENDIX K. During such Auction Periods the Series 2003 Bonds are referred to as "Auction Rate Securities." Prospective purchasers of the Auction Rate Securities should carefully review the Dutch Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Auction Rate Securities based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. While the Auction Rate Securities bear interest at a Dutch Auction Rate, beneficial interests in such Auction Rate Securities may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The interest rate with respect to the Auction Rate Securities may be converted from time to time in accordance with the Indenture relating to the Auction Rate Securities to a Daily Rate, a Weekly Rate, Commercial Paper Rates or a Long Term Rate (each an "Interest Rate Mode").

THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE SERIES 2003 BONDS AFTER A CONVERSION TO SERIES 2003 BONDS BEARING INTEREST AT A RATE OTHER THAN A DUTCH AUCTION RATE.

The Series 2003 Bonds are being issued by the South Placer Wastewater Authority (the "Authority"), a joint exercise of powers agency created by the City of Roseville, the South Placer Municipal Utility District and the County of Placer (collectively, the "Participants"), pursuant to an Indenture of Trust, dated as of September 1, 2003 (the "Indenture"), between the Authority and BNY Western Trust Company, as trustee (the "Trustee"), for the purpose of providing funds, together with other available moneys, (i) to advance refund a portion of the South Placer Wastewater Authority Wastewater Revenue Bonds, Series A (the "2000A Bonds"), (ii) to fund a Reserve Account for the Series 2003 Bonds, and (iii) to pay costs of issuance of the Series 2003 Bonds, as more fully described herein.

The Series 2003 Bonds are payable solely from the Authority Revenues, consisting principally of payments from the Participants under the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the "Funding Agreement"), among the Authority and the Participants. In consideration for the provision of wastewater treatment capacity, each Participant has agreed to pay all Regional Connection Fees to pay its Proportionate Share of Debt Service under the Funding Agreement, as well as its share of Regional Operation and Maintenance Costs under the Agreement Regarding the Operation and Use of the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the "Operations Agreement"), among the Authority and the Participants. The obligation of each of the Participants to make its Proportionate Share of Debt Service is secured by a pledge of the Participant Net Revenues of the respective Systems of the Participants. The payment of each Participant's respective Proportionate Share of Debt Service is an unconditional obligation of each of the Participants and is not subject to abatement. The obligation of the Participants to pay their Proportionate Share of Debt Service is a several, but not joint obligation, and there is no cross-collateralization of the Proportionate Share of Debt Service obligation among the Participants. The Series 2003 Bonds are secured on a parity with the 2000A Bonds and the South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B. The Authority may issue or incur additional Parity Bonds secured by Authority Revenues, subject to the terms and conditions of the Indenture, as more fully described herein, and each of the Participants may issue or incur additional Participant Parity Obligations secured by such Participant's Net Revenues, subject to the terms and conditions of the Funding Agreement, as more fully described herein.

Payment of principal of and interest on the Series 2003 Bonds when due will be guaranteed under a bond insurance policy to be issued concurrently with the delivery of the Series 2003 Bonds by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company. See "BOND INSURANCE" and APPENDIX J—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Governmental agency.

The Series 2003 Bonds are being issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2003 Bonds. Individual purchases will be made in book-entry form only in denominations of \$25,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2003 Bonds purchased. See APPENDIX F—"BOOK-ENTRY SYSTEM" herein.

The Series 2003 Bonds will be subject to optional, special and mandatory redemption prior to maturity as described herein. While interest with respect to the Auction Rate Securities accrues at a Dutch Auction Rate, such Auction Rate Securities will not be subject to optional tender for purchase, nor will they be purchased in the event of a "failed" auction (although they will be subject to mandatory tender upon conversion to a different Interest Rate Mode, provided certain conditions to conversion are satisfied, all as described herein).

THE SERIES 2003 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE AUTHORITY REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY OR THE PARTICIPANTS IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2003 BONDS, AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE AUTHORITY REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2003 BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2003 BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY PARTICIPANT FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

This cover page contains certain information for quick reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a description of certain of the risks associated with an investment in the Series 2003 Bonds.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

The Series 2003 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Miller, Owen & Trost, A Professional Corporation, Sacramento, California, for the Participants by their respective counsels and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, San Francisco, California. It is expected that the Series 2003 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about September 17, 2003.

MORGAN STANLEY

MATURITY SCHEDULE

\$97,000,000
SOUTH PLACER WASTEWATER AUTHORITY
REFUNDING WASTEWATER REVENUE BONDS, SERIES 2003
(AUCTION RATE)

All bonds priced at 100%

Last Day of Initial Auction Period	Auction Periods Generally	First Auction Date	First Interest Payment Date
September 24, 2003	Seven Days	September 24, 2003	September 25, 2003

No dealer, broker, salesperson or other person has been authorized by the Authority, the Participants or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2003 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2003 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been provided by the Authority and the Participants and other sources that are believed by the Authority and the Participants to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs of the Authority or the Participants since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority or the Participants in any way, regardless of the level of optimism communicated in the information. Neither the Authority nor the Participants is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “FINANCIAL OPERATIONS” and in the projections of future operating results of the Participants in Appendices B-1, C-1 and D-1 attached hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY AND THE PARTICIPANTS DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR, OTHER THAN AS DESCRIBED UNDER “CONTINUING DISCLOSURE” HEREIN.

SOUTH PLACER WASTEWATER AUTHORITY

GOVERNING BOARD OF THE AUTHORITY

Rich Roccucci, *Chair*
Ted Gaines, *Vice-Chair*
Jerry Blackwell
Rocky Rockholm
Bill Santucci

MANAGEMENT

Derrick Whitehead, *Executive Director*
Russ Cochran Branson, *Treasurer*

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BROKER-DEALER

Morgan Stanley & Co. Incorporated
New York, New York

AUCTION AGENT

Wilmington Trust Company
New York, New York

VERIFICATION AGENT

The Arbitrage Group, Inc.
Tuscaloosa, Alabama

South Placer Wastewater Authority Location Map

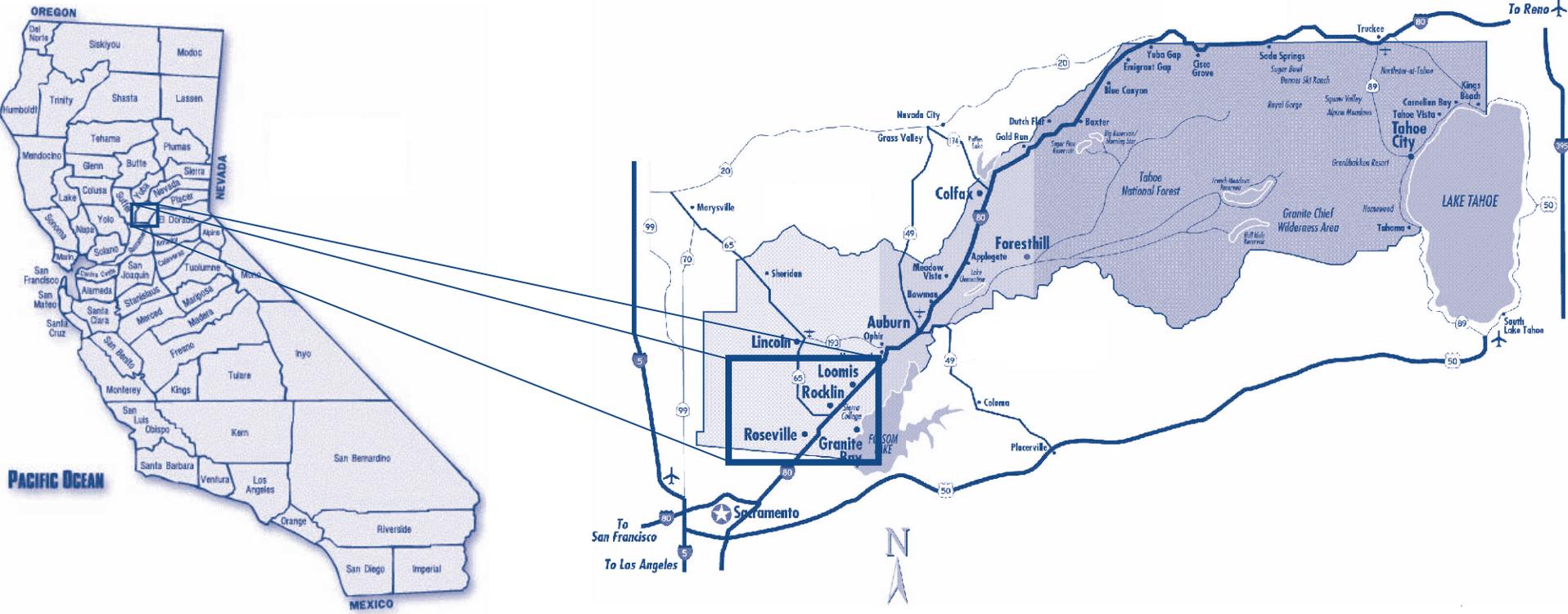


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OFFICIAL STATEMENT

\$97,000,000
SOUTH PLACER WASTEWATER AUTHORITY
REFUNDING WASTEWATER REVENUE BONDS,
SERIES 2003
(AUCTION RATE)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance and sale by the South Placer Wastewater Authority (the "Authority"), a joint exercise of powers agency created by the City of Roseville, the South Placer Municipal Utility District and the County of Placer (collectively, the "Participants"), of its Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) in the aggregate principal amount of \$97,000,000 (the "Series 2003 Bonds"). All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in APPENDIX G—"CERTAIN DEFINITIONS."

The Series 2003 Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2003 (the "Indenture") between the Authority and BNY Western Trust Company, as Trustee (the "Trustee"). The Series 2003 Bonds are being issued initially as auction rate securities at a Dutch Auction Rate. The interest rate with respect to the Auction Rate Securities may be converted from time to time in accordance with the Indenture relating to the Auction Rate Securities to a Daily Rate, a Weekly Rate, Commercial Paper Rates or a Long Term Rate (each an "Interest Rate Mode"). See "THE SERIES 2003 BONDS."

THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE SERIES 2003 BONDS AFTER A CONVERSION TO SERIES 2003 BONDS BEARING INTEREST AT A RATE OTHER THAN A DUTCH AUCTION RATE.

The Series 2003 Bonds are being issued for the purpose of providing funds, together with other available moneys, (i) to advance refund a portion of the South Placer Wastewater Authority Wastewater Revenue Bonds, Series A (the "2000A Bonds"), (ii) to fund a Reserve Account for the Series 2003 Bonds, and (iii) to pay costs of issuance of the Series 2003 Bonds, as more fully described herein. See "PLAN OF FINANCING." The Series 2003 Bonds will be issued in full conformity with the Constitution and the laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Act") and are issued as Parity Bonds under the Funding Agreement (as herein defined).

The 2000A Bonds and the South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B (the "Series 2000B Bonds, and collectively with the Series 2000A Bonds, the "2000 Bonds") were issued to finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant (the "Pleasant Grove Plant") and other regional wastewater facilities, including certain trunk sewers, recycled water lines and certain other related projects. The Pleasant Grove Plant has been constructed to increase the regional wastewater treatment capacity available for continued growth and development within the service areas of the Participants in the southern part of the County of Placer. Construction of the Pleasant Grove Plant is approximately 95% complete and it is expected to be completed substantially within its original budget. The Pleasant Grove Plant is currently in its testing phase and is anticipated to be on-line and operational by the end of calendar year 2003. When on-line, the Pleasant Grove Plant is expected to have a capacity of 12 million gallons per day ("mgd") average dry weather flow. See "THE REGIONAL WASTEWATER SYSTEM – Existing Wastewater Facilities" herein. Costs of the Pleasant Grove Plant, including debt service on the unrefunded 2000 Bonds and the Series 2003 Bonds, and any other Regional Wastewater Facilities constructed by the Authority, are required to be paid by the

Participants pursuant to the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the “Funding Agreement”), among the Authority and the Participants. Regional Connection Fees imposed and collected by the Participants as a condition to the connection of new development to the Participants’ wastewater collection systems (and an allocation of capacity at the Regional Wastewater Facilities) are intended and expected to be sufficient to pay debt service on the unrefunded 2000 Bonds and the Series 2003 Bonds. A Rate Stabilization Fund has been established under the Funding Agreement to provide, among other things, a source of funds for the payment of debt service on the unrefunded 2000 Bonds and the Series 2003 Bonds in the event of variations in the timing of development and collection of Regional Connection Fees. In the event the amount available to be drawn from a Participant’s account in the Rate Stabilization Fund is not sufficient to pay such Participant’s Proportionate Share of Debt Service (including because development is significantly slower than expected), such Participant may be obligated to pay all or a part of such amount from such Participant’s Participant Net Revenues (derived principally from User Charges collected by such Participant from its wastewater customers). In connection with the issuance of the Series 2003 Bonds, the Authority intends to enter into an interest rate exchange agreement (the “Swap Agreement”) with Morgan Stanley Capital Services Inc. (the “Counterparty”). See “PLAN OF FINANCING – “Interest Rate Swap Agreement” herein.

The Authority

The Authority was created pursuant to a Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, effective October 1, 2000, among the Participants. The Authority was created for the purpose of providing for the planning, financing, acquisition, ownership, construction and operation of the Pleasant Grove Plant, the Dry Creek Wastewater Treatment Plant (the “Dry Creek Plant”), any other regional treatment plants constructed by the Authority or any of the Participants in the future to facilitate wastewater collection, conveyance, treatment, recycling, discharge and disposal services collectively to all of the Participants, and all Related Regional Infrastructure (as defined in the Funding Agreement), including the Pleasant Grove Plant (collectively, the “Regional Wastewater Facilities”). See “THE REGIONAL WASTEWATER SYSTEM” and “SOUTH PLACER WASTEWATER AUTHORITY.”

The Participants

In 2000, the City of Roseville (the “City” or “Roseville”), the South Placer Municipal Utility District (the “District” or “SPMUD”) and the County of Placer (“Placer County”) determined that their collective present and future needs for wastewater treatment required the construction of the Pleasant Grove Plant and other regional facilities. Accordingly, the Participants created the Authority and entered into the Funding Agreement in connection with the issuance of the 2000 Bonds, payments under which will secure the payment of the unrefunded 2000 Bonds and the Series 2003 Bonds. See “SECURITY FOR THE SERIES 2003 BONDS.”

City of Roseville. Roseville is a charter city located in California’s Sacramento Valley with an estimated population of 90,739 as of January 1, 2003. Roseville started developing its own wastewater collection and treatment utility shortly after its incorporation as a city on April 10, 1909. Roseville owns and operates the Dry Creek Plant and, prior to the creation of the Authority, provided wastewater treatment for SPMUD and Placer County at the Dry Creek Plant pursuant to various contracts. The Dry Creek Plant has a capacity of 18 mgd average dry weather flow. See “THE REGIONAL WASTEWATER SYSTEM – Existing Wastewater Facilities” herein.

Roseville’s wastewater utility currently provides sewer service to 50,943 equivalent dwelling units within Roseville’s city limits. The wastewater service area of Roseville consists of approximately 31.3 square miles (or 20,224 acres), including approximately 1,098 acres of developed commercial land, 687 acres of developed industrial land and 308 acres of public land. For more information concerning Roseville and its wastewater utility, see APPENDIX B-1—“INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY” and APPENDIX B-2—“EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT.”

South Placer Municipal Utility District. SPMUD was established pursuant to the Municipal Utility District Act (California Public Utilities Code Sections 11501 et seq.) in 1956 under the original name of the Rocklin-Loomis Municipal Utility District. In 1987, SPMUD changed its name to the South Placer Municipal Utility District. SPMUD currently provides sewer collection service to a population of approximately 50,000, involving approximately 25,000 equivalent dwelling units. SPMUD services an area of approximately 23 square

miles, involving the entire City of Rocklin, a major portion of the City of Loomis and certain unincorporated areas of Placer County (near Penryn). For more information concerning SPMUD and its wastewater system, see APPENDIX C-1—"INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT" and APPENDIX C-2—"SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT."

County of Placer. Placer County provides wastewater collection services to certain of its residents through a sewer maintenance district ("SMD No. 2") and three county service areas ("CSA No. 2A," "CSA No. 55 and "CSA No. 173"). SMD No. 2 was established in 1961, comprises 11.2 square miles and currently serves a population of approximately 16,000, involving 6,728 equivalent dwelling units. CSA No. 2A was established in 1963, comprises 2.3 square miles of industrial property, involving 927 equivalent dwelling units. CSA No. 55 was established in 1978, comprises 0.2 square miles and currently serves a population of approximately 500, involving 215 equivalent dwelling units. CSA No. 173 was established in 2003, serves approximately 950 acres of land, with capacity for approximately 1,020 equivalent dwelling units and currently serves 281 equivalent dwelling units. For more information regarding Placer County, SMD No. 2, CSA No. 2 and CSA No. 55, see APPENDIX D-1—"INFORMATION CONCERNING THE PROVISION OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS WITHIN THE COUNTY OF PLACER" and APPENDIX D-2—"FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER'S WASTEWATER ENTITIES."

Sewer collection service is provided to other residents of Placer County through other sewer maintenance districts and county service areas, revenues from which are not in any way pledged under the Funding Agreement, the Indenture or involved in the repayment of any obligations of the Authority, including the Series 2003 Bonds.

Security for the Series 2003 Bonds

The Series 2003 Bonds are payable solely from the Authority Revenues, consisting principally of payments from the Participants under the Funding Agreement. In consideration for providing wastewater treatment capacity, each Participant has agreed to pay its Proportionate Share of Debt Service under the Funding Agreement, as well as its share of Regional Operation and Maintenance Costs under the Agreement Regarding the Operation and Use of the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the "Operations Agreement"), among the Authority and the Participants. The obligation of each of the Participants to make its Proportionate Share of Debt Service is secured by a pledge of the Participant Net Revenues of the respective Systems of the Participants. The payment of Proportionate Shares of Debt Service is an unconditional obligation and is not subject to abatement. The obligation of the Participants to pay their Proportionate Share of Debt Service is a several, but not joint, obligation and there is no cross-collateralization of the Proportionate Share of Debt Service obligation among the Participants. See "SECURITY FOR THE SERIES 2003 BONDS."

THE SERIES 2003 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE AUTHORITY REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY OR THE PARTICIPANTS IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2003 BONDS, AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE AUTHORITY REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2003 BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY PARTICIPANT FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

In connection with the issuance of the Series 2003 Bonds, the Authority intends to enter into an interest rate exchange agreement (the "Swap Agreement") with Morgan Stanley Capital Services Inc., (the "Counterparty").

Regional Connection Fees

The Participants are required by the Funding Agreement to remit Regional Connection Fees to Roseville for deposit in the Rate Stabilization Fund described below. The Participants intend that their respective contributions of Regional Connection Fees will be sufficient to pay their Proportionate Share of Debt Service. To the extent required by the Funding Agreement and as described herein, if the Regional Connection Fees collected by any Participant are insufficient to pay its Proportionate Share of Debt Service, such Participant may be required to set User Charges for its System as described below under “Rate Covenant.”

Rate Stabilization Fund

A Rate Stabilization Fund has been established pursuant to the Funding Agreement and is maintained by Roseville on behalf of the Authority. The Rate Stabilization Fund is held as one fund, with three separate accounts therein (one for each Participant), all of which, collectively, will constitute the Rate Stabilization Fund. As of June 30, 2003, Roseville, SPMUD and Placer County had on deposit, respectively, \$84,335,890, \$39,450,455, and \$5,641,315 in such Participant’s respective account in the Rate Stabilization Fund. The total of these three amounts is \$129,427,660. The final amounts (determined following completion of the reconciliation of the fiscal year ended June 30, 2003 may be lower due to additional construction payments posted back to June 30, 2003. Amounts on deposit in each Participant’s account in the Rate Stabilization Fund are intended and expected to be sufficient to pay such Participant’s Proportionate Share of Debt Service on the Series 2003 Bonds. To the extent that amounts on deposit in any of the Participants’ accounts in the Rate Stabilization Fund are insufficient to pay such Participant’s Proportionate Share of Debt Service, the other Participants’ accounts within the Rate Stabilization Fund will pay the deficiency, subject to the terms and conditions of the Funding Agreement. See “SECURITY FOR THE BONDS—Funding Agreement – Rate Stabilization Fund; Regional Connection Fees” for a discussion of these terms.

The Rate Stabilization Fund may be used to pay: (1) Debt Service; (2) Bond Redemptions; (3) Capital Costs; (4) reimbursement to a Participant of funds, other than Regional Connection Fees, deposited by such Participant into the Debt Service Fund, the Reserve Account and the Rate Stabilization Fund, except to the extent such reimbursement would cause the balance of such Participant’s account within the Rate Stabilization Fund to fall below its Sub-Minimum Level; (5) administrative and other expenses incurred by the Authority; and (6) any other legal expenditures. Amounts in the Rate Stabilization Fund are not pledged to pay debt service on the Series 2003 Bonds. Accordingly, there can be no assurance as to the future balances of the Rate Stabilization Fund or whether any amounts on deposit in the fund will be applied to pay debt service on the Series 2003 Bonds. See “SECURITY FOR THE BONDS—Funding Agreement – Rate Stabilization Fund; Regional Connection Fees.”

Rate Covenant

Each Participant is required to fix, prescribe, revise, and collect User Charges for the services and facilities furnished by such Participant’s System during each Fiscal Year, which are sufficient to yield Participant Net Revenues of such System at least equal to 110% of Rate Covenant Debt Service. Generally, in calculating Rate Covenant Debt Service, a deduction is made from Debt Service for transfers from the Rate Stabilization Fund to pay the Proportionate Share of Debt Service of the Participants. See “SECURITY FOR THE BONDS—Funding Agreement – Rate Covenant.”

Reserve Account

A Reserve Account will be established pursuant to the Indenture for the equal benefit of all outstanding Series 2003 Bonds. Upon the issuance of the Series 2003 Bonds, there will be deposited into the Reserve Account from the proceeds of the Series 2003 Bonds an amount equal to \$7,100,129.15, which equals the Reserve Requirement. Amounts in the Reserve Account will be used solely for the purpose of making required deposits into the Debt Service Fund in the event that there is insufficient money available for such purpose. The Reserve Account may be funded from cash or from a Reserve Account Credit Instrument pursuant to the Indenture. A reserve account has been established to secure the Series 2000 Bonds. Amounts on deposit in such reserve account are not available to pay debt service on the Series 2003 Bonds and amounts on deposit in the Reserve Account may not be used to pay debt service on the Series 2000 Bonds. See “SECURITY FOR THE BONDS—Reserve Account.”

Parity Bonds and Obligations

Upon issuance, the Series 2003 Bonds will be secured by Authority Revenues on a parity with the unrefunded 2000 Bonds. Payments by the Authority under the Swap Agreement are also payable from Authority Revenues and amounts on deposit in the Rate Stabilization Fund. See “PLAN OF FINANCING—Interest Rate Exchange Agreement” The Authority may issue or incur in the future additional Parity Bonds secured by Authority Revenues, subject to the terms and conditions of the Indenture, as more fully described herein. See “SECURITY FOR THE BONDS—Additional Parity Obligations.”

Participant Parity Obligations

Each of the Participants may issue or incur in the future additional Participant Parity Obligations payable from such Participant’s Net Revenues, subject to the terms and conditions of the Funding Agreement, as more fully described herein. See “SECURITY FOR THE BONDS—Funding Agreement – Participant Parity Obligations Secured By Participant Net Revenues.”

Bond Insurance

Concurrently with the issuance of the Series 2003 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (the “Insurer”) will issue a municipal bond insurance policy (the “Insurance Policy”) with respect to the Series 2003 Bonds. The Insurance Policy will unconditionally guarantee the payment of the principal of and interest on the Series 2003 Bonds which has become due for payment, but is unpaid by reason of nonpayment by the Authority. See “BOND INSURANCE” and APPENDIX J—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

Continuing Disclosure

The Authority and the Participants will covenant for the benefit of the holders and beneficial owners of the Series 2003 Bonds to provide certain financial information and operating data by not later than 210 days following the end of the Authority’s and each Participant’s Fiscal Year (presently June 30) (the “Annual Reports”), commencing with the report for the Fiscal Year ended June 30, 2003, and the Authority will covenant to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports and notices of material events will be filed with each Nationally Recognized Municipal Securities Information Repository (the “NRMSIRs”). The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX I—“FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS FOR THE SERIES 2003 BONDS” hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

None of Roseville, Placer County or the Authority has ever failed to comply in any material respect with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. The District has been unable to confirm that the continuing disclosure reports prepared by the District for the fiscal years ending June 30, 2001 and June 30, 2002 were filed with the NRMSIR’s by the District’s dissemination agent in a timely manner. The District has taken steps to ensure that these reports are now available. Further, the District has instituted internal controls to ensure that such reports will be filed in a timely manner. See “CONTINUING DISCLOSURE” herein.

Other Matters

This introduction contains only a brief summary of certain of the terms of the Series 2003 Bonds being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Additional Information

Copies of the Funding Agreement and the Indenture will be available for inspection at the offices of the Authority, and will be available upon request and payment of duplication costs from the Trustee.

PLAN OF FINANCING

Plan of Refunding

A portion of the net proceeds from the sale of the Series 2003 Bonds will be used to advance refund the 2000A Bonds maturing on or after November 1, 2011 (the "Defeased Bonds"). The Defeased Bonds will be refunded pursuant to the Escrow Agreement, dated as of September 1, 2003 (the "Escrow Agreement"), by and between the Authority and BNY Western Trust Company, as escrow agent (the "Escrow Agent"). On the date of delivery of the Series 2003 Bonds, the Authority will cause the Escrow Agent to acquire certain noncallable direct obligations of the United States of America (the "Federal Securities") for deposit in the refunding escrow to be established pursuant to the Escrow Agreement, and the Defeased Bonds will be defeased in accordance with the provisions of the Indenture of Trust for the 2000 Bonds. Under the Escrow Agreement, the Defeased Bonds maturing on or after November 1, 2011 will be redeemed on November 1, 2010.

Interest Rate Exchange Agreement

The Authority expects to enter into an interest rate swap agreement (the "Swap Agreement") with Morgan Stanley Capital Services Inc. (the "Counterparty"), a wholly owned subsidiary of Morgan Stanley (a Delaware Corporation) and an affiliate of Morgan Stanley & Co. Incorporated, the underwriter, settling contemporaneously with the issuance of the Series 2003 Bonds. The payment obligations of the Counterparty under the Swap Agreement will be general, unsecured obligations of the Counterparty. Pursuant to the related guarantee to be delivered with respect to the Swap Agreement, Morgan Stanley will unconditionally and irrevocably guarantee the due and punctual payment of all amounts payable by the Counterparty under such Swap Agreement. The Swap Agreement will have a term extending to the scheduled final maturity date of the Series 2003 Bonds and will require the Authority to make periodic payments calculated on the basis of a fixed rate of interest applied to a notional amount equivalent to the outstanding principal amount of the Series 2003 Bonds in exchange for receipt of payments calculated based on a variable rate index.

Pursuant to the Indenture, the Authority covenants that the Swap Agreement (except the obligations to make payments upon any early termination or event of default) is a Parity Bond obligation payable from and secured by a pledge of Authority Revenues as described in the Indenture on a parity with all other existing and future Parity Bonds. The obligations of the Authority under such Swap Agreement to make payments upon early termination or event of default are payable solely from amounts on deposit in the Rate Stabilization Fund under the Funding Agreement, provided however, that the Funding Agreement may be amended to provide that such termination payments be payable from and secured by a pledge of Authority Revenues on a parity with the Series 2000 Bonds, the Series 2003 Bonds and any other Parity Bonds and/or other sources. The Authority is not required to advance any moneys derived from any source of income other than the Authority Revenues for the payments due under the Swap Agreement or for the performance of any agreements or covenants required to be performed by it contained in the Swap Agreement.

The terms of the Swap Agreement will not alter or affect any of the obligations of the Authority with respect to the payment of principal of or interest on the Series 2003 Bonds. Neither the owners of the Series 2003 Bonds, nor any person other than the Authority, shall have any rights under the Swap Agreement or against the Counterparty. Payments due under the Swap Agreement will not be pledged to the payment of principal of or interest on the Series 2003 Bonds, except indirectly as a pledge of the Authority Revenues under the Indenture. See "SECURITY FOR THE SERIES 2003 BONDS – Interest Rate Exchange Agreement," herein.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Series 2003 Bonds, excluding accrued interest, are as follows:

Sources:	
Par Amount of Series 2003 Bonds	\$ 97,000,000.00
Released Funds Related to Defeased Bonds	<u>7,673,337.45</u>
Total Sources	<u>\$104,673,337.45</u>
Uses:	
Deposit to Escrow Fund	\$ 96,217,631.45
Costs of Issuance ⁽¹⁾	1,355,576.85
Reserve Account	<u>7,100,129.15</u>
Total Uses	<u>\$104,673,337.45</u>

(1) Includes legal, printing, rating, trustee and Authority fees, underwriting discount, bond insurance premium, Financial Advisor fees and other miscellaneous costs of issuance.

THE SERIES 2003 BONDS

General

This Official Statement describes certain terms of Auction Rate Securities applicable while interest on the Series 2003 Bonds accrues at a Dutch Auction Rate. There are significant changes in the terms applicable to the Bonds in other Interest Rate Modes. This Official Statement is not intended to provide information with respect to the Series 2003 Bonds during any Rate Period other than a Dutch Auction Rate Period.

The Series 2003 Bonds will be dated the Date of Delivery (the “Closing Date”) and will mature on November 1, 2027, subject, however, to special, mandatory and optional redemption as described herein. Interest on the Series 2003 Bonds initially will accrue at a Dutch Auction Rate unless and until the Interest Rate Mode (as defined below) for the Series 2003 Bonds is converted to a different Interest Rate Mode, as permitted under the Indenture. The permitted Interest Rate Modes are the “Dutch Auction Rate,” the “Commercial Paper Rate,” the “Daily Rate,” the “Weekly Rate” and the “Long Term Rate.” The Indenture requires that all Series 2003 Bonds be in the same Interest Rate Mode.

While interest on the Series 2003 Bonds accrues at the Dutch Auction Rate, Series 2003 Bonds may be held only in denominations of \$25,000 or integral multiples thereof and the interest rate with respect to such Auction Rate Securities shall be determined in accordance with the Dutch Auction Procedures described in APPENDIX K, provided that the interest rate or rates with respect to any Auction Rate Securities may not exceed 12% per annum. Interest accruing on the Auction Rate Securities at a Dutch Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the Auction Rate Securities as of the Regular Record Date for such payment.

While interest on the Series 2003 Bonds accrues at the Dutch Auction Rate (i) for Auction Periods of 91 days or less, Interest Payment Dates will be the Business Day immediately succeeding the last day of such Auction Periods and (ii) for Auction Periods of more than 91 days, Interest Payment Date will be each 13th Wednesday after the first day of such Auction Period and the Business Day immediately succeeding the last day of such Auction Period (in each case it being understood that in those instances where the immediately preceding Auction Date falls

on a day that is not a Business Day, the Interest Payment Date with respect to the succeeding Auction Period will be one Business Day immediately succeeding the next Auction Date).

Wilmington Trust Company will be appointed Auction Agent under the Indenture. The Auction Agent may be removed or replaced by the Authority in accordance with the terms of the Indenture and the Auction Agent Agreement, dated as of September 1, 2003, between the Auction Agent and the Trustee.

When issued, the Series 2003 Bonds will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). Beneficial owners of the Series 2003 Bonds will not receive physical certificates representing their interests in the Series 2003 Bonds, but will receive a credit balance on the books of the nominees for such beneficial owners. The principal and interest on the Series 2003 Bonds will be paid by the Trustee to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Series 2003 Bonds as described herein. As long as Cede & Co. is the registered owner of the Series 2003 Bonds, principal and interest on the Series 2003 Bonds are payable by wire transfer on the payment date by the Trustee to Cede & Co., as nominee for DTC, which will in turn remit such amounts to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners. As long as Cede & Co. is the registered owner of the Series 2003 Bonds, as nominee of DTC, references herein to the registered owners mean Cede & Co. as aforesaid and shall not mean the Beneficial Owners (as defined herein) of the Series 2003 Bonds. See “APPENDIX F—BOOK-ENTRY SYSTEM.”

While interest on the Series 2003 Bonds accrues at a Dutch Auction Rate, the Auction Rate Securities will not be subject to optional tender for purchase, nor will they be purchased in the event of a “failed” auction (although they will be subject to mandatory tender upon Conversion to a different Interest Rate Mode, provided certain conditions to Conversion are satisfied, as described below).

Initial Interest Rate Mode for the Series 2003 Bonds

Interest on the Series 2003 Bonds initially will accrue at a Dutch Auction Rate from the Closing Date to and including the last day of the initial period for such Auction Rate Securities, as shown on the inside cover, at a rate per annum determined as of the Closing Date. Thereafter, while Auction Rate Securities accrue interest at a Dutch Auction Rate, the rate of interest, subject to the Maximum Dutch Auction Rate, will be determined pursuant to the Dutch Auction Procedures on the Business Day preceding the first day of the related Auction Period by the Auction Agent and will remain in effect until the end of such Auction Period. The first Auction for the Auction Rate Securities will occur on September 24, 2003, and generally on each Wednesday thereafter. The initial Auction Period to be effective for the Auction Rate Securities following the initial Auction Period is shown on the inside cover page. The Auction Dates and Auction Periods for the Auction Rate Securities are subject to adjustment, as provided in the Dutch Auction Procedures. See APPENDIX K—“DUTCH AUCTION PROCEDURES.”

The Rate Period for the Series 2003 Bonds may be converted from a Dutch Auction Rate Period to a different Rate Period, as described under “Conversion from Dutch Auction Rate Period to Another Interest Rate Mode for the Series 2003 Bonds.”

Orders by Existing and Potential Owners of the Series 2003 Bonds

The procedures for submitting orders prior to the Submission Deadline on each Auction Date during a Dutch Auction Rate Period are described in APPENDIX K, as are the particulars with regard to the determination of the Dutch Auction Rate and the allocation of Auction Rate Securities bearing interest at a Dutch Auction Rate.

Conversion from One Auction Period to Another

At any time during a Dutch Auction Rate Period for the Auction Rate Securities, the Authority may change the length of a single Auction Period or the Standard Auction Period for such Auction Rate Securities by written notice delivered at least 20 days but not more than 60 days prior to the Auction Date for such Auction Period to the Trustee, the Auction Agent, the Authority, the Broker-Dealer and DTC, provided that such Auction Period or Standard Auction Period may not exceed 364 days and provided further that Sufficient Clearing Bids for such

Auction Rate Securities existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time), on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Authority, authorizing the change in the Auction Period or the Standard Auction Period, specifying the new Auction Period, and confirming that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel on the first day of such new Auction Period; (b) the Trustee shall not have delivered to the Auction Agent, by 12:00 noon (New York City time), on the Auction Date for such new Auction Period notice that an Event of Default under the Indenture relating to the Auction Rate Securities has occurred and is continuing; and (c) the Trustee and the Auction Agent receive by 9:30 a.m. (New York City time), on the first day of such new Auction Period, a Favorable Opinion of Bond Counsel.

If the Authority's certificate is not delivered in the form and manner required by the Indenture, the Dutch Auction Rate for the next succeeding Auction Period for such Auction Rate Securities shall be determined pursuant to the Dutch Auction Procedures, and the next succeeding Auction Period for such Auction Rate Securities shall be a Standard Auction Period. If any of the remaining conditions are not met, including if Sufficient Clearing Bids do not exist for such Auction Rate Securities at the Auction immediately preceding such changed Auction Period, the Dutch Auction Rate for the next succeeding Auction Period for such Auction Rate Securities shall equal the Maximum Dutch Auction Rate, as determined as of the Auction Date for such Auction Period. Thereafter, the Dutch Auction Rate for succeeding Auction Periods for such Auction Rate Securities shall be determined in accordance with the Dutch Auction Procedures, and such Auction Periods shall have the same length as the Auction Period in effect for such Auction Rate Securities prior to such attempted change in length until subsequently changed in accordance with the Dutch Auction Procedures. See APPENDIX K—"DUTCH AUCTION PROCEDURES."

Conversion from Dutch Auction Rate to Another Interest Rate Mode for the Series 2003 Bonds

General. At the option of the Authority, the Series 2003 Bonds may be converted so that interest with respect thereto accrues at a Daily Rate, a Weekly Rate, Commercial Paper Rates or a Long Term Rate. On the Conversion Date, the Series 2003 Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of tendered Series 2003 Bonds is payable, first, from the proceeds of the remarketing of such Series 2003 Bonds and, second, from moneys paid by the Authority to the Trustee. The obligation to purchase Series 2003 Bonds upon a mandatory tender for purchase is not initially supported by a Liquidity Facility or by a covenant of the Authority to maintain levels of liquid assets. In the event that the conditions to a Conversion from a Dutch Auction Rate Period are not satisfied, the Series 2003 Bonds will not be subject to mandatory purchase and will be returned to their Owners. Until subsequently changed in accordance with the Dutch Auction Procedures, interest with respect to such Auction Rate Securities will accrue interest for the initial Auction Period following the proposed Conversion in the Rate Period at the Maximum Dutch Auction Rate and, thereafter, at the Dutch Auction Rates determined in accordance with the Auction Procedures, for the Auction Period in effect for such Auction Rate Securities immediately prior to such proposed Conversion in the Rate Period. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS." It is currently anticipated that, if the Authority elects to convert the Auction Rate Securities from a Dutch Auction Rate Period to another Rate Period, a remarketing memorandum will be distributed describing such Series 2003 Bonds and such Rate Period.

Notice to Owners of Conversion of Series 2003 Bonds. The Trustee will notify each Owner of Auction Rate Securities by first class mail at least 15 days before each Conversion Date with respect to such Auction Rate Securities. The notice will state, among other things, that such Auction Rate Securities are subject to mandatory purchase on the Conversion Date.

Mandatory Conversion of Series 2003 Bonds. While interest on the Series 2003 Bonds accrues at a Dutch Auction Rate, such Auction Rate Securities will be subject to mandatory conversion to an Interest Rate Mode other than the Dutch Auction Rate if such Auction Rate Securities are rated either (i) less than "A3" by Moody's Investors Service or (ii) less than "A-" by Standard & Poor's, a Division of The McGraw-Hill Companies. Under such circumstances, the Authority will give written notice to the Trustee of its determination to convert to a Daily Rate, a

Weekly Rate, a Long Term Rate or a Commercial Paper Rate within five Business Days of the effective date of the reduction of the rating of such Auction Rate Securities (the “Rating Reduction Date”). Until such Auction Rate Securities are actually converted to another Interest Rate Mode in accordance with the provisions of the Indenture, interest with respect to such Auction Rate Securities will accrue at the Maximum Dutch Auction Rate for all Auction Periods commencing within five days following the Trustee’s receipt of the rating reduction notice.

No Purchase of Auction Rate Securities on demand of Owner

While the Auction Rate Securities bear interest at the Dutch Auction Rate, such Auction Rate Securities will not be subject to optional tender for purchase. When the Interest Rate Mode for the Series 2003 Bonds is the Daily Rate or the Weekly Rate, the Series 2003 Bonds are subject to purchase on the demand of the owners thereof as described in APPENDIX G.

Mandatory Purchase of the Series 2003 Bonds

On each Conversion Date for the Series 2003 Bonds bearing interest at the Dutch Auction Rate, such Auction Rate Securities are subject to mandatory purchase under the Indenture.

Redemption

Optional Redemption. While a Dutch Auction Rate Period is in effect with respect to the Series 2003 Bonds, such Auction Rate Securities will be subject to redemption prior to their stated maturity at the option of the Authority, in whole or in part, on the Business Day immediately succeeding any Auction Date (in such amounts as may be specified by the Authority), by lot, at the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

Special Redemption. The Series 2003 Bonds are subject to redemption as a whole on any date, or in part on any Interest Payment Date, pro rata among maturities, and by lot within a maturity, to the extent of the Net Proceeds of hazard insurance not used to repair or rebuild the Enterprise or the Net Proceeds of condemnation awards received with respect to the Enterprise to be used for such purpose, at a Redemption Price equal to the principal amount of the Series 2003 Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The Series 2003 Bonds maturing on November 1, 2027 are subject to mandatory redemption in part from Sinking Fund Installments to be made by the Authority on November 1 2003 and on each November 1 thereafter up to and including November 1, 2027, at a Redemption Price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

<u>November 1</u>	<u>Mandatory Sinking Account Payment</u>
2003	\$1,600,000
2004	600,000
2005	625,000
2006	650,000
2007	675,000
2008	700,000
2009	725,000
2010	750,000
2011	3,950,000
2012	4,075,000
2013	4,225,000
2014	4,400,000
2015	4,550,000
2016	4,700,000
2017	4,900,000
2018	5,075,000
2019	5,250,000
2020	5,450,000
2021	5,650,000
2022	5,850,000
2023	6,075,000
2024	6,275,000
2025	6,500,000
2026	6,750,000
2027	7,000,000†

† Final Maturity.

Notice of Redemption. The Trustee will give notice of the redemption by mailing a copy of the redemption notice by first class mail, postage prepaid, not more than 60 days and not fewer than 30 days (15 days if the Interest Rate Mode for the Series 2003 Bonds is the Dutch Auction Rate) prior to the date fixed for redemption to the registered Owner of each Series 2003 Bond subject to redemption, at the Owner’s address as shown in the Bond Register. Failure to receive any such notice or any defect therein in respect of any Series 2003 Bond will not affect the validity of the redemption of such Series 2003 Bonds with respect to the Owner or Owners to whom such notice was mailed. Interest with respect to all Series 2003 Bonds so called for redemption will cease to accrue on the specified redemption date, provided that funds for their redemption are on deposit with the Trustee at that time, and will no longer be considered Outstanding under the Indenture.

If any Series 2003 Bonds in a Dutch Auction Rate Period are to be prepaid and such Auction Rate Securities are held by DTC, the Trustee will include in the redemption notice delivered to Cede & Co., or such other nominee as DTC or a successor securities depository shall designate, (i) under an item entitled “Publication Date for Securities Depository Purposes,” the Interest Payment Date prior to the redemption date and (ii) an instruction to DTC to (a) determine on such Publication Date, after settlement of the Auction held on the immediately preceding Auction Date, the DTC Participants whose Securities Depository positions will be prepaid and the principal amount of such Auction Rate Securities to be prepaid from each such position (the “Securities Depository Redemption Information”) and (b) immediately notify the Auction Agent of the DTC Participants’ positions in such Auction Rate Securities immediately prior to such Auction settlement, the DTC Participants’ positions in such Auction Rate Securities immediately following such Auction settlement, and the Securities Depository Redemption Information.

Rescission of Notice of Redemption. Any notice of redemption may be rescinded by written notice given to the Trustee by the Authority no later than five Business Days prior to the date specified for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

SECURITY FOR THE SERIES 2003 BONDS

Pledge Under The Indenture

The Series 2003 Bonds are special limited obligations of the Authority payable solely from and secured solely by a pledge of Authority Revenues. Authority Revenues principally consist of certain payments made by the Participants pursuant to the Funding Agreement. See “Funding Agreement” below. Under the Indenture, the Authority assigns to the Trustee, for the benefit of the Owners of the Series 2003 Bonds and the Counterparty, the Authority Revenues which are required to be in an amount sufficient to pay the principal or Redemption Price of and interest on the Series 2003 Bonds in any Fiscal Year, together with all moneys on deposit in the 2003 Debt Service Fund, and such Authority Revenues are irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Series 2003 Bonds. The Authority Revenues are not permitted to be used for any other purpose while any of the Series 2003 Bonds remain Outstanding, except that out of the Authority Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture.

Flow of Funds Under The Indenture

The Authority will agree in the Indenture to deposit all the Authority Revenues received by it into the South Placer Wastewater Authority Wastewater Revenue Bonds 2003 Debt Service Fund (the “2003 Debt Service Fund”) to be held in trust by the Trustee. The Trustee will agree in the Indenture to hold and maintain the Debt Service Fund and a Redemption Account therein. Amounts held in the 2003 Debt Service Fund are required to be credited towards amounts due and payable on the Series 2003 Bonds, and, so long as the Swap Agreement is in effect, on the Swap Periodic Payments and are required to be applied as set forth in the Indenture. The Authority will transfer to the Trustee such amounts as are due on the Series 2003 Bonds or the Swap Agreement, as applicable, prior to the due date.

The Trustee will withdraw from the 2003 Debt Service Fund, on or prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of said interest when due and is authorized under the Indenture to apply the same to the payment of such interest by check or draft (or by wire transfer, as the case may be).

(i) So long as the Swap Agreement is in effect, the Authority is required to notify the Trustee, prior to the date any Swap Periodic Payment is to be made, of the amount of the Swap Periodic Payment next becoming due. If the Swap Periodic Payment is a payment to be made from the Swap Counterparty to the Authority, the Authority is required to either cause such payment to be made to the Trustee or forward such payment to the Trustee promptly upon receipt and the Trustee will deposit such amount in the 2003 Debt Service Fund. If the Swap Periodic Payment is a payment to be made from the Authority to the Swap Counterparty, the Trustee is required, upon receipt of the notice from the Authority or Swap Counterparty, to give written notification to the Authority of the “Payment Amount” which is the amount of Authority Revenues needed to be deposited with the Trustee to pay amounts payable to the Swap Counterparty, calculated as the amount of the Swap Periodic Payment less any amount available in the 2003 Debt Service Fund for application as a credit against such amount. Upon receipt of such notification, the Authority is required to forward the Payment Amount to the Trustee for deposit in the 2003 Debt Service Fund. The Trustee is required to withdraw from the 2003 Debt Service Fund, at such time as directed by the Authority but in any event on or prior to the due date of each Swap Periodic Payment, the amount of such Swap Periodic Payment, and such amount is required to be paid by the Trustee to the Swap Counterparty on or prior to the applicable due date of the Swap Periodic Payment.

(ii) If no Swap Agreement is in effect, if any Interest Rate Calculation Date will occur between the date of computation and the next succeeding Interest Payment Date, the Trustee will assume that the interest rate applicable for the days from such Interest Rate Calculation Date to such Interest Payment Date will be the highest rate for the previous six months, plus 100 basis points. At least 15 days prior to the beginning of each calendar month, the Trustee is required to send written notification to the Authority, which notification will indicate the “Payment Amount” which is the amount of Authority Revenues needed to be deposited with the Trustee to pay amounts becoming due on the Bonds during the next calendar month, less any amount available for application as a credit against such amount.

The Trustee will withdraw from the 2003 Debt Service Fund, on or prior to each Principal Payment Date, an amount equal to the principal amount of the Outstanding Serial Series 2003 Bonds, if any, maturing on said Principal Payment Date and any Sinking Fund Installments due and payable on said Principal Payment Date, and will cause the same to be applied to the payment of the principal of said Series 2003 Bonds when due and is authorized to apply the same to such payment upon presentation and surrender of the Series 2003 Bonds as they become due and payable.

All withdrawals and transfers under the above provisions will be made not earlier than one Business Day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount to withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate account until such Interest Payment Date or Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the 2003 Debt Service Fund shall be deposited in or charged to the 2003 Debt Service Fund and applied to the purposes thereof.

Reserve Account

The Indenture provides for the funding of the Reserve Account upon the issuance of the Series 2003 Bonds in an amount equal to the Reserve Requirement. The initial Reserve Requirement is equal to \$7,100,129.15 and will be funded with Series 2003 Bond proceeds. An amount equal to the Reserve Requirement in the form of either cash or a Reserve Account Instrument under the Indenture, for the account of the Reserve Account, will be maintained in the Reserve Account at all times. Any deficiency in the Reserve Account will be replenished from amounts paid by the Authority to the Trustee resulting from a late payment by a Participant under the Funding Agreement and amounts paid by the Authority to the Trustee from payments made by the Participants under the Funding Agreement as a result of a deficiency in the Reserve Account caused by investment losses on Permitted Investments held in the Reserve Account.

Under the Funding Agreement, the Participants agree that if amounts in the Reserve Account fall below the Reserve Requirement by reason of loss of value of Permitted Investments then on hand in the Reserve Account, the Participants will make up such loss, from Participants' Net Revenues. An Individual Participant is not obligated to replenish the Reserve Account if it has been depleted to make a payment on the Series 2003 Bonds as a result of another Participant's failure to make its payments under the Funding Agreement. In such case, the Reserve Account will be replenished solely by depositing to the Reserve Account the late payment made by the Participant which caused said draw on the Reserve Account.

"Reserve Requirement" is defined in the Indenture to mean an amount equal to (a) the least of (i) the Maximum Annual Debt Service on the Outstanding Series 2003 Bonds, (ii) 10% of the proceeds of the Series 2003 Bonds, (iii) 125% of the average annual Debt Service on Outstanding Series 2003 Bonds, or (iv) \$7,100,129.15.

The Authority may satisfy its obligation to deposit the Reserve Requirement in the 2003 Reserve Account by the deposit of a surety bond, insurance policy or letter of credit (a "Reserve Account Credit Instrument") as set forth in the Indenture.

Outstanding Parity Obligations

Upon delivery of the Series 2003 Bonds, the Series 2003 Bonds will be secured on a parity with the unrefunded 2000 Bonds and the Swap Agreement.

Interest Rate Exchange Agreement

In connection with the issuance of the Series 2003 Bonds, the Authority intends to enter into the Swap Agreement with the Counterparty. See "PLAN OF FINANCING – Interest Rate Exchange Agreement" herein.

Additional Parity Obligations

In addition to the Series 2003 Bonds and the Series 2000 Bonds, the Authority may, under a Parity Bonds Instrument, issue or incur Parity Bonds and other loans, advances or indebtedness payable from the Revenues, to provide financing for the Project and the Regional Wastewater Facilities, in such principal amount as will be determined by the Authority. Issuance of Parity Bonds is subject to the following conditions under the Indenture:

- (a) The Authority will be in compliance with all covenants set forth in the Indenture.
- (b) Each of the Participant's Net Revenues, calculated on sound accounting principles, as shown by the books of the Participants for the latest Fiscal Year or any more recent 12 month period selected by each Participant ending not more than 90 days prior to the adoption of the Parity Bonds Instrument pursuant to which such Parity Bonds are issued, as shown by the books of the Participants, plus, at the option of any Participant, any or all of the items designated in the following paragraph, will at least equal 110% of the sum of: (1) their Proportionate Share of Maximum Annual Debt Service, calculated in accordance with the Funding Agreement, with Maximum Annual Debt Service calculated on all Parity Bonds to be Outstanding immediately subsequent to the issuance of such Parity Bonds which have a lien on the Authority Revenues, plus (2) Maximum Annual Debt Service on all Obligations which have a parity lien on each Participant's Net Revenues; provided, that in the event the Parity Bonds are to be issued solely for the purpose of refunding and retiring any Series 2000 Bonds, Series 2003 Bonds or Parity Bonds then Outstanding, interest and principal payments on the Series 2000 Bonds, Series 2003 Bonds or Parity Bonds to be so refunded and retired from the proceeds of such Parity Bonds being issued will be excluded from the foregoing computation of Maximum Annual Debt Service.

The items which may be added to such Participant's Net Revenues for the purpose of issuing or incurring Parity Bonds under the Indenture are: (1) an allowance for earnings arising from each Participant's Net Revenues resulting from any increase in the User Charges which has become effective prior to the incurring of such Parity Bonds but which, during all or any part of such Fiscal Year or such 12 month period, was not in effect, in an amount equal to the amount by which the Participant's Net Revenues would have been increased if such increase in Charges had been in effect during the whole of such Fiscal Year or such 12 month period, all as shown in the written report of an Independent Consultant engaged by the applicable Participant; and (2) an allowance for Participant Net Revenues from any additions or improvements to or extensions of a Participant System to be financed from the proceeds of such Participant's Parity Obligations or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any more recent 12 month period selected by a Participant were not in service, all in an amount equal to 75% of the estimated additional average annual Participant Net Revenues to be derived from such additions, improvements and extensions for the first 36 month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the Participant; (3) Regional Connection Fees collected by the Participants, in an amount equal to the greater of (i) Regional Connection Fees collected by such Participant in the prior 12 months; or (ii) the average annual amount of Regional Connection Fees collected by such Participant during the prior 36 months; and (4) Available Local Connection Fees collected by the Participants, in an amount equal to the greater of: (a) Available Local Connection Fees collected by such Participant in the prior 12 months; or (b) the average annual amount of Available Local Connection Fees collected by such Participant during the prior 36 months.

For purposes of the calculations made under the Indenture, Participants' Net Revenues will not include any draws made by the Authority from the Rate Stabilization Fund to pay Debt Service on any Parity Bonds.

The Authority may, in connection with the issuance of Parity Bonds, enter into: (i) a reimbursement agreement (a "Reimbursement Agreement") with a bank or financial institution (in either case, the "Bank") which issues a letter of credit to secure or provide liquidity for Parity Bonds; or (ii) a financial arrangement commonly referred to as an interest rate swap agreement, and pledge Revenues to repay the Bank or counterparty under the Swap Agreement. Said pledge of Revenues to repay the Bank or swap counterparty may be on a parity with the 2003 Bonds and any other Parity Bonds issued or to be issued by the Authority, and the Reimbursement Agreement or swap agreement will be treated as a Parity Bond under the Indenture.

Funding Agreement

General.

The purpose and intent of the Funding Agreement is (1) to provide for the general allocation of Capital Costs among the Participants, (2) to provide for the allocation of the Participants' individual financial responsibility for the payment of Debt Service, (3) to provide for the Participants' use of the additional wastewater treatment capacity provided by the construction of new Regional Wastewater Facilities and (4) to provide assurance to the purchasers of the Series 2000 Bonds, the Series 2003 Bonds and any Parity Bonds regarding the availability of Participant Net Revenues for the payment of Debt Service. Certain of the provisions of the Funding Agreement are described below. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS—Funding Agreement" for a summary of other provisions of the Funding Agreement.

Pledge and Application of Participant Net Revenues.

Under the Funding Agreement, each Participant irrevocably pledges, charges and assigns to the Trustee, to assure the punctual payment of its Proportionate Share of Debt Service, all of its Participant Net Revenues and, except as otherwise may be permitted under the applicable Bond Documents, the Participant Net Revenues will not be used for any other purpose so long as any of its Proportionate Share of Debt Service remains unpaid. Such pledge, charge and assignment will constitute a senior lien on the Participant Net Revenues for the payment of each Participant's Proportionate Share of Debt Service in accordance with the terms of the Funding Agreement. To the extent a Participant's Proportionate Share of Debt Service is not paid in full from the Aggregate Rate Stabilization Fund Draw prior to any Interest Payment Date, such Participant will, on or before such Interest Payment Date, make a payment directly to the Trustee for deposit to the Debt Service Fund from its Participant Net Revenues to make up such deficiency.

The Funding Agreement defines "Net Revenues," with respect to each Participant as such Participant's Gross Revenues less such Participant's Operation and Maintenance Costs, for any period of calculation. "Gross Revenues" is defined by the Funding Agreement as all amounts received for, arising from and all other income and revenues derived by a Participant from, the ownership or operation of such Participant's System and such Participant's use of Regional Wastewater Facilities, excluding Regional Connection Fees and Local Connection Fees other than Available Local Connection Fees. "Participant Operation and Maintenance Costs" is defined by the Funding Agreement as for any given period, the reasonable and necessary costs (both direct and incidental) of operating and maintaining the facilities which comprise a Participant's System during such period, as well as the Participant's share of Regional Operation and Maintenance Costs, calculated on sound accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve such facilities in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), labor, materials, water, electricity, natural gas, chemicals, employee bonds, vehicles, communications equipment, preventive maintenance, sludge disposal, environmental remediation, engineering services, analytical testing services, rents, right-of-way charges, recycled water operations costs, legal judgments and assessments, other support services, and other similar costs, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, debt service and amortization of intangibles or other book-keeping entries of a similar nature. "Local Connection Fees" is defined under the Funding Agreement as connection fees imposed and collected by a Participant pursuant to applicable provisions of the Roseville Municipal Code, SPMUD ordinances, or Placer County ordinances, as applicable, for the purpose of funding expansion or modifications of, and/or improvements to, the Participant's System. "Available Local Connection Fees" is defined under the Funding Agreement as Local Connection Fees that may be used to pay Debt Service.

Deposit of Gross Revenues Into Enterprise Funds; Transfers to Make Payments. Each Participant deposits its Gross Revenues immediately upon receipt, in its Enterprise Fund. Each Participant pays out of Gross Revenues the Participant Operation and Maintenance Costs. Each Participant covenants that all Participant Net Revenues will be held by such Participant in such Participant's Enterprise Fund in trust for the benefit of the Trustee and the owners of Bonds. In addition to the payment of such Participant's Proportionate Share of Debt Service, Participant Net Revenues will be applied to pay the amount of such Participant's Proportionate Share of any deficiency in the Reserve Fund caused by investment losses on investments held in the Reserve Fund, the notice of which deficiency will have been given by the Trustee to the Authority pursuant to the Indenture or any Parity Bonds Instrument.

Other Uses of Participant Net Revenues Permitted. The Participants will manage, conserve, and apply the Participant Net Revenues on deposit in their respective Enterprise Funds in such a manner that all deposits required to be made pursuant to the Funding Agreement and described in the preceding paragraph are made at the times and in the amounts so required. Subject to the foregoing sentence, each Participant may use and apply monies in its Enterprise Fund for any other lawful purposes, so long as no Event of Default has occurred and is continuing with respect to that Participant's obligations under the Funding Agreement.

Budget and Appropriation of Proportionate Share of Debt Service. During the term of the Funding Agreement, for each current Fiscal Year, each Participant will adopt all necessary budgets and make all necessary appropriations of Rate Covenant Debt Service, from Participant Net Revenues, and will furnish to the Trustee a certificate stating that the amount of Rate Covenant Debt Service to be paid from Participant Net Revenues has been included in the final budget of such Participant for such current Fiscal Year. Such certificate for any Fiscal Year will be filed with the Trustee not later than September 1 in such Fiscal Year. In the event any Rate Covenant Debt Service payment requires the adoption by a Participant of any supplemental budget or appropriation, such Participant will promptly adopt the same.

Determination of Participant's Proportionate Shares.

Initially, each Participant's Proportionate Share shall be 54.17% for Roseville; 25.00% for SPMUD; and 20.83% for Placer County (the "Initial Percentages"). The Initial Percentages may be revised according to the terms of the Funding Agreement. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS—Funding Agreement."

Rate Stabilization Fund; Regional Connection Fees.

The Rate Stabilization Fund has been established and maintained by Roseville on behalf of the Authority. The Rate Stabilization Fund is held as one fund, with three separate accounts therein (one for each Participant), all of which, collectively, constitute the Rate Stabilization Fund. As of June 30, 2003, Roseville, SPMUD and Placer County had on deposit, respectively, \$84,335,890, \$39,450,455, and \$5,641,315 in such Participant's respective account in the Rate Stabilization Fund. The total of these three amounts is \$129,427,660. The final amounts (determined following completion of the reconciliation of the fiscal year ended June 30, 2003 may be lower due to additional construction payments posted back to June 30, 2003.

The Rate Stabilization Fund is used to pay: (1) Debt Service; (2) Bond Redemptions; (3) Capital Costs; (4) reimbursement to a Participant of funds, other than Regional Connection Fees, deposited by such Participant into the Debt Service Fund, the Reserve Account, and the Rate Stabilization Fund, except to the extent such reimbursement would cause the balance of such Participant's account within the Rate Stabilization Fund to fall below its Sub-Minimum Level; (5) administrative and other expenses incurred by the Authority; and (6) any other legal expenditures.

It is the intent of the Participants that the Regional Connection Fees collected will be sufficient (i) to pay all Debt Service, (ii) to keep the Rate Stabilization Fund at or above the Minimum Level, (iii) to provide monies for additional expansions or modifications of, or improvements to, Regional Wastewater Facilities, and (iv) to meet state and federal regulatory requirements.

The Authority, through the Regional Connection Fee recommendation process set forth in the Funding Agreement, attempts to maintain the Rate Stabilization Fund balance at or above the Minimum Level. Draws on the Rate Stabilization Fund may not cause the funds therein to fall below the Minimum Level, except as expressly provided in the Funding Agreement and described in the next paragraphs.

(a) So long as a draw on the Rate Stabilization Fund would not cause the balance therein to fall below the Minimum Level, the Rate Stabilization Fund will be fully available to pay Debt Service and any other legal expenditures, regardless of the amount of funds contained in a particular Participant's account within the Rate Stabilization Fund.

(b) In the event that a draw on the Rate Stabilization Fund would have the effect of causing the Rate Stabilization Fund balance to fall below the Minimum Level, and a draw on a Participant's account within the Rate Stabilization Fund would have the effect of causing the balance in such Participant's account within the Rate Stabilization Fund to fall below such Participant's Sub-Minimum Level, such draw on a Participant's account within the Rate Stabilization Fund will be limited, in each Fiscal Year, to an amount equal to the sum of: (A) one-third of the lesser of (i) such Participant's Sub-Minimum Level, and (ii) the amount then on hand in such Participant's account within the Rate Stabilization Fund; plus (B) the amount then on hand in such Participant's account within the Rate Stabilization Fund in excess of such Participant's Sub-Minimum Level. "Minimum Level" is defined under the Funding Agreement to mean, when used to describe the amount contained in the Rate Stabilization Fund, an amount equal to the lesser of: (a) Debt Service due in the two (2) Fiscal Years occurring immediately after the calculation is made, and (b) the amount required to redeem or retire all Bonds. "Sub-Minimum Level" is defined under the Funding Agreement to mean, for each Participant, an amount equal to the product of the Minimum Level multiplied by such Participant's Proportionate Share.

(c) In the event a Participant's (the "Underfunded Participant") account within the Rate Stabilization Fund is unable to pay all of its Proportionate Share of Debt Service, and the then-current draw on the Rate Stabilization Fund would not have the effect of causing the Rate Stabilization Fund balance to fall below the minimum level, the other Participants' (the "Paying Participants") accounts within the Rate Stabilization Fund will pay the unpaid portion of the Underfunded Participant's Proportionate Share of Debt Service. Such unpaid portion of the Underfunded Participant's Proportionate Share of Debt Service will be paid out of the Paying Participants' accounts within the Rate Stabilization Fund as follows:

(A) If there is only one Underfunded Participant, the Paying Participants' accounts within the Rate Stabilization Fund will cover the unpaid portion of the Underfunded Participant's Proportionate Share of Debt Service in proportion to the Paying Participants' relative Proportionate Shares.

(B) If there are two Underfunded Participants, the remaining Paying Participant's account within the Rate Stabilization Fund will cover the unpaid portion of both Underfunded Participants' Proportionate Shares of Debt Service.

(d) The Participants intend that no Paying Participant should be required to raise its User Charges, or take any other action under certain provisions of the Funding Agreement described under "Rate Covenant" below, by reason of the payment of all, or a portion of, an Underfunded Participant's (or Participants') Proportionate Share(s) of Debt Service out of the Paying Participant's account within the Rate Stabilization Fund. Within thirty (30) days after receipt of a written request from the Authority or any Paying Participant, the Authority and the Participants shall meet and agree upon a repayment schedule for the Underfunded Participant(s) that will ensure that the parties' intent is given effect; provided that, in any event, Regional Connection Fees deposited in the Rate Stabilization Fund by an Underfunded Participant shall automatically be credited to the account(s) of the Paying Participant(s), up to the amount advanced by the Paying Participant(s), plus interest. In the event the parties are unable to agree on an appropriate repayment schedule, the matter may be referred to arbitration pursuant to the Funding Agreement. No Underfunded Participant shall be required to use funds other than Participant Net Revenues and Regional Connection Fees to make such payments to the Paying Participant's (or Participants') accounts within the Rate Stabilization Fund; provided, however, an Underfunded Participant may be required to use other funds available to such Underfunded Participant to repay any Regional Connection Fees deferred pursuant to the Funding Agreement.

For purposes of determining the sufficiency of amounts held in each Participant's account within the Rate Stabilization Fund, such Participant receives a credit for amounts held by the Trustee and attributable to such Participant to pay its Proportionate Share of Debt Service.

Within 120 days after the end of each Fiscal Year, the Authority, or Roseville on behalf of the Authority, contracts for an independent audit of deposits to, and expenditures from, the Rate Stabilization Fund. The audit identifies the amounts deposited by each Participant and the expenditures attributable to each Participant's account, and determines the balance of each Participant's account within the Rate Stabilization Fund. The annual audit is distributed to all Participants.

In the event amounts deposited into the Rate Stabilization Fund are insufficient to keep the balance thereof at or above the Minimum Level, and, in any event, not less than once every five (5) years, the Authority must reevaluate the Regional Connection Fee and recommend the minimum Regional Connection Fee that the Participants will charge. In recommending the minimum Regional Connection Fee, the Authority considers all appropriate factors, including without limitation, the future Capital Costs, amount of Debt Service, the funding of the Rate Stabilization Fund, and the anticipated expansions or modifications of, or improvements to, Regional Wastewater Facilities. Each Participant either (1) enacts and enforces the minimum Regional Connection Fee, and any increases thereto, recommended by the Authority, within 120 days following receipt of notice thereof from the Authority, or (2) concurrently with the payment of Regional Connection Fees actually collected, pays to the Authority the difference between Regional Connection Fees actually collected and the amount that would have been collected (based on the same number of Equivalent Dwelling Units (“EDU’s”)) had the Participant enacted and enforced the minimum Regional Connection Fee, and any increases thereto, recommended by the Authority. Nothing in the Funding Agreement prohibits a Participant from adopting, for its own use, Local Connection Fees on connections within its individual service area in such amounts as it deems appropriate.

In the case of Roseville and Placer County, Regional Connection Fees are paid upon the issuance of a building permit. In the case of the District, Regional Connection Fees are paid upon the issuance of a wastewater system application permit. Each Participant may, in its sole discretion, allow for the deferral of Regional Connection Fees on a case-by-case basis, provided that such deferral does not cause any draw on the Rate Stabilization Fund to reduce the balance of such Participant’s account within the Rate Stabilization Fund below such Participant’s Sub-Minimum Level, and, provided further, that such Participant will pay the deferred Regional Connection Fees to the Authority with interest at the rate of return earned by the Rate Stabilization Fund during the period of deferral.

In addition to the annual audit of Rate Stabilization Fund deposits and expenditures required by the Funding Agreement, the Authority retains an independent firm to conduct an audit of each Participant’s Regional Connection Fee collection program within every five (5) years during the term of the Funding Agreement. In the event the audit determines that there is a deficit between Regional Connection Fees that should have been collected and transmitted by any Participant and Regional Connection Fees that were actually collected and transmitted, that Participant will pay the amount of the deficit to the Authority within a reasonable time as established by the Authority.

Rate Covenant.

Each Participant must fix, prescribe, revise, and collect User Charges during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(a) All Participant Operation and Maintenance Costs for each Participant to become due and payable in such Fiscal Year;

(b) The Participant’s Rate Covenant Debt Service and the amount due from the Participant on any Participant Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Rate Covenant Debt Service or such interest on Participant Parity Obligations are payable from proceeds of Bonds or Participant Parity Obligations deposited for such purpose;

(c) All amounts, if any, required to be contributed by such Participant to restore the balance in the Reserve Account to the full amount of the Reserve Requirement; and

(d) All payments required to meet any other obligations of such Participant which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Participant Net Revenues during such Fiscal Year.

In addition, each Participant will fix, prescribe, revise, and collect User Charges during each Fiscal Year which are sufficient to yield Participant Net Revenues at least equal to 110% of Rate Covenant Debt Service.

The Funding Agreement defines “Rate Covenant Debt Service” to mean, as to each Participant, such Participant’s Proportionate Share of Debt Service, less the sum of (a) such Participant’s Individual Rate Stabilization Fund Draw, and (b) any amounts paid on behalf of such Participant pursuant to the Funding Agreement.

Covenants of the Participants.

Certain of the covenants of the Participants in the Funding Agreement are described below. See APPENDIX G—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS—Funding Agreement – Covenants of the Participants” for additional information regarding the covenants of the Participants in the Funding Agreement.

Participant Parity Obligations Secured by Participant Net Revenues.

Each Participant may issue or incur Participant Parity Obligations, subject to the following specific conditions, which are made conditions precedent to the issuance and delivery of such Participant Parity Obligations:

(a) The Participant will be in compliance with all covenants set forth in the Funding Agreement.

(b) The Participant’s Net Revenues, calculated on sound accounting principles, as shown by the books of the Participant for the latest Fiscal Year, or any more recent 12 - month period selected by such Participant ending not more than 90 days prior to the adoption of the documentation pursuant to which such Participant Parity Obligations are issued, as shown by the books of the Participant, plus, at the option of the Participant, any or all of the items hereinafter in this paragraph designated, will at least equal 110% of the sum of (1) such Participant’s Rate Covenant Debt Service, and (2) the maximum annual debt service on the Participant Parity Obligations to be issued, calculated in accordance with the requirements of the resolution, trust indenture, or installment sale agreement, adopted, entered into, or executed and delivered, by the Participant, and under which such Participant Parity Obligations are to be issued. The items which may be added to such Participants’ Net Revenues for the purpose of issuing or incurring Participant Parity Obligations hereunder are:

(1) an allowance for earnings arising from such Participants’ Net Revenues resulting from any increase in the User Charges which has become effective prior to the incurring of such Participant Parity Obligations but which, during all or any part of such Fiscal Year or such 12 month period, was not in effect, in an amount equal to the amount by which such Participant’s Net Revenues would have been increased if such increase in User Charges had been in effect during the whole of such Fiscal Year or such 12 month period, all as shown in the written report of an independent consultant engaged by such Participant;

(2) an allowance for Participant Net Revenues from any additions or improvements to or extensions of the Participant’s System to be financed from the proceeds of such Participant Parity Obligations or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any more recent 12 month period selected by the Participant were not in service, all in an amount equal to 75% of the estimated additional average annual Participant Net Revenues to be derived from such additions, improvements and extensions for the first 36 month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the Participant; and

(3) Local Connection Fees collected by such Participant, in an amount equal to the greater of: (A) Local Connection Fees collected by such Participant during the prior 12 months, or (B) the average annual amount of Local Connection Fees collected by such Participant during the prior 36 months.

Additional Regional Wastewater Facilities.

Pursuant to the provisions of the Funding Agreement, Regional Connection Fees and other amounts in the Rate Stabilization Fund may also be used by the Authority to fund other expansions or modifications of, or improvements to, Regional Wastewater Facilities, subject to the prior written agreement of the Authority; provided, however, that at the time a decision is made to so use Regional Connection Fees, the Authority will reasonably

determine the amounts to be withdrawn from each Participant's account within the Rate Stabilization Fund so as to give effect to the principle that the Participants' respective contributions to Capital Costs should be proportional to their usage of the wastewater treatment capacity made available by the construction of such Regional Wastewater Facilities.

Notwithstanding the foregoing, when the average daily inflows to the Dry Creek Plant or Pleasant Grove Plant reach 75% of actual total capacity of either plant, respectively, Roseville will begin the planning and design of the next expansion of the Pleasant Grove Plant or Dry Creek Plant, as appropriate. The payment of the cost of such planning, permitting and design will be made from the Regional Connection Fees on deposit in the Rate Stabilization Fund.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. No representation is made by the Authority, the Participants, or the Underwriter as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date hereof, including but not limited to a downgrade in the credit ratings of the Insurer. Reference is made to APPENDIX J for a specimen of the Insurer's municipal bond insurance policy.

Concurrently with the issuance of the Series 2003 Bonds, the Insurer will issue its Insurance Policy for the Series 2003 Bonds. The Insurance Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2003 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Series 2003 Bonds (the "Issuer"). The Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which the Insurer shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Series 2003 Bonds or the Trustee of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Series 2003 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in the Insurer. The term "nonpayment" in respect of a Series 2003 Bond includes any payment of principal or interest made to an owner of a Series 2003 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Series 2003 Bonds. The Insurance Policy covers failure to pay principal of the Series 2003 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 2003 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, the Insurer requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without the Insurer's consent, in each case so long as the Insurer has not failed to comply with its payment obligations under its Insurance Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to the Insurer's consent. The specific rights, if any, granted to the Insurer in connection with its insurance of the Series 2003 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Series 2003 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 2003 Bonds. See "RATINGS" herein.

The Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Insurer is a wholly-owned subsidiary of FGIC Corporation (the “Corporation”), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation (“GE Capital”). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against the Insurer. The Insurer is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2003, the total capital and surplus of the Insurer was approximately \$1.014 billion. The Insurer prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to the Insurer at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

On August 4, 2003, General Electric Company (“GE”) announced that its indirect, wholly owned subsidiary, FGIC Holdings, Inc. (“Holdings”), had entered into an agreement to sell the Corporation (and the Insurer) to Falcons Acquisition Corp. (“Newco”), a newly-formed Delaware corporation owned by a consortium of investors consisting of The PMI Group, Inc. and private equity funds affiliated with Blackstone Group, Cypress Group and CIVC Partners, subject to receipt of regulatory approvals, written confirmations from Moody’s, Standard & Poor’s and Fitch that the Insurer’s insurance financial strength rating will remain at Aaa, AAA and AAA, respectively, immediately following the closing of the contemplated transactions, and satisfaction of other closing conditions. Immediately following the closing, it is expected that Newco will be merged with and into the Corporation and that GE (through its subsidiaries) will retain \$234.6 million of preferred stock, and less than 5% of the common stock, of the Corporation.

SOUTH PLACER WASTEWATER AUTHORITY

General

The Authority was created pursuant to a Joint Exercise of Powers Agreement For The South Placer Wastewater Authority effective October 1, 2000 (the “Joint Powers Agreement” or the “JPA”) among the Participants. The JPA was entered into pursuant to the provisions of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Joint Exercise of Powers Act”). The Authority was created for the purpose of providing for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities. The JPA may be amended at any time by the written agreement of all the parties thereto; provided, however that while the Series 2003 Bonds and the Series 2000 Bonds are outstanding, the JPA may not be amended if such action would (1) materially and adversely affect (A) the rating on the Parity Bonds or (B) the holders of the Parity Bonds or (2) limit or reduce the obligations of the parties thereto to make, in the aggregate, the payments under the Funding Agreement. In addition, no Participant is permitted to withdraw from the Authority until all bonds or other instruments of indebtedness issued by the Authority have been paid in full.

Governance and Management

Pursuant to the JPA, the Authority is administered by a board of directors (the “Board”) consisting of five directors. Two directors are appointed by the City, two directors are appointed by the County and one director is appointed by the District. One County-appointed director is required under the JPA to be a member of the County Board of Supervisors and represent a supervisorial district which includes all or a portion of the City. This director is also subject to confirmation by the City Council of the City. The members of the Board of Directors are listed on the inside cover of this Official Statement.

Pursuant to the Funding Agreement, the City will own and operate the Regional Wastewater Facilities. See APPENDIX B-1—“INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY” for a description of the senior management of the City’s wastewater system.

THE REGIONAL WASTEWATER SYSTEM

Service Area

The Regional Wastewater Facilities include the Dry Creek Plant and related regional conveyance system, the Pleasant Grove Plant and related regional conveyance system that is being constructed with the proceeds of the 2000 Bonds and any other regional treatment facilities constructed by the Authority or any of the Participants in the future to facilitate wastewater collection, conveyance, treatment, recycling, discharge and disposal services collectively for all of the Participants. The service area of the Regional Wastewater Facilities is approximately 70 square miles which includes the wastewater service areas of Roseville, SPMUD and certain areas of Placer County. Refer to the appendices to this Official Statement for more specific information on the service areas for each of the Participants.

The City is currently evaluating the potential annexation of approximately 3,000 acres in the vicinity of the Pleasant Grove Plant site. Such annexation is currently being studied and may not take place. If the annexation does take place, it is anticipated that it will add approximately 8,000 EDU's to the Regional Wastewater System over a five to ten year time frame beginning in Fiscal Year 2005-06.

Wastewater Generation and Treatment Requirements

All wastewater from the Authority's service area is currently conveyed to, and treated at, the Dry Creek Plant. Upon completion of construction of the Pleasant Grove Plant, wastewater from the northern portion of the Authority's service area will be conveyed to, and treated at, the Pleasant Grove Plant, and wastewater from the southern portion of the Authority service area will continue to be conveyed to, and treated at, the Dry Creek Plant.

Existing Wastewater Treatment Flow.

The Dry Creek Plant has a treatment capacity of 18.0 million gallons per day ("mgd") under average dry weather flow ("ADWF") conditions. The hydraulic (peak flow) capacity of the Dry Creek Plant is significantly greater than 18 mgd ADWF, and in fact existing peak flows to the plant during storm events frequently exceed 18 mgd. The Dry Creek Plant is designed to safely handle these peak flows.

EDU and Flow Projections.

The EDU and wastewater flow projections through build out in 2040 set forth below, are based on the most recent projections prepared by Participants' staff. However, if future developments were at higher densities than current trends, the planned wastewater facilities are expandable to accommodate the higher wastewater flows that would result.

The table below provides a breakdown of current (year 2003) and build out (year 2040) EDU's for each Participant.

**The Regional Wastewater System
EDU Projections by Participant**

Participant	Existing EDU's (yr 2003)	Build-out EDU's (yr 2040)
City	51,114	66,637
County	8,387	32,040
District	24,905	35,552
Total	84,406	134,229

Based on the current projections, the number of ultimate EDU's that will develop through build out in the service area is estimated at a total of 134,229 EDU's (total of existing plus future EDU's).

The current ADWF is 15.0 mgd and the projected ADWF at build out (in 2040) is 34.9 mgd.

Effluent Requirements

The California Regional Water Quality Control Board, Central Valley Region (Regional Board), issued Waste Discharge Requirements discharge permit) to the City for the Pleasant Grove Plant on March 17, 2000. The discharge permit is authorized under the National Pollutant Discharge Elimination System, and is in effect for a 5-year period, expiring on March 31, 2005.

The discharge permit allows for the discharge to Pleasant Grove Creek of up to 12 mgd of effluent from the Pleasant Grove Plant and anticipates that in the future the Pleasant Grove Plant will be expanded to an ultimate capacity of 21 mgd. In general, the discharge permit requires all wastewater to be treated to “tertiary effluent limitations” which are analogous to the requirements described in the California Code of Regulations, Title 22. Title 22 contains criteria for the reuse or reclamation of wastewater as an alternative to discharging to a receiving stream. In the case of the Pleasant Grove Plant, since Pleasant Grove Creek is an ephemeral stream, at times providing little or no dilution to wastewater effluent discharged from the Pleasant Grove Plant, all effluent must meet the Title 22 limitations in order to protect the beneficial uses of contact recreation and irrigation in the creek. Title 22 requires that wastewater treated for unrestricted reclamation use must be oxidized, coagulated, filtered, and disinfected, or receive equivalent treatment. For discharge to Pleasant Grove Creek, the discharge permit also contains limitations on ammonia concentration, metals, and organic constituents.

The Regional Board adopted a renewal of the discharge permit for the Dry Creek Plant on June 16, 2000. The existing Dry Creek Plant facilities and operations provide the City with the capability of meeting the requirements of the permit.

Existing Wastewater Facilities

All wastewater from the Authority’s service area is currently conveyed to, and treated at, the Dry Creek Plant. The Dry Creek Plant has a capacity of 18 mgd average dry weather flow. Effluent from the Dry Creek Plant is discharged into Dry Creek. The Dry Creek Plant was designed to produce an effluent that allows unrestricted reuse of the effluent. The renewal of the discharge permit for the Dry Creek Plant was adopted by the Regional Board on June 16, 2000 and will remain in effect for a five-year period, expiring on June 16, 2005.

Construction of the Pleasant Grove Plant is approximately 95% complete and is expected to be completed substantially within its original budget. The Pleasant Grove Plant is currently in its testing phase and is anticipated to be on-line and operational by the end of calendar year 2003. When on-line, the Pleasant Grove Plant is expected to have a capacity of 12 mgd average dry weather flow.

Additional Wastewater Facilities

Depending on future demand, the Authority may expand capacity in future years at either the Pleasant Grove Plant or the Dry Creek Plant, or both, to meet the needs of its service area. The Authority may finance such expansion with one or more Authority Parity Bond issues. See “SECURITY FOR THE BONDS—Additional Parity Obligations.”

Available System Capacity

When the Pleasant Grove Plant becomes fully operational, the total available wastewater treatment capacity in the Authority’s system will be 30 mgd – 18 mgd at the Dry Creek Plant and 12 mgd at the Pleasant Grove Plant. As of June 30, 2003, the approximate daily treatment demands of the system were 16.6 million gallons. Both treatment plants in the Authority’s system can be expanded to accommodate additional demands, although growth estimates for the current service area indicate that future treatment demands beyond 30 mgd will not be significant. See “Service Area” above.

Operations

The City operates and maintains the Regional Wastewater Facilities for the mutual benefit of, and provides wastewater treatment services to, the Participants, so long as the Participants pay their proportionate share of the amounts required under the Funding Agreement and the Operations Agreement. Pursuant to the Operations Agreement, each Participant has the right to maintain connections between such Participant's System and the Regional Wastewater Facilities at all locations existing as of the date of the Operations Agreement and to establish new connections as needed, subject to the City's prior written approval of the location of such connection. The Operations Agreement also provides that each Participant's responsibility for Regional Operation and Maintenance Costs for the Regional Wastewater Facilities is based upon its Proportional Volumetric Share (defined as the proportion of total yearly wastewater volume entering the Regional Wastewater Facilities that is attributable to such Participant).

Insurance

The insurance needs of the Regional Wastewater System are handled by the Risk Management Division of the City's Administrative Services Department. The City is self-insured for up to \$500,000 for all insurance needs including casualty and liability. The City has also joined with a group of other municipalities to participate in a Joint Powers Authority policy that provides excess coverage up to \$10,000,000 for casualty and liability.

FINANCIAL OPERATIONS

Capital Costs

As of June 30, 2003, the Authority has funded and constructed or acquired more than \$144.7 million of capital projects, \$111.5 million of which has been for the Pleasant Grove Plant. For Fiscal Year 2003-04, the Authority anticipates the expenditure of approximately \$37.8 million for a variety of projects, the largest of which is a \$16 million project to convert the chlorine disinfection process at the Dry Creek Plant. To date, all capital project costs have been funded by the proceeds of the 2000 Bonds and associated interest earnings. The Authority anticipates that all remaining proceeds of the 2000 Bonds will be spent by the end of Fiscal Year 2003-04.

The following table presents the Authority's current 10-year capital improvement program projection. Under current wastewater flow projections, no expansion of either treatment plant is required during this 10-year period. The Authority currently anticipates funding all program funding requirements in the 10-year capital improvement program with Regional Connection Fees.

South Placer Wastewater Authority 10-Year Capital Improvement Program (\$000)

<u>PROJECT</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>TOTAL</u>
PGWWTP Recycled Water System ⁽¹⁾	\$3,478										\$3,478
Master Plan Update	464	478									\$941
PGWWTP Conversion to Ultraviolet ⁽¹⁾			6,149	6,334							\$12,483
Other Projects	232	239	615	633	652	672	692	713	734	756	\$5,939
TOTAL	\$4,173	\$716	\$6,764	\$6,967	\$652	\$672	\$692	\$713	\$734	\$756	\$22,841

⁽¹⁾ PGWWTP = Pleasant Grove Wastewater Treatment Plant

Source: South Placer Wastewater Authority

Operations and Maintenance Costs

The Operations Agreement among the Authority Participants provides that each Participant's responsibility for Regional Operation and Maintenance Costs for the Regional Wastewater Facilities is based upon its Proportional Volumetric Share (defined as the proportion of total yearly wastewater volume entering the Regional Wastewater

Facilities that is attributable to such Participant). For Fiscal Year 2001-02, the Participants contributed the following amounts under the Operations Agreement to fund Regional Operation and Maintenance Costs:

**South Placer Wastewater Authority
Participant Contributions to fund Regional Operation and Maintenance Costs
Fiscal Year 2001-02**

<u>Participant</u>	<u>Contribution</u>
City of Roseville	\$ 3,417,711
South Placer Municipal Utility District	1,729,997
Placer County	<u>892,785</u>
 Total	 \$ 6,040,493

Source: South Placer Wastewater Authority.

For the fiscal year ended June 30, 2003, the unaudited amount of Regional Operation and Maintenance Costs is estimated to be \$7,109,049. Once the Pleasant Grove Plant becomes operational, which is expected to be in December 2003, the amount of Regional Operation and Maintenance Costs is expected to increase to approximately \$8,600,000.

Certain administrative costs incurred by Roseville on behalf of the Authority are payable directly from the Rate Stabilization Fund. In Fiscal Year 2001-02 these administrative costs totaled \$124,997; for fiscal year ended 2002-03, the administrative costs are estimated to be \$188,700.

Certain Financial Data Relating to the Authority

The following summarizes information with regard to the Authority's Rate Stabilization Fund:

**South Placer Wastewater Authority
Rate Stabilization Fund Allocations
At Fiscal Years Ended June 30, 2001 and June 30, 2002 and as of June 30, 2003^(*)**

<u>Participant</u>	<u>As of June 1, 2001</u>	<u>As of June 30, 2002</u>	<u>As of June 30, 2003^(*)</u>
City of Roseville	\$63,739,823	\$74,881,754	\$84,335,890
South Placer Municipal Utility District	29,881,143	35,395,817	39,450,455
Placer County	<u>5,122,033</u>	<u>5,939,695</u>	<u>5,641,315</u>
 Total	 \$98,742,999	 \$116,217,266	 \$129,427,660

Source: South Placer Wastewater Authority.

(*) Due to the accrual process, certain revenue and expenditure information for the Rate Stabilization Fund will not be finalized until October 2003.

The following summarizes information with regard to the Regional Connection Fees received by the Authority:

South Placer Wastewater Authority
Connection Fees Received
At Fiscal Years Ended June 30, 2001 and June 30, 2002 and as of June 30, 2003^(*)

<u>Participant</u>	<u>As of June 30, 2001</u>	<u>As of June 30, 2002</u>	<u>As of June 30, 2003^(*)</u>
City of Roseville	\$9,779,021	\$11,729,964	\$11,001,778
South Placer Municipal Utility District	5,204,112	5,763,877	4,752,775
Placer County	<u>1,294,711</u>	<u>1,656,700</u>	<u>840,224</u>
Total	\$16,277,844	\$19,150,541	\$16,594,777

Source: South Placer Wastewater Authority.

(*) Due to the accrual process, certain revenue and expenditure information for the Rate Stabilization Fund will not be finalized until October 2003.

Investment Policy

The Authority's investment policy and the California Government Code allow the Authority to invest in the following:

- Securities of the U.S. Government or its agencies
- Forward Delivery Agreements
- Obligations of the State of California or any Local Agency within the state
- Repurchase Agreements
- Banker's Acceptances
- Commercial Paper
- Medium-Term Corporate Notes
- Certificate of Deposit
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Insured Savings Accounts
- Money Market/Mutual Funds
- California Asset Management Trust
- Qualified Swaps
- City of Roseville's Pooled Investment Fund

The Authority does not enter into reverse repurchase agreements. Trustees under bond indentures may also invest in guaranteed investment contracts and money market and mutual funds.

Roseville also holds certain funds within Roseville's investment pool to be used to pay current operating expenses of the Authority.

The Authority's investments are carried at fair value instead of cost, as required by generally accepted accounting principles in the United States of America. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Historical Financial Data

Financial Statements. The table below presents summaries of financial data relating to the Authority's Rate Stabilization Fund for the Fiscal Years ended June 30, 2001 through 2003. This data is extracted from the Authority's Annual Financial Reports for such years. The Authority's Annual Financial Report is currently audited by Maze & Associates, Walnut Creek, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the Authority. The reports include certain notes to the financial statements which may not be fully described

below. Such notes constitute an integral part of the audited financial statements. See APPENDIX A—“SOUTH PLACER WASTEWATER AUTHORITY AUDITED FINANCIAL STATEMENTS.”

South Placer Wastewater Authority
Summary of Rate Stabilization Fund Results ⁽¹⁾
Fiscal Years Ending June 30, 2001 through 2003

	<u>2001</u>	<u>2002</u>	<u>2003⁽²⁾</u>
Beginning Balance	\$68,926,738	\$98,742,999	\$116,217,266
Contributions:			
Regional Connection Fees	\$19,608,011	\$19,150,541	\$16,594,777
Prior Fiscal Year correction ⁽³⁾	(2,915,751)	33,489	--
Reimbursement from Bond Proceeds ⁽⁴⁾	55,547,351	64,480,228	21,788,086
Miscellaneous Revenue	22,339	387,846	50,536
Interest Earnings	4,429,576	3,374,132	2,698,025
Total Contributions	<u>\$76,691,526</u>	<u>\$87,426,236</u>	<u>\$41,131,424</u>
Withdrawals:			
Capital construction costs ⁽⁴⁾	\$42,367,726	\$61,170,713	\$19,232,100
Debt Service	4,418,418	8,656,259	8,544,430
Administrative Costs	89,121	124,997	144,500
Total Withdrawals	<u>\$46,875,265</u>	<u>\$69,951,969</u>	<u>\$27,921,030</u>
Ending Balance	\$98,742,999	\$116,217,266	\$129,427,660

Source: South Placer Wastewater Authority.

⁽¹⁾ Figures derived from the Authority’s Annual Audited Financial Reports.

⁽²⁾ Unaudited, projected amounts.

⁽³⁾ Figure for Fiscal Year ended June 30, 2001 represents settled SSBA2 connection fees owned by SPMUD to the Authority in the previous fiscal year, but not paid until February 2001. Figure for Fiscal Year ended June 30, 2002 represents correction to 2001 connection fee program agreed upon procedures report relating to Placer County.

⁽⁴⁾ Reimbursement from bond proceeds and capital construction costs amounts are not equal due to timing differences between actual expenditures and reimbursement requests.

Significant Accounting Principles. 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.

PROJECTED FINANCIAL RESULTS

The Authority's estimated projected Rate Stabilization Fund cash flow results for the Fiscal Years ending June 30, 2004 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the Authority's estimate of projected financial results based on its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the Authority's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

South Placer Wastewater Authority Estimated Projected Rate Stabilization Fund Results Fiscal Years Ending June 30, 2004 through 2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$129,427,660	\$140,336,503	\$149,015,130	\$163,465,826	\$165,578,058
Contributions:					
Regional Connection Fees ⁽¹⁾	\$15,794,451	\$15,900,797	\$20,618,162	\$14,083,330	\$15,921,575
Reimbursements ⁽²⁾	42,521,130	2,748,345			
Investment Earnings ⁽³⁾	4,052,301	4,346,113	4,693,053	4,941,497	5,030,755
Total Contributions	<u>\$62,367,882</u>	<u>\$22,995,256</u>	<u>\$25,311,215</u>	<u>\$19,024,827</u>	<u>\$20,952,330</u>
Withdrawals:					
Capital construction costs ⁽⁴⁾	\$42,521,130	\$4,173,387	\$716,431	\$6,764,306	\$6,967,235
Debt Service ⁽⁵⁾	8,805,300	10,006,655	10,003,402	10,003,383	9,997,545
Administrative Costs ⁽⁶⁾	132,609	136,588	140,685	144,906	149,253
Total Withdrawals	<u>\$51,459,039</u>	<u>\$14,316,629</u>	<u>\$10,860,519</u>	<u>\$16,912,595</u>	<u>\$17,114,034</u>
Ending Balance	\$140,336,503	\$149,015,130	\$163,465,826	\$165,578,058	\$169,416,354

⁽¹⁾ Assumes regional wastewater connections average approximately 4,625 equivalent dwelling units per year. Estimated Regional Connection Fee per EDU equals approximately \$3,600. Increase in Regional Connection Fees in Fiscal Year ending June 30, 2006 is due to a projected substantial increase in Placer County connections. Decrease after such year is due to declining connection activity for Roseville.

⁽²⁾ Remaining proceeds from the Series 2000 Bonds.

⁽³⁾ Assumes interest earnings rate of 3.00%.

⁽⁴⁾ From the Authority's most recent capital plan.

⁽⁵⁾ Does not include the effect of the refinancing described in this Official Statement. Series 2000 B debt service is estimated.

⁽⁶⁾ Based on the estimated FY 2003 amount of \$128,747 escalated at 3.0% per year.

Source: South Placer Wastewater Authority.

THE PARTICIPANTS

The Participants consist of Roseville, SPMUD and Placer County. Pursuant to the Funding Agreement (see "SECURITY FOR THE SERIES 2003 BONDS—Funding Agreement") and the Operations Agreement, each of the Participants agrees to collect and forward to the Authority, its Regional Connection Fees, as well as its share of Regional Operation and Maintenance Costs. For information relating to Roseville, see APPENDIX B-1—"INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY" and APPENDIX B-2—"EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT." For information relating to SPMUD, see APPENDIX C-1—"INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT" and APPENDIX C-2—"SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT." For information relating to Placer County, see APPENDIX D-1—"INFORMATION CONCERNING THE PROVISIONS OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS

WITHIN THE COUNTY OF PLACER” and APPENDIX D-2—“FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER’S WASTEWATER ENTITIES.”

CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES

Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines “full cash value” to mean “the County Assessor’s valuation of real property as shown on the 1975/76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

On June 18, 1992, following a number of challenges to the provisions of Article XIII A, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, 225 Cal. App. 3d 1259, a case involving residential property taxation decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The effect of Article XIII A on each Participant’s finances, then, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The Authority and the Participants cannot predict whether any further challenges to the State’s present system of property tax assessment will be made, or what the outcome of impact on any of the Participants of any such challenge might be.

Article XIII B of the California Constitution

An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district “which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12½ cents per \$100 of assessed value”, and (3) “appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . .” by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it “will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness.”

The Participants are of the opinion that their wastewater fees and charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIII B.

Article XIIC and XIID of the California Constitution

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIIC and XIID to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees” and “charges.” The Authority and the Participants may be local governments within the meaning of Articles XIIC and XIID. Articles XIIC and XIID are effective, pursuant to their terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (i.e., “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIID provides for written notice by mail of the imposition, extension or increase of any “fee” or “charge” levied by a local government to the record owner of each parcel of real property upon which a fee or charge is proposed to be imposed or increased. A “fee” or “charge” includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel of real property or upon a person as an incident of property ownership. Article XIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required by election to be conducted not less than 45 days following the public hearing on any such proposed new or increased fee or charge. In the view of the Authority, rates for wastewater fees and charges charged by the Authority to its Participants are not fees or charges under Article XIID, although no assurance may be given by the Authority that a court would not determine otherwise. The Second District Court of Appeals, in its decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles* (85 Cal. App. 4th 79 (2000)), has ruled that the City of Los Angeles’s water user fees based on metered amounts consumed are “basically commodity charges” and therefore not governed by Article XIID. It remains unclear what effect, if any, Article XIID will have on the ability of a Participant or the Authority to charge rates to its retail customers greater than those which existed on November 5, 1996, and the potential impact such limitations will have on the Authority’s Revenues and each Participant’s Net Revenues.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for among other things water” are exempted from some of the provisions of Article XIID applicable to assessments. Article XIID also imposes several procedural requirements for the imposition of any new assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity “separate the general benefits from the special benefits conferred on a parcel” of land. Beginning July 1, 1997, any change to a Participant’s current assessment could require notice to property owners and approval by a majority of such owners returning mail-in assessment ballots approving or rejecting any imposition or increase of such assessment. Article XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments.”

Article XIID, by its terms, does not apply to “fees or charges as a condition of property development.” The Authority believes that Regional Connection Fees and Local Connection Fees imposed by the Participants are fees or charges as a condition of property development within the meaning of Article XIID.

Article XIIC extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

For information concerning the specific procedures employed by each Participant with respect to its charges and fees, see Appendices B, C and D attached hereto.

No assurance may be given that Article XIIC and Article XIID would not have a material adverse impact on the Authority's Revenues. See "SECURITY FOR THE SERIES 2003 BONDS."

Future Initiatives

Articles XIII A, XIII B, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Participants' revenues or ability to increase revenues.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Series 2003 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series 2003 Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Series 2003 Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Series 2003 Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. The realization of the Authority Revenues is subject to, among other things, the capabilities of management of the Participants, the ability of the Participants to provide wastewater services to their users, and the ability of the Participants to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Participant Operation and Maintenance Costs and Regional Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Participant Net Revenues realized by the Participants and ultimately the ability of the Participants to pay their Proportionate Share of Debt Service to the Authority.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Participant's Systems and cause increased costs and thereby interrupt the ability of the Participants to realize Participant Net Revenues sufficient to pay their Proportionate Share of Debt Service to the Authority. The Participants are not obligated under the Funding Agreement to have earthquake or flood insurance.

Permits and Regulation

The wastewater operations of the Authority and the Participants are subject to discharge permits from the State Water Resources Control Board. A number of these permits will have to be modified to show increased capacity in connection with the Project. In general, these discharge permits are not modified to reflect increased capacity until capacity improvements are completed and have been tested. In addition, such permits expire and are subject to renewal every five years. Although the Authority and each of the Participants expects these permits to be modified to reflect increased capacity and to be renewed in the future, there can be no assurance that such modifications and renewals will occur. Non-compliance with discharge permits may result in significant penalties from the State Water Resources Control Board or other enforcement actions that could have a material adverse effect on the finances and operations of the Authority and the Participants.

Dependence of Connection Fee Revenue on Development

The projections relating to the payment of each Participant's Proportionate Share of Debt Service, assume that connection fees will be a significant source of future revenue. See APPENDICES B, C and D attached hereto.

In general, receipt of connection fee revenue is dependent upon development of land. The actual course of land development within the Participant's regional service area may vary significantly from the projections. While each of the Participants projects that connection fee revenues will allow the Rate Stabilization Fund to be maintained at a level sufficient to fund annual Debt Service on the Series 2003 Bonds and Parity Bonds, wastewater service charges are the ultimate financial support for the payment of each Participant's Proportionate Share of Debt Service. In general, the Participants agree annually to set rates for wastewater service charges at a level which will generate revenues sufficient to cover Debt Service on the Series 2003 Bonds and Parity Bonds that is not covered by amounts transferred from the Rate Stabilization Fund. See "SECURITY FOR THE SERIES 2003 BONDS—Funding Agreement – Rate Covenant" herein.

Land development is subject to comprehensive federal, state and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development.

The installation of the necessary infrastructure improvements and the construction of the proposed development are subject to the receipt of ministerial and discretionary approvals from a number of public agencies concerning the layout and design of the proposed development, the nature and extent of the improvements, land use, health and safety requirements and other matters. Moreover, land development operations may be adversely affected by future governmental policies, including, but not limited to, governmental policies to restrict or control development.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

In the past, a number of communities in California, including Roseville, have had initiative measures placed on the ballot intended to control the rate of future development. Any such initiatives relating to the Participants, including one for Roseville in 1996, have failed to pass. It is possible that future initiatives could be enacted, could become applicable to certain proposed development and could negatively impact the ability of developers to complete land development within the County. The application of future land use regulations to land development could cause significant delays and cost increases in the completion of development.

There can be no assurance that land development operations will not be adversely affected by a future deterioration of the real estate market, the lack of an adequate water supply, economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX G attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the Participants, including but not limited to the Rate Stabilization Fund, could have a material adverse effect on the security of the Series 2003 Bonds.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture and the Funding Agreement may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the

exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as APPENDIX H), will be similarly qualified.

The enforcement of the remedies provided in the Indenture and the Funding Agreement could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and the Funding Agreement may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If a Participant were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Funding Agreement.

CONTINUING DISCLOSURE

The Authority and the Participants will covenant for the benefit of the holders and beneficial owners of the Series 2003 Bonds to provide certain financial information and operating data by not later than 210 days following the end of the Authority's and each Participant's Fiscal Year (presently June 30) (the "Annual Reports"), commencing with the report for Fiscal Year ended June 30, 2003, and the Authority will covenant to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports and notices of material events will be filed with each Nationally Recognized Municipal Securities Information Repository (as defined in APPENDIX I) (the "NRMSIRs"). The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX I—"FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS FOR THE SERIES 2003 BONDS" hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

None of Roseville, Placer County or the Authority has ever failed to comply in any material respect with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. The District has been unable to confirm that the continuing disclosure reports prepared by the District for the fiscal years ending June 30, 2001 and June 30, 2002 were filed with the NRMSIR's by the District's dissemination agent in a timely manner. The District has taken steps to ensure that these reports are now available. Further, the District has instituted internal controls to ensure that such reports will be filed in a timely manner.

LITIGATION

To the best knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Authority (i) affecting the existence of the Authority or the titles of its officers to their respective offices, or (ii) affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2003 Bonds, or (iii) contesting or affecting, as to the Authority, the validity or enforceability of the Series 2003 Bonds, the Funding Agreement, the Operations Agreement or the Indenture, or (iv) contesting the powers of the Authority to enter into, adopt or perform its obligations under any of the foregoing, or (v) wherein an unfavorable decision, ruling or finding would materially adversely affect the operations or finances of the Authority.

To the best knowledge of each Participant, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Participant (i) affecting the existence of the Participant or the titles of its officers to their respective offices, or (ii) contesting or affecting, as to the Participant, the validity or enforceability of the Joint Powers Agreement, or the Operations Agreement or (iii) contesting the powers of the Participant to enter into, adopt or perform its obligations under any of the foregoing, or (iv) wherein an unfavorable decision, ruling or finding would materially adversely affect the finances and operations of the Participant.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for

purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Series 2003 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2003 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2003 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series 2003 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series 2003 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series 2003 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series 2003 Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2003 Bonds who purchase the Series 2003 Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series 2003 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2003 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2003 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Series 2003 Bond (said term being the shorter of the Series 2003 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2003 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series 2003 Bond is amortized each year over the term to maturity of the Series 2003 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series 2003 Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series 2003 Bonds.

In the further opinion of Bond Counsel, interest on the Series 2003 Bonds is exempt from California personal income taxes.

Owners of the Series 2003 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 2003 Bonds other than as expressly described above.

APPROVAL OF LEGALITY

The issuance of the Series 2003 Bonds is subject to the approving opinion of Jones Hall, a Professional Law Corporation, San Francisco, California, Bond Counsel, with respect to validity and tax exemption. Certain legal

matters will be passed upon for the Authority by Miller, Owen & Trost, A Professional Corporation, Sacramento, California, for the Participants by their respective counsels and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, San Francisco, California.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc. ("S&P") have rated the Series 2003 Bonds "Aaa" and "AAA," respectively, based upon the issuance of the Insurance Policy by the Insurer. In addition, Moody's and S&P have assigned underlying ratings of "A2" and "A-," respectively, to the Series 2003 Bonds. Certain information was supplied by the Authority and the Participants to such rating agencies to be considered in evaluating the Series 2003 Bonds. The ratings reflect only the views of the rating agencies and any explanation of the significance of such ratings and any ratings on any of the Participant's outstanding obligations may be obtained only from such rating agencies as follows: Moody's Investors Service, 99 Church Street, New York, New York 10017; and Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or any of them, if, in their respective judgment, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2003 Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc., San Francisco, California, serves as financial advisor with respect to the issuance of the Series 2003 Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

UNDERWRITING

Morgan Stanley & Co. Incorporated (the "Underwriter") has agreed, subject to certain conditions, to purchase the Series 2003 Bonds at a price of \$96,515,000 (representing \$97,000,000 aggregate principal amount of the Series 2003 Bonds, less \$485,000 of Underwriter's discount). The Purchase Contract provides that the Underwriter will purchase all the Series 2003 Bonds if any are purchased.

VERIFICATION

Upon delivery of the Series 2003 Bonds the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the Authority relating to the: (i) adequacy of forecasted receipts of principal and interest on the Investment Securities and cash held pursuant to the Escrow Agreement; (ii) forecasted payments of principal and interest with respect to the 2000A Bonds on and prior to their projected maturity and/or redemption dates; and (iii) yields on the 2000A Bonds and on obligations and other securities to be deposited pursuant to the Escrow Agreement upon delivery of the Series 2003 Bonds, will be verified by The Arbitrage Group, Inc., independent certified public accountants (the "Verification Agent"). Such verification shall be based solely upon information and assumptions supplied the Verification Agent by the Underwriter. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the Authority and approved by each of the Participants.

SOUTH PLACER WASTEWATER AUTHORITY

By: _____ /s/ Derrick Whitehead _____
Executive Director

APPENDIX A

SOUTH PLACER WASTEWATER AUTHORITY AUDITED FINANCIAL STATEMENTS

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SOUTH PLACER WASTEWATER AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

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ACCOUNTANCY CORPORATION
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying basic financial statements of the South Placer Wastewater Authority as of June 30, 2002 and for the year then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly in all material respects the financial position of the South Placer Wastewater Authority at June 30, 2002, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The basic financial statements referred to above follow the requirements of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as discussed in Note 1 to the Basic Financial Statements.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary financial information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



A Professional Corporation

December 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

This year the South Placer Wastewater Authority (the Authority) early implemented the provisions of Government Accounting Standards Board Statement 34, "Basic Financial Statements—and Management's Discussion & Analysis—for State and Local Governments", known as GASB 34. GASB 34 represents a profound and far-reaching change in accounting and reporting for municipalities; it is an effort to make these statements clearer and more understandable to readers.

GASB 34 requires the Authority to make substantial changes to its financial statement format; one of these requirements is that the Authority provide this discussion and analysis of its financial activities for the fiscal year. Other changes will be described in the financial statements themselves. Please read this document in conjunction with the accompanying Basic Financial Statements.

THE AUTHORITY

The Authority is a regional joint venture created by the City of Roseville, County of Placer and South Placer Municipal Utilities District (the Members) to finance the construction of the Pleasant Grove Wastewater Treatment Plant and other improvements located in the City of Roseville. The Authority issued \$180 million of debt for this purpose in December 2000 and is in the process of constructing the Pleasant Grove Plant, which is estimated to cost \$169 million, along with other improvements. Construction costs incurred to date as of June 30, 2002, including costs incurred prior to the formation of the Authority that were reimbursed from bond proceeds, were \$124.1 million; the Plant is expected to be completed in fiscal 2003.

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.

After construction is complete, the Authority will be responsible for collecting contributions of Connection Fees from members and for making all debt service payments on the Revenue Bonds until they are retired.

The Authority's accounting is similar to private business enterprises; capital construction costs, including interest costs, are capitalized; interest income on unexpended bond proceeds and other incidental income is netted against these costs. Under the terms of the agreements creating and governing the Authority (the Agreements), these net capital costs are transferred to the City of Roseville, which will own and operate the Plant when it is complete.

THE BASIC FINANCIAL STATEMENTS

The Authority's Basic Financial Statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows. Together with this report, the Basic Financial Statements provide information about the significant events, assumptions and decisions that resulted in the financial performance reflected in those statements.

The Statement of Net Assets provides information regarding the financial position of the Authority, including its debt.

The Statement of Revenues, Expenses and Changes in Net Assets normally provides information regarding the revenues generated by the Authority's operations, and expenses incurred in generating those revenues. The Authority's only operating resources are provided by contributions from members and the only costs it incurs are capital construction costs, which are contributed to the City of Roseville.

The Statement of Cash Flows provides information regarding the sources and uses of all the cash that flowed into and out of the Authority, regardless of how these transactions were accounted for.

FINANCIAL ACTIVITIES AND FISCAL YEAR 2002 HIGHLIGHTS

Statement of Net Assets

The Authority's net assets decreased \$39.0 million in 2002 to a new total of \$5.0 million, down from \$44.0 million in 2001. This decrease is the Change in Net Assets reflected in the Statement of Activities. The Authority's Net Assets at June 30, 2002 are discussed below:

- Investments of unexpended bond proceeds and member contributions totaled \$180.5 million, all of which was invested in accordance with applicable Authority resolutions and bond indentures.
- Deferred receivables totaled \$2.8 million, a decrease of \$.6 million from 2001 due to the collection of connection fees deferred in prior years under various agreements with developers.
- Long-term debt declined \$1.9 million as principal payments were made timely and no new debt was issued.
- Other assets and liabilities included normal business receivables and payables.
- Net assets restricted for rate stabilization totaled \$116.2 million; these net assets are restricted by the Members to future use in the funding of debt service payments required under the Authority's bond indentures. A separate analysis of net assets restricted for rate stabilization by Member is presented as supplementary information to the financial statements.
- Net assets restricted for debt service totaled \$12.9 million; this amount is restricted under the Authority's Revenue Bond indentures to payment of debt service in the event other resources of the Authority are not adequate.
- Unrestricted net deficit totaling \$124.1 million represents net capital construction costs incurred to date in constructing the Pleasant Grove Plant and other improvements. The construction in progress has been transferred to the City of Roseville in this amount, as required by the Agreements.

Statement of Revenues, Expenses and Changes in Net Assets

Capital costs of the Authority, as defined by the Agreements, include personnel services and administration, debt service, and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds.

Total capital construction costs incurred to date were \$124.1 million at June 30, 2002, of which \$61.2 million were incurred in fiscal 2002. Total inception-to-date capital construction costs included the following:

- Personnel services and administration expenditures of \$188 thousand, including \$125 thousand incurred in fiscal 2002.

- Debt service expenditures of \$16.2 million, including \$1.9 million for the Authority's first principal repayment, \$12.2 million in interest expense and \$3.1 million in bond issuance costs. Generally accepted accounting principles require that net construction-period interest costs be included in the capitalized cost of the project. Net construction period interest costs are the net of interest costs paid on the debt less interest revenues received on unexpended debt proceeds.
- Construction payments to contractors in fiscal 2002 of \$61.2 million, which brought total payments to \$103.5 million, as work on the Pleasant Grove Plant and other improvements progressed.
- Interest income of \$9.7 million to date on unexpended bond proceeds.

With the transfer of \$61.2 million in fiscal 2002, the total amount of capital costs incurred and transferred, in the form of construction in progress, to the City of Roseville to date is \$124.1 million, which is reflected in the financial statements as the deficit balance in unrestricted net assets.

The Authority received contributions of \$19.2 million from Members in fiscal 2002, representing Connection Fees collected by them from developers of properties in the area to be served by the Plant. When added to the Members' initial contributions of \$76.3 million and \$9.3 million received in fiscal 2001, this brings total contributions received from members from inception to date to a total of \$104.8 million.

Analysis of Rate Stabilization Restricted Net Assets Schedule

The Schedule presented as supplementary information to the financial statements, shows that interest income of \$3.4 million was added to Members balances along with their fiscal 2002 contributions of \$19.2 million, plus \$64.9 million was credited to the Members balances in the form of reimbursements from Bond Proceeds to fund capital construction, debt service interest and other associated costs.

DEBT ADMINISTRATION

The Authority issued no new debt in fiscal 2002 and made all scheduled repayments of existing debt. At June 30, 2002, the Authority's debt comprised the 2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A, and the 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B, which are discussed in detail in Note 4 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Authority's major initiative is the construction of the Pleasant Grove Plant and other improvements discussed above, the debt service on which is to be financed by Member contributions of Connection Fees collected from developers. The Members have pledged to cover any shortfall in developer Connection Fees.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances. Questions about this Report should be directed to the City of Roseville Finance Department, at 311 Vernon Street, Roseville, CA 95678.

SOUTH PLACER WASTEWATER AUTHORITY

**STATEMENT OF NET ASSETS
AND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

Current Assets:	
Investments in City of Roseville Treasury (Note 2)	\$3,681,270
Investments (Note 2)	110,627,469
Restricted Investments with fiscal agent (Note 2)	66,230,446
Accounts receivable	897,185
Accrued interest receivable	692,253
Due from other governments	2,152,949
Noncurrent Assets:	
Deferred receivables (Note 3)	<u>2,828,076</u>
Total Assets	<u>187,109,648</u>

LIABILITIES

Current Liabilities:	
Accounts payable and other liabilities	4,259,622
Long term liabilities:	
Long-term debt (Note 5)	
Due in one year	2,200,000
Due in more than one year	<u>175,660,000</u>
Total Liabilities	<u>182,119,622</u>

NET ASSETS

Restricted for rate stabilization	116,217,266
Restricted for debt service	12,892,948
Unrestricted (deficit)	<u>(124,120,188)</u>
Total Net Assets	<u><u>\$4,990,026</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

OPERATING COSTS

Cost of capital assets contributed to City of Roseville (Note 4):	
Personnel services and administration	\$124,997
Debt service interest	6,520,789
Construction costs	61,170,713
Interest revenue on bond proceeds	(6,201,688)
Other revenue	<u>(389,707)</u>
Net cost of capital assets contributed to City of Roseville	<u>61,225,104</u>
Operating loss	<u>(61,225,104)</u>

NONOPERATING INCOME (EXPENSE)

Connection fees contributed by members (Note 1)	19,184,030
Interest earned on connection fees	3,374,132
Fiscal agent fees	(225,996)
Net decrease in the fair value of bond proceed investments	<u>(123,397)</u>
Total nonoperating income	<u>22,208,769</u>
Net loss	<u>(39,016,335)</u>
Net Assets at beginning of year	<u>44,006,361</u>
Net Assets at end of year	<u><u>\$4,990,026</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to contractors	(\$63,704,639)
Payments to City of Roseville for personnel services and administration	(124,997)
Interest paid on debt	(6,615,867)
Interest received on bond proceeds	6,201,688
Other receipts	<u>389,707</u>
Net cash used by operating activities	<u>(63,854,108)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from members	20,301,485
Principal payments on debt	(1,915,000)
Fiscal agent fees	<u>(225,996)</u>
Cash Flows from Capital and Related Financing Activities	<u>18,160,489</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>3,042,219</u>
Cash Flows from Investing Activities	<u>3,042,219</u>
Net decrease in cash and cash equivalents	(42,651,400)
Cash and investments at beginning of year	<u>223,190,585</u>
Cash and investments at end of year	<u><u>\$180,539,185</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(\$61,225,104)
Change in assets and liabilities:	
Accounts payable and other liabilities	<u>(2,629,004)</u>
Net cash used by operating activities	<u><u>(\$63,854,108)</u></u>
NONCASH CAPITAL FINANCING ACTIVITIES	
Contribution of construction in progress to the City of Roseville	<u><u>(\$61,225,104)</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT 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, South Placer Municipal Utilities District and the County of Placer. 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 the District, 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.

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 City of Roseville personnel. Costs incurred by the City of Roseville 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 of Roseville.

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.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

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

The Statement of Net Assets and the Statement of Activities 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 Activities presents a comparison between direct expenses and program revenues for each function of the Authority's business type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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.

ENTERPRISE FUND

Rate Stabilization Fund - The Rate Stabilization Fund, the Authority's only fund, is the general 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. *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

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

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, while individual funds can make expenses at any time.

A. Categorization of Credit Risk of Securities Instruments

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.

The Authority categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Securities instruments in this category are in the Authority's name and are in the possession of the Trust Department of the bank employed by the Authority solely for this purpose. The Authority is the registered owner of securities held in book entry form by the bank's Trust Department.

Category 2 - Securities instruments and book entry form securities in this category are in the bank's name but are held by its Trust Department in a separate account in the Authority's name.

Category 3 - None of the Authority's investments are in this category, which would include only Authority-owned securities instruments or book entry form securities which were not in the Authority's name or which were not held by the bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value and are categorized as follows at June 30:

Category 2 Investments:	
U.S. Government Securities	\$20,465,392
Forward Delivery Agreement	55,996,514
Pooled Investments (non Categorized):	
Guaranteed Investment Contracts	53,213,567
Mutual Funds and Money Market Funds (U.S. Securities)	7,071,236
State of California Local Agency Investment Fund	40,111,206
City of Roseville's Pooled Investment Fund	<u>3,681,270</u>
Total Investments	<u>\$180,539,185</u>

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. 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 City of Roseville Treasury	\$3,681,270
Investments in Treasury	110,627,469
Restricted Investments with Fiscal Agent	<u>66,230,446</u>
Total Investments	<u>\$180,539,185</u>

C. Authorized Investments

The Authority's investment policy and the California Government Code allow the Authority to invest in the following:

- Securities of the U. S. Government or its agencies
- Forward Delivery Agreements
- Obligations of the State of California or any Local Agency within the state
- Repurchase Agreements
- Banker's Acceptances
- Commercial Paper
- Medium-Term Corporate Notes
- Certificates of Deposit
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Insured Savings Accounts
- Money Market / Mutual Funds
- California Asset Management Trust
- Qualified Swaps
- City of Roseville's Pooled Investment Fund

The Authority does not enter into reverse repurchase agreements. Trustees under bond indentures may also invest in guaranteed investment contracts and money market and mutual funds.

The City of Roseville also holds certain funds within the City's investment pool to be used to pay current operating expenses of the Authority.

The Authority's investments are carried at fair value instead of cost, as required by generally accepted accounting principles in the United States of America. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

The Authority is a voluntary 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 at June 30, 2002 was \$111,206 more than the Authority's cost. The balance available for withdrawal 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 obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

NOTE 3 - DEFERRED RECEIVABLES

The City of Roseville has entered into a number of agreements with developers to defer permit fees for various projects within the City of Roseville. With the creation of the Authority, these agreements have been transferred from the City of Roseville to the Authority. The terms of these agreements call for various interest rates and payment dates. The balance of these deferred receivables at June 30, 2002 was \$2,828,076.

NOTE 4 - 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, debt service, and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds.

Costs incurred by the Authority in fiscal 2002 totaling \$61,225,104 were transferred as construction in progress to the City of Roseville as of June 30, 2002.

NOTE 5 - LONG-TERM DEBT

A. Current Year Transactions and Balances

	Balance June 30, 2001	Retirements	Balance June 30, 2002	Current Portion
Revenue Bonds				
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	\$109,775,000	\$1,915,000	\$107,860,000	\$2,200,000
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	70,000,000		70,000,000	
TOTAL GENERAL LONG TERM DEBT	<u>\$179,775,000</u>	<u>\$1,915,000</u>	<u>\$177,860,000</u>	<u>\$2,200,000</u>

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 5 - LONG-TERM DEBT (Continued)

B. 2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A; 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B

In November 2000, the Authority issued Revenue Bonds Series A and Series B in the original principal amounts of \$109,775,000 and \$70,000,000 respectively. The purpose of these bonds is to partially finance the cost of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. Upon completion, this Plant will benefit the City, the District, and the County. These three entities in return share the obligation of the Revenue Bonds.

The *Series A Bonds* were issued as fixed rate bonds. Principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

Annual debt service requirements for Series A are shown below:

Year Ending June 30	Principal Repayment	Interest	Total
2003	\$2,200,000	\$5,381,431	\$7,581,431
2004	2,285,000	5,292,831	7,577,831
2005	2,375,000	5,199,631	7,574,631
2006	2,470,000	5,101,188	7,571,188
2007	2,575,000	4,996,169	7,571,169
2008-2012	14,610,000	23,170,685	37,780,685
2013-2017	18,725,000	18,886,189	37,611,189
2018-2022	24,230,000	13,284,088	37,514,088
2023-2027	31,145,000	6,156,283	37,301,283
2028-2032	7,245,000	190,181	7,435,181
	<u>\$107,860,000</u>	<u>\$87,658,676</u>	<u>\$195,518,676</u>

The *Series B Bonds* were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2002 was \$97,637. Beginning in fiscal year 2029, principal payments as shown below will be made in addition to the variable interest payments.

Year Ending June 30	Principal Repayment	Interest (at current rate)	Total
2003		\$805,000	\$805,000
2004		805,000	805,000
2005		805,000	805,000
2006		805,000	805,000
2007		805,000	805,000
2008-2012		4,025,000	4,025,000
2013-2017		4,025,000	4,025,000
2018-2022		4,025,000	4,025,000
2023-2027		4,025,000	4,025,000
2028-2032	\$32,255,000	3,239,512	35,494,512
2033-2036	37,745,000	816,979	38,561,979
	<u>\$70,000,000</u>	<u>\$24,181,491</u>	<u>\$94,181,491</u>

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 6 – NET ASSETS

Net Assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. The Authority's net assets are divided into two segments under GASB Statement 34.

Restricted describes the portion of Net Assets 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, 2002, restrictions included:

Restricted for **rate stabilization** represents the portion of net assets 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 assets 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 Assets which is not legally or contractually restricted as to use.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The Authority has outstanding contracts related to the construction of the Pleasant Grove Wastewater Treatment Plant totaling \$55.6 million at June 30, 2002.

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

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SUPPLEMENTARY INFORMATION

SOUTH PLACER WASTEWATER AUTHORITY
ANALYSIS OF RATE STABILIZATION RESTRICTED NET ASSETS

	City of Roseville	South Placer Municipal Utility District	Placer County	Totals
Balance at June 30, 2001	<u>\$63,739,823</u>	<u>\$29,881,143</u>	<u>\$5,122,033</u>	<u>\$98,742,999</u>
Additions July 1, 2001 to June 30, 2002				
Regional Connection fees	11,729,964	5,763,877	1,656,700	19,150,541
Correction to 2001 connection fee program agreed upon procedures report			33,489	33,489
Reimbursement of construction costs from bond proceeds and other revenue	35,139,034	16,217,020	13,512,020	64,868,074
Interest allocation	2,165,910	1,021,772	186,450	3,374,132
Capital construction costs	(33,136,174)	(15,292,679)	(12,741,860)	(61,170,713)
Debt service	(4,689,095)	(2,164,065)	(1,803,099)	(8,656,259)
Administrative costs	(67,708)	(31,251)	(26,038)	(124,997)
Total	<u>11,141,931</u>	<u>5,514,674</u>	<u>817,662</u>	<u>17,474,267</u>
Balance June 30, 2002	<u>\$74,881,754</u>	<u>\$35,395,817</u>	<u>\$5,939,695</u>	<u>\$116,217,266</u>

	Net Assets of	
	Bond Proceeds	Member Contributions
Investments in City of Roseville Treasury Investments		\$3,681,270
Restricted investments with fiscal agent	\$66,230,446	110,627,469
Unallocated gain on investments	221,147	(221,147)
Accounts receivable		897,185
Accrued interest receivable	245,122	447,131
Due from other governments		2,152,949
Deferred receivables		2,828,076
Accounts payable and other liabilities	(63,955)	(4,195,667)
Long-term debt:		
Due in one year	(2,200,000)	
Due in more than one year	(175,660,000)	
Net Assets (Deficit)	<u>(\$111,227,240)</u>	<u>\$116,217,266</u>

APPENDIX B-1

INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY

General

The City of Roseville (“Roseville” or the “City”) is located in California’s Sacramento Valley, near the foothills of the Sierra Nevada mountain range, about 16 miles northeast of Sacramento and 110 miles east of San Francisco. The City, with a population estimated to be approximately 90,739 as of January 1, 2003, is the largest city in Placer County as well as the residential and industrial center of the County.

The City has warm summers typical of central California, with an average July temperature of 77 degrees. Winter temperatures are moderate; the average January temperature is 46 degrees. The temperature drops below freezing an average of eight days per year. Rainfall averages 20 inches annually and falls mostly during the winter.

There is a wide variety of land uses within the City. Most of the City’s residential neighborhoods are located west of Interstate Highway 80; industrial facilities, including Hewlett-Packard, NEC Electronics, Inc. and Roseville Telephone Company are concentrated in the Northwest and North Central Roseville area.

Wastewater Utility

The City started developing its own wastewater collection and treatment system (the “City’s Wastewater Utility”) shortly after its incorporation as a city on April 10, 1909. Currently, the City’s Wastewater Utility provides sewer service to 50,943 equivalent dwelling units within City limits. The Wastewater Fund, a separate enterprise fund of the City, accounts for the operations of the City’s Wastewater Utility. See “Financial Information” below.

Governance and Management

The City was incorporated on April 10, 1909 and is a charter city. The City operates under the council-manager form of government, with a five-member City Council elected at large for staggered four-year terms. At each election, the council member receiving the most votes is appointed mayor pro-tempore for two years and becomes mayor for the final two years.

The City’s Environmental Utilities Department is responsible for the operation and maintenance of the City’s Wastewater Utility, as well as the City’s water and solid waste utilities. The senior management of the City’s Wastewater Utility consists of the following personnel:

DERRICK WHITEHEAD, Director of Environmental Utilities. Mr. Whitehead, as Director of Environmental Utilities, is responsible for the City’s Wastewater, Water and Solid Waste Utilities and reports to the City Manager of the City. He has served the City in this capacity since 1994. Prior to his current position, Mr. Whitehead was the Environmental Engineer for the City’s Environmental Utilities Department. Mr. Whitehead has a B.S. and M.S. in Civil Engineering from Brigham Young University. Mr. Whitehead is a registered civil engineer with the State of California and is a member of the American Water Works Association, American Public Works Association, Association of California Water Agencies, California Municipal Utilities Association, Solid Waste Association of North America and Water Environment Federation.

ART O’BRIEN, Wastewater Utility Manager. Mr. O’Brien is responsible for managing the day-to-day operation of the City’s Wastewater Utility. He has served the City in this capacity since 1998. Prior to assuming his current position, Mr. O’Brien worked for CH2MHill for 21 years. Mr. O’Brien was Vice President and Manager of the Sacramento Office of CH2MHill and served in a variety of roles while assigned to other CH2MHill offices before moving to the Sacramento area in 1993. Mr. O’Brien is a registered professional engineer of the State of California and has an M.S. degree in Civil and Environmental Engineering from Utah State University.

RUSS BRANSON, Finance Director. Mr. Branson, as Finance Director of the City, is responsible for the accounting, budget, cash management, payroll, utility billing and public finance aspects of the City. Mr. Branson

also manages the finances of the South Placer Wastewater Authority (the “Authority”). He has served the City in this capacity since April of 2000. Prior to assuming his current position, Mr. Branson worked as an urban land economist for Economic & Planning Systems in Sacramento for 11 years. Mr. Branson has an M.B.A. from California State University at Sacramento.

Wastewater Facilities

The City’s Wastewater Utility currently consists of the Dry Creek Plant with a treatment capacity of 18 million gallons per day (“mgd”) average dry weather flow, 4 sewer pump stations and over 900 miles of sewer mains. The City’s Wastewater Utility treats all of the wastewater in the City at the Dry Creek Plant, which it owns and operates. Currently, the City collects and treats over 7 mgd from Roseville. The Dry Creek Plant also treats wastewater from the South Placer Municipal Utility District and certain areas within the County of Placer. The City will also own and operate the Pleasant Grove Plant for the benefit of the Participants. Construction of the Pleasant Grove Plant is approximately 95% complete and is expected to be completed substantially within the approved budget. The Pleasant Grove Plant is currently in its testing phase and is anticipated to be on-line and operational by the end of calendar year 2003. When on-line, the Pleasant Grove Plant is expected to have a capacity of 12 mgd average dry weather flow. See “THE REGIONAL WASTEWATER SYSTEM” in the forepart of this Official Statement.

Wastewater Permits, Licenses and Other Regulations

The Dry Creek Plant operates under a National Pollutant Discharge Elimination System permit from the California Regional Water Quality Control Board (the “Regional Board”). The Regional Board issued a renewal of the original discharge permit for the Dry Creek Plant on June 16, 2000. The existing Dry Creek Plant facilities and operations provide the City with the capability of meeting the requirements of the permit. There have been no recent compliance issues with respect to these permits and regulations. For a discussion of the discharge permit issued by the Regional Board for the Pleasant Grove Plant, see “THE REGIONAL WASTEWATER SYSTEM – Wastewater Generation and Treatment Requirements” in the forepart of this Official Statement.

Wastewater Service Area and Customers

The area served by the City’s Wastewater Utility consists of approximately 31.3 square miles (or 20,224 acres), including approximately 50,943 equivalent dwelling units, 1,098 acres of developed commercial land, 687 acres of developed industrial land and 308 acres of public land. The population of the City’s Wastewater Utility service area as of January 1, 2003 is estimated to be 90,739 with total connections as of June 30, 2003 of 32,787.

The following tables show the current number of equivalent dwelling units and connections served by the City’s Wastewater Utility by class of user and the sewer service charge revenues by class of user.

**Roseville Wastewater Utility
Number of Dwelling Unit Equivalents and Connections
by Class of User
As of June 30, 2003**

<u>Class of User</u>	<u>Equivalent Dwelling Units</u>	<u>Connections</u>
Residential	41,088	30,927
Commercial/Industrial	<u>9,855</u>	<u>1,860</u>
Total Users	50,943	32,787

Source: City of Roseville

**Roseville Wastewater Utility
User Charge Revenues by Class of User
Fiscal Year Ended June 30, 2003**

<u>Class of User</u>	<u>User Charge Revenues⁽¹⁾</u>	<u>Percentage</u>
Residential	\$5,533,000	62.16%
Commercial/Industrial	<u>3,368,000</u>	<u>37.84</u>
Total	\$8,901,000	100.00%

Source: City of Roseville

⁽¹⁾ User Charge Revenues constitute estimated and unaudited Sewer Service Charges less payments from SPMUD and Placer County for a portion of the Operations & Maintenance costs related to regional facilities and less miscellaneous service charges.

The following table shows the five largest users of the City's Wastewater Utility by estimated and unaudited sewer service charge revenue during the Fiscal Year ended June 30, 2003.

**Roseville Wastewater Utility
Five Largest Users
Fiscal Year Ended June 30, 2003**

<u>User</u>	<u>User Charge Revenues⁽¹⁾</u>	<u>Percentage</u>
NEC Electronics, Inc.	\$549,000	6.17%
Hewlett-Packard	73,500	0.83
Heritage Park Apartments	63,000	0.71
Autumn Oaks Apartments	61,000	0.69
Slate Creek Apartments	<u>58,500</u>	<u>0.66</u>
Total	\$805,000	9.06%

Source: City of Roseville

⁽¹⁾ User Charge Revenues constitute estimated and unaudited Sewer Service Charges less payments from SPMUD and Placer County for a portion of the Operations & Maintenance costs related to regional facilities and less miscellaneous service charges.

The City is currently evaluating the potential annexation of approximately 3,000 acres in the vicinity of the Pleasant Grove Plant site. Such annexation is currently being studied and may not take place. If the annexation occurs, it is anticipated that it will add approximately 8,000 EDU's to the Regional Wastewater System over a five to ten year beginning in Fiscal Year 2005-06.

Rates and Charges

The City funds the cost of the City's Wastewater Utility operation, maintenance and replacement, and local infrastructure expansion through a user fee system involving service fees and local connection charges. Sewer service fees and local connection charges are determined by staff of the City's Environmental Utilities Department and approved by the City Council. Such rates are examined each year and are adjusted as needed to meet budgetary requirements. The components of the user fees currently imposed by the City are: (1) user charges for residential, commercial and industrial users and (2) miscellaneous service charges. The charges established by the City are not subject to review or approval by any other agency. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES -- Articles XIIC and XIID of the California Constitution" in the forepart of this Official Statement.

Current Service Charges and Billing. Effective August 1, 2003 the monthly rate increased to \$18.75 per sewer unit from \$15.50 per sewer unit. For residential connections, a sewer unit is one per living unit. For nonresidential connections, the calculation of sewer units varies depending on the biological and chemical composition of the discharge. In general, nonresidential sewer units are one sewer unit per 1,000 cubic feet of estimated discharge. In addition, special treatment and handling costs may be added. Customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 21 days. After a bill is delinquent, the City may disconnect electric service by following certain procedures. Before service is reinstated the customer must bring the entire bill current, pay a deposit equal to the estimated total sewer, water, electric and refuse bill for two months of service and compensate the City for the cost of reinstating service.

Current Connection Charges. A connection fee is a one-time fee for a new, additional or larger connection to the City's Wastewater Utility. Because connection fees are primarily collected on new construction within the City, revenues obtained from such fees vary based on the level of construction activity. The current connection fee (as of January 1, 2003) is \$3,825 of which \$3,510 is the Regional Connection Fee and \$250 is the Local Connection Fee. See "SECURITY FOR THE BONDS -- Funding Agreement -- Rate Stabilization Fund; Regional Connection Fees."

Delinquencies. The City has not experienced annual uncollected delinquencies for wastewater users exceeding \$24,000 (less than 1%) of total billings over each of the last 5 years.

Financial Information

Budgetary Process. The operating budget takes the form of an annual financial plan which is adopted in its entirety by the City Council. The operating budget is presented on a program basis, with an emphasis on matching services with the cost of providing those services. A mid-period review is conducted and appropriations are adjusted accordingly. The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions.

Financial Statements. The table below presents summaries of financial data relating to the City's Wastewater Fund for the Fiscal Years ended June 30, 1999 through 2003. This data is extracted from the City's Annual Financial Reports for such years, except for data for Fiscal Year ended June 30, 2003, which is unaudited. The City's Annual Financial Report is currently audited by Maze & Associates, Walnut Creek, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements. Copies of these reports are available on request from the City Clerk. See APPENDIX B-2 -- "EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT."

Significant Accounting Policies. Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and 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. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's Wastewater Utility is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. All Proprietary Funds, including the enterprise fund used to account for the operations of the City's Wastewater Utility, are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**City of Roseville Wastewater Utility Fund
Summary of Historical Operating Results⁽¹⁾
Fiscal Years Ending June 30, 1999 through 2003**

	1999	2000	2001	2002	2003 ⁽⁶⁾
Gross Revenues :					
Sewer Service Charges ⁽²⁾	\$9,097,824	\$8,720,120	\$9,761,049	\$11,535,968	\$11,757,000
Local Connection Fees	690,773	640,374	673,279	987,560	824,000
Interest Income	2,592,770 ⁽³⁾	298,424	310,668	241,946	221,000
Other Revenue	16,757	--	--	--	--
Total Gross Revenues	12,398,124	9,658,918	10,744,996	12,765,474	12,802,000
Operation & Maintenance Costs ⁽⁴⁾ :	6,951,693	7,204,878	7,679,467	8,082,549	9,567,000
Net Revenues	5,446,431	2,454,040	3,065,529	4,682,925	3,235,000
Regional Connection Fees ⁽⁵⁾	9,475,218	9,501,798	9,569,814	11,729,964	11,001,776
Connection Fees-SSBA2 (Regional) ⁽⁵⁾	\$571,315	365,245	209,207	--	--

(1) Figures derived from Roseville's Annual Audited Financial Reports.

(2) Includes payments from SPMUD and Placer County for a portion of the Operation & Maintenance Costs related to regional facilities.

(3) Includes interest income derived from the investment of monies from Regional Connection Fees collected from Placer County and SPMUD.

(4) Operation & Maintenance Costs exclude depreciation and include both local collection system operation and maintenance costs and Regional Operation & Maintenance Costs.

(5) Regional Connection Fees are collected and transferred to the Authority. Sufficient Sewer Special Benefit Area #2 (SSBA2) fees were collected for the purpose of the special district. SSBA2 was rescinded in November 2000.

(6) Unaudited, estimated amounts.

Management's Discussion and Analysis. The following discussion relates to certain items shown in the table above.

Gross Revenues. Gross Revenues, not including Regional Connection Fees, fluctuated from \$12.398 million in the Fiscal Year ended June 30, 1999 to \$12.802 million in the Fiscal Year ended June 30, 2003. This increase was mainly due to the development growth trend in Sewer Service Charges and Local Connection Fees, both of which contribute to Gross Revenues. Sewer Service Charges increased from \$9.098 million in the Fiscal Year ended June 30, 1999 to \$11.757 million in the Fiscal Year ended June 30, 2003. Interest Income decreased in Fiscal Year ended June 30, 2000 due to interest on Regional Connection Fees earned and accounted by the Authority.

Regional Connection Fees generally increased over the five year historical timeframe due to development growth.

Operations and Maintenance Costs. Over the five year historical timeframe, Operations & Maintenance Costs increased from \$6.952 million (for the Fiscal Year ended June 30, 1999) to \$9.567 million (for the Fiscal Year ended June 30, 2003), due to increased costs of benefits, chemicals, power and repairs and maintenance, along with the cost of preparing to operate the Pleasant Grove Plant.

Outstanding Long-Term Obligations

2000A Bonds will be defeased by a portion of the proceeds of the Series 2003 Bonds. Other than the 2000 Bonds, the City has no outstanding long-term obligations payable from revenues of the City's Wastewater Utility; provided that the Series 2003 Bonds and the 2000 Bonds will be on a parity with the Swap Agreement.

Insurance

The insurance needs of the City's Wastewater Utility are handled by the Risk Management Division of the City's Administrative Services Department. The City, including the City's Wastewater Utility, is self-insured for up to \$500,000 for all insurance needs including casualty and liability and up to \$250,000 for workers' compensation. The City has also joined with a group of other municipalities to participate in a Joint Powers Authority policy that provides excess coverage up to \$25,000,000 for casualty and liability, and up to \$500,000 for workers' compensation.

Employees

As of June 30, 2003, the City had approximately 149 full-time equivalent employees employed in the City's Environmental Utilities Department, including 13 full-time equivalent employees in wastewater treatment, 19 full-time equivalent employees in wastewater collection, 2.48 full-time equivalent employees in wastewater administration, 23.48 full-time equivalent employees in water/wastewater mechanical maintenance and electronics, 6.48 full-time equivalent employees in water/wastewater analysis and one full-time equivalent employee in recycled water. Substantially all of the non-management City personnel assigned to the City's Wastewater Utility are represented by Local 39 or the International Brotherhood of Electrical Workers ("IBEW"). The contract with the Local 39 will expire on December 31, 2003 and the contract with the IBEW will expire on December 31, 2003. There have been no strikes or other work stoppages at the City, including the City's Wastewater Utility.

Investment Policy

The cash attributable to the City's Wastewater Utility must be invested in accordance with the City's Investment Policy. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. Idle cash management and investment transactions are the responsibility of the City Treasurer and permitted investments include the following:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Demand Deposits
- Repurchase Agreements
- Passbook Savings Account Demand Deposits

Criteria for selecting investments and the order of priority are:

- Safety -- Preservation of principal and interest
- Liquidity -- Ability to convert investment to cash at any moment in time
- Yield -- Potential dollar earnings on an investment

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield when selecting an investment, provided the criteria for safety and liquidity are met.

APPENDIX B-2

EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT

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CITY OF ROSEVILLE
CALIFORNIA, PLACER COUNTY

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDED 2001/02

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ACCOUNTANCY CORPORATION
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INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of Roseville, California

We have audited the basic financial statements of the City of Roseville as of and for the year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the City of Roseville at June 30, 2002 and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The basic financial statements referred to above follow the requirements of Government Accounting Standards Board Statements No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, No. 36, Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33, No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus, and No. 38, Certain Financial Statement Note Disclosures, as discussed in Note 1 to the basic financial statements.

Management's Discussion and Analysis and Required Supplemental Information is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Roseville. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued reports dated December 6, 2002 on our consideration of the City of Roseville's internal control structure and on its compliance with laws and regulations.

December 6, 2002



CITY OF ROSEVILLE

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are entirely new statements required by Government Accounting Standards Board Statement 34. Their purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities and the portion of the Internal Service Fund balances that service Enterprise Funds.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the Redevelopment Agency of the City of Roseville, the Roseville Finance Authority, and the City of Roseville Housing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statements is no longer used.

CITY OF ROSEVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in City Treasury (Note 3)	\$166,670,801	\$114,960,976	\$281,631,777
Restricted cash and investments with fiscal agents (Note 3)	4,508,855	8,203,021	12,711,876
Receivables:			
Taxes	1,507,597	22,464	1,530,061
Accounts	2,281,153	18,217,281	20,498,434
Accrued interest	2,212,483	922,955	3,135,438
Due from other government agencies	9,903,390	1,073,661	10,977,051
Internal balances (Note 4K)	4,817,663	(4,816,719)	944
Prepaid expenses	11,517		11,517
Deferred receivables (Note 6)	6,896,996	1,338,882	8,235,878
Notes receivables (Note 5)	5,241,918		5,241,918
Inventories (Note 11)	944,592	5,360,236	6,304,828
Prepaid purchased electricity (Note 14)		5,668,543	5,668,543
Unamortized bond origination costs		1,592,156	1,592,156
Investment in NCPA reserves (Note 15)		4,764,836	4,764,836
Investment in SPWA reserves (Note 16)		110,976,780	110,976,780
Capital assets, net of accumulated depreciation (Note 8)	508,947,259	514,786,934	1,023,734,193
Total assets	713,944,224	783,072,006	1,497,016,230
LIABILITIES			
Accounts payable	8,264,927	5,839,014	14,103,941
Accrued liabilities	3,392,583	2,374,331	5,766,914
Due to other governments	4,323,444	860,702	5,184,146
Self-insurance claims payable and litigation settlement (Note 13)	13,461,000		13,461,000
Deposits	1,908,928	719,576	2,628,504
Deferred revenue	738,925	2,416,461	3,155,386
Landfill closure and post closure liability (Note 17)		4,481,039	4,481,039
Compensated absences (Note 1G)	8,486,689	3,907,546	12,394,235
Developer agreement payable (Note 7B)	5,953,483		5,953,483
Long term liabilities (Note 9):			
Due within one year	1,096,491	3,290,634	4,387,125
Due in more than one year	19,655,479	158,381,515	178,036,994
Total liabilities	67,281,949	182,270,818	249,552,767
NET ASSETS (Note 11)			
Invested in capital assets, net of related debt	487,758,224	353,316,278	841,074,502
Restricted for:			
Joint ventures		67,709,889	67,709,889
Capital projects	106,033,098		106,033,098
Debt service	1,686,123	5,999,796	7,685,919
Community development projects	702,001		702,001
Local transportation		5,527,487	5,527,487
School-age child care		15,325	15,325
Total restricted net assets	108,421,222	79,252,497	187,673,719
Unrestricted net assets	50,482,829	168,232,413	218,715,242
Total net assets	\$646,662,275	\$600,801,188	\$1,247,463,463

See accompanying notes to financial statements

**CITY OF ROSEVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$17,964,866	\$46,441	\$545,665	\$2,806,158	(\$14,566,602)		(\$14,566,602)
Community development and planning	6,289,024	1,021,175	2,553,390	9,757	(2,704,702)		(2,704,702)
Public works	22,234,851	7,435,683	200,156	37,626,555	23,027,543		23,027,543
Police	15,521,608	1,003,793	778,211		(13,739,604)		(13,739,604)
Fire	9,888,898	406,127	560,560	2,735,080	(6,187,131)		(6,187,131)
Library	2,600,828	67	226,916		(2,373,845)		(2,373,845)
Parks and recreation	10,410,021	3,746,008	106,875	4,835,377	(1,721,761)		(1,721,761)
Community facilities districts	997,338			30,402,707	29,405,369		29,405,369
Payments under developer agreements	2,270,481				(2,270,481)		(2,270,481)
Housing assistance payments	2,027,930		2,441,243		413,313		413,313
Interest on long term debt	1,231,940				(1,231,940)		(1,231,940)
Total Governmental Activities	91,437,785	13,659,294	7,413,016	78,415,634	8,050,159		8,050,159
Business-type Activities:							
Electric	91,181,747	72,397,572	1,774,999	17,620,534		561,358	611,358
Water	10,763,651	8,225,840	30,619	18,846,256		16,339,064	16,339,064
Wastewater	15,224,345	11,632,233		49,166,163		45,574,051	45,574,051
Solid waste	13,253,807	12,175,022	21,350		(1,057,435)		(1,057,435)
Golf Course	2,529,029	2,583,468			54,439		54,439
Local Transportation	2,928,898	566,366	5,250,143	10,000	2,897,611		2,897,611
School-age Child Care	3,292,081	3,341,780	95,249		144,948		144,948
Total Business-type Activities	139,173,558	110,922,281	7,172,360	85,642,953		64,564,036	64,564,036
Total	\$230,611,343	\$124,581,575	\$14,585,376	\$164,058,587	8,050,159	64,564,036	72,614,195
General revenues:							
Taxes					60,265,780		60,265,780
Licenses and permits					4,562,788		4,562,788
Use of money and property					6,509,896	5,764,373	12,274,269
Miscellaneous revenues					1,807,075		1,807,075
Transfers					12,245,181	(12,245,181)	
Total general revenues and transfers					85,390,720	(6,480,808)	78,909,912
Extraordinary item:							
Litigation settlement (Note 13C)					(8,500,000)		(8,500,000)
Change in Net Assets					84,940,879	58,083,228	143,024,107
Net Assets-Beginning					561,721,396	542,717,960	1,104,439,356
Net assets-Ending					\$646,662,275	\$600,801,188	\$1,247,463,463

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2002. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

COMMUNITY FACILITIES DISTRICT PROJECTS FUND

This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

CITY OF ROSEVILLE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2002

	General	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments in City Treasury (Note 3)	\$32,136,484	\$18,225,342	\$96,034,787	\$146,396,613
Restricted cash and investments with fiscal agents (Note 3)		2,578,040	1,799,135	4,377,175
Receivables:				
Taxes	1,507,597			1,507,597
Accounts	2,196,657	6,846	68,557	2,272,060
Accrued interest	420,084	115,502	864,228	1,399,814
Due from other government agencies	6,709,316		3,191,824	9,901,140
Due from other funds (Note 4B)	259,684	703,970	50,000	1,013,654
Advances to other funds (Note 4C)	6,387,888		350,000	6,737,888
Prepaid expenses	11,517			11,517
Deferred receivables (Note 6)			6,896,996	6,896,996
Notes receivables (Note 5)	158,983		5,082,935	5,241,918
Inventories (Note 11)	396,794			396,794
Total Assets	\$50,185,004	\$21,629,700	\$114,338,462	\$186,153,166
LIABILITIES				
Accounts payable	\$2,000,162	\$3,415,740	\$2,178,479	\$7,594,381
Accrued liabilities	1,742,480		1,165,588	2,908,068
Due to other funds (Note 4B)		57,544	1,063,855	1,121,399
Due to other government agencies	36,024		4,287,420	4,323,444
Advances from other funds (Note 4C)			7,626,789	7,626,789
Deposits	1,299,263	9,665	600,000	1,908,928
Deferred revenue	509,254		8,078,408	8,587,662
Current portion of compensated absences (Note 1G)	3,627,094		4,291	3,631,385
Total Liabilities	9,214,277	3,482,949	25,004,830	37,702,056
FUND BALANCES (Note 11)				
Reserved for:				
Advances	6,387,888		350,000	6,737,888
Inventories	396,794			396,794
Encumbrances	2,172,045		1,373,428	3,545,473
Capital projects		18,146,751		18,146,751
Deferred receivables and notes receivable	158,983		57,394	216,377
Prepaid expenses	11,517			11,517
Low and moderate income housing			405,155	405,155
Debt service			1,686,123	1,686,123
Unreserved				
Designated for economic reserve	6,955,500			6,955,500
Designated for carryover of capital improvement projects	5,576,749		11,448,839	17,025,588
Designated for utility users tax refund reserve	11,728,819			11,728,819
Unreserved, undesignated, reported in:				
General Fund	7,582,432			7,582,432
Special Revenue Funds			57,998,370	57,998,370
Permanent Funds			16,014,323	16,014,323
TOTAL FUND BALANCES	40,970,727	18,146,751	89,333,632	148,451,110
Total Liabilities and Fund Balances	\$50,185,004	\$21,629,700	\$114,338,462	\$186,153,166

See accompanying notes to financial statements

CITY OF ROSEVILLE
 Reconciliation of the
 GOVERNMENTAL FUNDS – BALANCE SHEET
 with the Governmental Activities
 STATEMENT OF NET ASSETS
 JUNE 30, 2002

TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS \$148,451,110

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 508,947,259

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	20,405,868
Accounts receivable	9,093
Interest receivable	812,669
Due from other government agencies	2,250
Inventories	547,718
Accounts payable	(670,546)
Accrued liabilities	(47,450)
Self-insurance claims payable	(4,961,000)
Compensated absences	(216,506)
Internal balances	5,814,309

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. 7,848,737

Expenses which are not payable currently are not accrued on the Fund Balance Sheets
 Refunds payable to developers (5,953,483)

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Long-term debt	(20,751,970)
Interest payable, included in accrued liabilities	(437,065)
Non-current portion of compensated absences	(4,638,798)
Litigation settlement	<u>(8,500,000)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$646,662,275

See accompanying notes to financial statements

CITY OF ROSEVILLE
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2002

	General	Community Facilities District Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$54,855,833		\$6,505,739	\$61,361,572
Licenses and permits	2,787,695			2,787,695
Charges for services	9,254,035	\$1,350	20,334,348	29,589,733
Subventions and grants	5,388,644		10,720,950	16,109,594
Use of money and property	1,242,693	983,116	3,721,110	5,946,919
Fines, forfeitures and penalties	652,292		441,089	1,093,381
Miscellaneous revenues	507,735	539,889	510,157	1,557,781
Total Revenues	74,688,927	1,524,355	42,233,393	118,446,675
EXPENDITURES				
Current:				
General government	15,199,665		2,514,564	17,714,229
Community development and planning	4,075,756		2,737,078	6,812,834
Public works	10,991,887			10,991,887
Public safety:				
Police	14,647,683			14,647,683
Fire	9,631,469			9,631,469
Library	2,319,017		185,873	2,504,890
Parks and recreation	9,673,894		807,121	10,481,015
Housing assistance payments			2,027,930	2,027,930
Capital outlay	3,552,450	34,889,074	21,605,437	60,046,961
Payments under developer agreements (Note 7)	2,270,481		2,944,421	5,214,902
Debt service				
Principal retirement	457,202		620,000	1,077,202
Interest and fiscal charges	103,336		1,092,642	1,195,978
Total Expenditures	72,922,840	34,889,074	34,535,066	142,346,980
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,766,087	(33,364,719)	7,698,327	(23,900,305)
OTHER FINANCING SOURCES (USES)				
Contributions from property owners		34,173,448		34,173,448
Contributions from developers	2,338,128	408,373	1,953,174	4,699,675
Proceeds from capital lease (Note 9)	142,889			142,889
Transfers in (Note 4A)	17,152,563		9,974,365	27,126,928
Transfers (out) (Note 4A)	(6,465,676)	(589)	(8,122,330)	(14,588,595)
Total Other Financing Sources (Uses)	13,167,904	34,581,232	3,805,209	51,554,345
NET CHANGE IN FUND BALANCES	14,933,991	1,216,513	11,503,536	27,654,040
Fund balances at beginning of period, as restated (Note 11F)	26,036,736	16,930,238	77,830,096	120,797,070
FUND BALANCES AT END OF PERIOD	\$40,970,727	\$18,146,751	\$89,333,632	\$148,451,110

See accompanying notes to financial statements

CITY OF ROSEVILLE
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2002

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$27,654,040

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance 60,046,960

Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of \$2,780,489 which has already been allocated to serviced funds.) (10,411,297)

Retirements of capital assets (net of internal service fund retirements of \$148,085) (4,210,041)

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.

15,583,226

LONG TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Proceeds from capital assets (142,889)

Repayment of debt principal is added back to fund balance 1,077,202

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Long-term compensated absences (759,454)

Interest payable, including in accrued liabilities (35,962)

Deferred revenues (737,664)

Payments to developers 2,944,421

Litigation settlement (8,500,000)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds 4,044,828

Change in Net Assets of Internal Service Funds reported with Business-Type Activities (1,612,491)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$84,940,879

See accompanying notes to financial statements

CITY OF ROSEVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$50,689,530	\$51,959,530	\$54,855,833	\$2,896,303
Licenses and permits	2,154,200	2,354,200	2,787,695	433,495
Charges for services	6,826,171	7,548,171	9,254,035	1,705,864
Subventions and grants	5,312,682	5,654,447	5,388,644	(265,803)
Use of money and property	806,690	806,690	1,242,693	436,003
Fines, forfeitures and penalties	58,000	58,000	652,292	594,292
Miscellaneous revenues	477,490	610,360	507,735	(102,625)
TOTAL REVENUES	66,324,763	68,991,398	74,688,927	5,697,529
EXPENDITURES				
Current:				
General government	16,402,610	17,071,824	15,199,665	1,872,159
Community development and planning	5,616,560	7,403,946	4,075,756	3,328,190
Public works	12,605,321	15,551,231	10,991,887	4,559,344
Public safety:				
Police	16,415,396	16,437,401	14,647,683	1,789,718
Fire	9,823,476	10,270,621	9,631,469	639,152
Library	2,693,891	2,693,891	2,319,017	374,874
Parks and recreation	10,368,673	10,463,013	9,673,894	789,119
Capital outlay	5,713,739	5,713,739	3,552,450	2,161,289
Payments under development agreements	1,118,860	1,118,860	2,270,481	(1,151,621)
Debt Service:				
Principal	470,019	480,804	457,202	23,602
Interest and fiscal charges	103,396	112,491	103,336	9,155
TOTAL EXPENDITURES	81,331,941	87,317,821	72,922,840	14,394,981
OTHER FINANCING SOURCES (USES)				
Contributions from developers	2,448,550	4,158,165	2,338,128	(1,820,037)
Proceeds from capital lease			142,889	142,889
Transfers in	14,910,386	17,192,589	17,152,563	(40,026)
Transfers (out)	(7,486,285)	(6,740,295)	(6,465,676)	274,619
Total Other Financing Sources (Uses)	9,872,651	14,610,459	13,167,904	(1,442,555)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$5,134,527)	(\$3,715,964)	14,933,991	\$18,649,955
Fund balance at beginning of year, as restated			<u>26,036,736</u>	
Fund balance at end of year			<u>\$40,970,727</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2002.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

ELECTRIC FUND

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

WATER FUND

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

WASTEWATER FUND

This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

SOLID WASTE FUND

This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

GOLF COURSE FUND

This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

LOCAL TRANSPORTATION FUND

This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

SCHOOL-AGE CHILD CARE FUND

This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

**CITY OF ROSEVILLE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
ASSETS					
Cash and investments in city treasury (Note 3)	\$56,136,894	\$41,445,543	\$8,476,660	\$1,431,329	\$464,801
Restricted cash and investments with fiscal agents (Note 3)	4,776,688	2,656,573			769,760
Receivables:					
Taxes	22,464				
Accounts	12,280,383	2,704,090	1,278,185	1,510,234	42,213
Accrued Interest	524,436	285,015	50,836	10,636	13,055
Due from other government agencies	52	7,909	276,959		
Due from other funds (Note 4B)		266,409			
Inventories (Note 11)	4,815,312	415,197	55,585	74,142	
Deferred receivables (Note 6)	619,171	420,431	299,280		
Prepaid purchased electricity (Note 14)	5,668,543				
Unamortized bond origination costs	741,776	719,475			130,905
Investment in NCPA reserves (Note 15)	4,764,836				
Investment in SPWA reserves (Note 16)			110,976,780		
Advances to other funds (Note 4C)					
Capital assets, net of accumulated depreciation (Note 8)	169,625,062	96,952,177	223,239,692	1,422,321	18,637,223
Total assets	259,975,617	145,872,819	344,653,977	4,448,662	20,057,957
LIABILITIES					
Current Liabilities					
Accounts payable	1,568,469	1,923,104	398,725	528,127	879,987
Accrued liabilities	1,012,058	310,597	653,689	72,597	205,116
Due to other governments			860,702		
Due to other funds (Note 4B)				310,000	100,000
Current portion of compensated absences (Note 1G)	707,208	394,418	370,607	128,504	
Current portion of long-term debt (Note 9)	715,000	1,183,894	1,191,740		200,000
Deposits	538,004	40,360	123,778		14,936
Deferred revenue	2,221,730				
Self-insurance claims payable (Note 13)					
Total Current Liabilities	6,762,469	3,852,373	3,599,241	1,039,228	1,400,039
Long-Term Liabilities					
Advances from other funds (Note 4C)				553,128	4,120,000
Notes (Note 9)		201,493			
Certificates of participation (Note 9)	26,265,000	28,575,000	95,155,022		8,185,000
Revenue bonds (Note 9)					
Landfill closure and post closure liability (Note 17)				4,481,039	
Compensated absences (Note 1G)	1,058,432	453,856	418,733	153,553	
Total Liabilities	34,085,901	33,082,722	99,172,996	6,226,948	13,705,039
NET ASSETS					
Invested in capital assets, net of related debt	142,645,062	67,193,283	126,892,930	1,422,321	10,252,223
Restricted for joint venture	4,764,836		62,945,053		
Restricted for debt service	2,696,763	2,612,320			690,713
Restricted for local transportation					
Restricted for school-age child care					
Unrestricted	75,783,055	42,984,494	55,642,998	(3,200,607)	(4,590,018)
Total Net Assets	\$225,889,716	\$112,790,097	\$245,480,981	(\$1,778,286)	\$6,352,918

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Net assets business-type activities

See accompanying notes to financial statements

<u>Local Transportation</u>	<u>School-Age Child Care</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
\$4,857,858	\$535,400	\$113,348,485	\$21,886,679
		8,203,021	131,680
		22,464	
5,530	396,646	18,217,281	9,093
35,176	3,801	922,955	812,669
788,741		1,073,661	2,250
		266,409	460,000
		5,360,236	547,798
		1,338,882	
		5,668,543	
		1,592,156	
		4,764,836	
		110,976,780	
			5,562,029
<u>3,932,119</u>	<u>978,340</u>	<u>514,786,934</u>	<u>11,473,871</u>
<u>9,619,424</u>	<u>1,914,187</u>	<u>786,542,643</u>	<u>40,886,069</u>
88,934	451,668	5,839,014	670,546
10,062	110,212	2,374,331	47,450
		860,702	
		410,000	207,720
30,248	131,993	1,762,978	110,343
		3,290,634	
	2,498	719,576	
	194,731	2,416,461	
			4,961,000
<u>129,244</u>	<u>891,102</u>	<u>17,673,696</u>	<u>5,997,059</u>
		4,673,128	
		201,493	
		158,180,022	
		4,481,039	
<u>30,574</u>	<u>29,420</u>	<u>2,144,568</u>	<u>106,163</u>
<u>159,818</u>	<u>920,522</u>	<u>187,353,946</u>	<u>6,103,222</u>
3,932,119	978,340	353,316,278	11,473,871
		67,709,889	
		5,999,796	
5,527,487		5,527,487	
	15,325	15,325	
		166,619,922	23,308,976
<u>\$9,459,606</u>	<u>\$993,665</u>	<u>599,188,697</u>	<u>\$34,782,847</u>
		1,612,491	
		<u>\$600,801,188</u>	

CITY OF ROSEVILLE
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2002

	Business-type Activities-Enterprise Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
OPERATING REVENUES					
Charges for services	\$71,908,153	\$8,056,647	\$11,606,570	\$12,030,383	\$2,568,087
Sale of wholesale power	334,880				
Other	154,539	169,193	25,663	144,639	15,381
Total Operating Revenues	72,397,572	8,225,840	11,632,233	12,175,022	2,583,468
OPERATING EXPENSES					
Purchased power	61,022,132				
Distribution:					
Operations	12,146,068	5,359,872	7,912,010	13,104,918	1,661,627
Administration	1,868,813	2,220,513	185,119	364,909	
Depreciation and amortization	3,734,682	2,192,730	3,381,983	90,958	371,562
Claims expense					
Total Operating Expenses	78,771,695	9,773,115	11,479,112	13,560,785	2,033,189
Operating Income (Loss)	(6,374,123)	(1,547,275)	153,121	(1,385,763)	550,279
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	3,637,229	1,549,600	271,632	47,625	123,674
Interest and fiscal charges (expense)	(1,323,869)	(1,206,698)	(4,148,291)		(495,840)
Subventions and grants	1,774,999	30,619		21,350	
NCPA - Calaveras Hydroelectric (Note 16)	(11,592,534)				
Increase (decrease) in NCPA reserves	2,012,606				
Increase (decrease) in SPWA reserves			5,840,892		
Other					
Net Nonoperating Revenues (Expenses)	(5,491,569)	373,521	1,964,233	68,975	(372,166)
Income (Loss) Before Contributions and Transfers	(11,865,692)	(1,173,754)	2,117,354	(1,316,788)	178,113
Capital contributions - connection fees		14,801,775	12,792,113		
Contribution in aid of construction	6,200,082				
Capital contributions from developers	9,407,846	4,044,481	2,553,478		
Capital contributions from SPWA member agencies			27,979,680		
Transfers in (Note 4A)	239,000	517,508	10,336	155,941	22,009
Transfers (out) (Note 4A)	(7,212,608)	(1,710,937)	(2,061,867)	(1,503,932)	(343,630)
Change in net assets	(3,231,372)	16,479,073	43,391,094	(2,664,779)	(143,508)
Total net assets-beginning, as restated (Note 11F)	229,121,088	96,311,024	202,089,887	886,493	6,496,426
Total net assets-ending	\$225,889,716	\$112,790,097	\$245,480,981	(\$1,778,286)	\$6,352,918

Some amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service.

Change in net assets of business-type activities

See accompanying notes to financial statements

Local transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
\$474,244	\$3,311,689	\$109,955,773	\$13,465,431
		334,880	
92,122	30,091	631,628	408,430
566,366	3,341,780	110,922,281	13,873,861
		61,022,132	
2,145,425	3,360,680	45,690,600	5,541,348
344,931	2,560	4,986,845	
541,369	5,956	10,319,240	2,780,489
			2,166,038
3,031,725	3,369,196	122,018,817	10,487,875
(2,465,359)	(27,416)	(11,096,536)	3,385,986
115,517	19,096	5,764,373	731,293
		(7,174,698)	
5,250,143	95,249	7,172,360	
		(11,592,534)	
		2,012,606	
		5,840,892	
			220,701
5,365,660	114,345	2,022,999	951,994
2,900,301	86,929	(9,073,537)	4,337,980
		27,593,888	
10,000		6,210,082	
		16,005,805	
		27,979,680	
15,689		960,483	596,558
(63,700)	(308,990)	(13,205,664)	(889,710)
2,862,290	(222,061)	56,470,737	4,044,828
6,597,316	1,215,726	542,717,960	30,738,019
\$9,459,606	\$993,665	599,188,697	\$34,782,847
		1,612,491	
		\$600,801,188	

CITY OF ROSEVILLE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2002

	Business-type Proprietary Funds				
	Electric	Water	Wastewater	Solid Waste	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$77,394,679	\$7,316,508	\$11,456,595	\$12,010,561	\$2,576,170
Payments to suppliers	(60,818,838)	(4,523,492)	(4,476,497)	(7,887,204)	(917,132)
Payments to employees	(5,151,272)	(2,990,979)	(2,626,972)	(1,711,225)	(14,257)
Claims paid					
Other receipts	154,539	169,193	25,663	144,639	15,381
Net cash provided by operating activities	<u>11,579,108</u>	<u>(28,770)</u>	<u>4,378,789</u>	<u>2,556,776</u>	<u>1,660,162</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
(Increase) decrease in due from other funds		210,211			
Increase (decrease) in due to other funds			(607,584)	(12,562)	4,756
(Increase) decrease in advance to other funds					
Increase (decrease) in advances from other funds				(310,000)	900,000
Transfers in	239,000	517,508	10,336	155,941	22,009
Transfers (out)	(7,212,608)	(1,710,937)	(2,061,867)	(1,503,932)	(343,630)
Cash Flows from Noncapital Financing Activities	<u>(6,973,608)</u>	<u>(983,218)</u>	<u>(2,659,115)</u>	<u>(1,638,557)</u>	<u>583,135</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	6,200,082				
Acquisition and construction of fixed assets, net	(8,720,145)	(3,840,255)	(1,751,730)	(99,711)	(1,833,480)
Retirement and transfers of fixed assets					
Proceeds from sale of assets					
Transfer of connection fees to SPWA			(11,741,113)		
Change in restricted assets	2,865,382	35,717			(14,365)
Principal payments on capital debt	(685,000)	(1,133,470)			(190,000)
Interest paid on capital debt	(1,323,869)	(1,206,698)			(495,840)
NCPA-Calaveras Hydroelectric	(11,592,534)				
Subventions and grants	1,774,999	30,619		21,350	
Grants and subsidies	1,952	(1,880)	394,438		
Connection fees		14,801,775	12,792,113		
Other					
Cash Flows from Capital and Related Financing Activities	<u>(11,479,133)</u>	<u>8,685,808</u>	<u>(307,742)</u>	<u>(78,417)</u>	<u>(2,533,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	3,850,308	1,429,037	253,676	40,193	118,289
Net increase (decrease) in cash and cash equivalents	(3,023,325)	9,102,811	1,665,608	879,995	(172,099)
Cash and investments at beginning of period	59,160,219	32,342,686	6,811,052	551,334	636,900
Cash and investments at end of period	<u>56,136,894</u>	<u>41,445,543</u>	<u>8,476,660</u>	<u>1,431,329</u>	<u>464,801</u>
NONCASH TRANSACTIONS:					
Transfer of SPWA capital assets to City			\$61,225,104		
Principal retirement of SPWA Revenue Bonds			(1,037,356)		
Interest on SPWA Revenue Bonds			(3,658,564)		
Contributions of capital assets, net	\$9,407,846	\$4,044,481	2,553,478		
Loss on retirement of capital assets		102,108	144,671	31,951	\$7,793
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	(\$6,374,123)	(\$1,547,275)	\$153,121	(1,385,763)	550,279
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,734,682	2,192,730	3,381,983	90,958	371,562
Change in assets and liabilities:					
Receivables, net	6,543,144	(741,079)	(150,575)	(19,817)	5,999
Inventories	257,348	(60,727)	(216)	31,194	
Prepaid expenses	11,224,495				
Prepaid purchased electricity	(66,588)				
Accounts and other payables	(2,160,177)	127,581	994,476	3,840,204	745,174
Deferred revenue	(1,579,673)				(12,852)
Net cash provided by operating activities	<u>\$11,579,108</u>	<u>(\$28,770)</u>	<u>\$4,378,789</u>	<u>\$2,556,776</u>	<u>\$1,660,162</u>

See accompanying notes to financial statements

Local Transportation	School-Age Child Care	Totals	Governmental Activities- Internal Service Funds
\$473,928	\$3,428,625	\$114,657,071	\$13,588,594
(2,522,524)	(339,540)	(81,485,227)	(3,791,946)
(274,429)	(2,563,240)	(15,332,374)	(1,483,964)
			(1,826,038)
92,122	30,091	631,628	408,430
(2,230,903)	555,936	18,471,098	6,895,076
		242,207	(54,756)
		(615,390)	182,224
			(540,000)
		590,000	
15,689		960,483	596,558
(63,700)	(308,990)	(13,205,664)	(889,710)
(48,011)	(308,990)	(12,028,364)	(705,684)
10,000		0,000,000	
(317,903)	(531,004)	(17,094,284)	(3,255,712)
			148,085
			96,234
		(11,742,563)	
		2,886,734	
		(2,008,470)	
		(3,026,407)	
		(11,592,534)	
5,250,143	95,249	7,172,360	
(379,609)		14,901	
		27,593,888	
			124,467
4,562,631	(433,755)	(1,586,293)	(2,886,926)
92,738	18,630	5,802,871	642,710
2,376,455	(170,179)	10,659,312	3,945,176
2,481,403	703,579	102,689,173	18,073,183
\$4,857,858	\$535,400	\$113,348,485	\$22,018,359
		\$61,225,104	
		(1,037,356)	
		(3,658,564)	
		16,003,805	
21,965	528,780	437,268	
(2,465,359)	(27,416)	(11,096,536)	\$3,385,986
541,369	3,956	10,319,240	2,780,489
(316)	(80,293)	5,557,063	(109,507)
		227,599	
		11,224,495	
		(66,388)	
(306,597)	462,958	3,703,619	838,108
	194,731	(1,397,794)	
(\$2,230,903)	\$555,936	\$18,471,098	\$6,895,076

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Roseville was incorporated on April 10, 1909 under provisions of Act 279, P.A. 1909, as amended (Home Rule City). The City operates under the Council Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, water, solid waste, electric, local transportation, school-age child care, golf course, parks recreation, public improvements, planning and zoning, library, general administration services, redevelopment and housing.

The financial statements and accounting policies of the City conform with generally accepted accounting principles in the United States of America applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. Reporting Entity

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. This City's component units which are described below are all blended.

The **Redevelopment Agency of the City of Roseville** is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Redevelopment Agency of the City of Roseville Special Revenue Fund.

The **Roseville Finance Authority** is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Roseville Finance Authority Debt Service Fund and Capital Projects Fund.

The **City of Roseville Housing Authority** is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Housing Authority Section 8 Special Revenue Fund.

Financial statements for the Redevelopment Agency may be obtained from the City of Roseville at 311 Vernon Street, Roseville, California, 95678. Separate financial statements for the Roseville Finance Authority and Roseville Housing Authority are not issued.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The California Joint Powers Risk Management Authority, the Local Agency Workers' Compensation Excess Joint Powers Authority, the Roseville-Placer County Civic Center Improvement Authority, the Highway 65 Joint Powers Authority, the Disaster Recovery Joint Powers Authority, and the South Placer Wastewater Authority are not included in the accompanying basic financial statements because they do not meet the above financial accountability criteria as these entities are administered by governing boards separate from and wholly independent of the City.

B. Basis of Presentation

The City'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 U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

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

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary, and fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - This is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

Community Facilities District Projects Fund - This fund is used to account for specific public improvements such as streets, sewers, storm drains, sidewalks or other amenities funded by special assessments against benefited properties.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Electric Fund - This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Roseville.

Water Fund - This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Roseville.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wastewater Fund - This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Roseville.

Solid Waste Fund - This fund accounts for all financial transactions relating to the City's Solid Waste service. Services are on a user charge basis to residents and business owners located in Roseville.

Golf Course Fund - This fund accounts for all financial transactions associated relating to the development, operation and maintenance of the City's public golf courses.

Local Transportation Fund - This fund accounts for the activities associated with the operations and maintenance of the City's public transit activities and has particular emphasis on serving the elderly and the handicapped.

School-age Child Care Fund - This fund accounts for the receipt of parent fees and State grants used to finance child development programs.

The City also reports the following fund types:

Internal Service Funds. The funds account for automotive services, automotive replacement, worker's compensation, general liability, unemployment reserve, vision, dental, section 125, post retirement, and central stores; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds. The Endowment Private-Purpose Trust Fund and the Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. *Revenue Recognition For Electric, Water, Sewer, and Garbage Funds*

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There are ten billing cycles per month which include all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. *Property Tax*

Placer County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the county, which retains all penalties.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. *Compensated Absences*

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.

The net changes of the compensated absences are allocated among departments on the Statement of Activities as follows:

	Total	Current Portion	
General Government	\$1,694,960	\$796,150	A
Community Development/Planning	558,643	317,602	A,B
Public Works	1,036,825	542,373	A
Police	2,233,326	826,246	A
Fire	1,568,248	588,335	A
Library	267,544	161,976	A
Parks and Recreation	910,637	398,703	A
Internal Service Funds	216,506	110,343	
Electric Enterprise	1,765,640	707,208	
Water Enterprise	848,274	394,418	
Wastewater Enterprise	789,340	370,607	
Solid Waste Enterprise	282,057	128,504	
Transportation Enterprise	60,822	30,248	
School-Age Childcare Enterprise	161,413	131,993	
Total	<u>\$12,394,235</u>	<u>\$5,504,706</u>	

The following funds have been used to liquidate compensated absences:

- A. General Fund
- B. Redevelopment Agency of the City of Roseville

H. *Postemployment Health Care Benefits*

The City provides health care benefits for 235 retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum five years of service while working for the City. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2002, those costs totaled \$955,073.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Inventories

Inventories are valued at the lower of cost (weighted-average method) or market. Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed. Reported General Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets. Inventories of the Enterprise Funds consist primarily of merchandise held for internal consumption.

J. Closed Fund

Cirby Way West Agency Fund was closed as of June 30, 2002.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. Budgeting Procedures

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a minute order and ordinance.
4. The City Manager or designee is authorized to apply prudent monitoring procedures to assure that actual expenditures/expenses of the City do not exceed the appropriations by department of the major summary categories (salaries and benefits, operating services and supplies, capital outlay, and capital improvement projects) in conformance with the adopted policies set by the City Council. Additional appropriations or interfund transfers not included in the original budget ordinance require approval by the City Council.
5. Expenditures may not legally exceed budgeted appropriations at the department level by major summary category.
6. Formal budgetary integration is employed as a management control device during the year.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds, except for Proprietary Funds, which do not budget for depreciation and do budget capital outlay.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

B. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

C. Excess of Expenditures or Expenses over Appropriations

The funds below incurred expenditures in excess of their budgets in the amounts below. Sufficient resources were available within each fund to finance their excesses.

Fund / Department	Amount
General Fund	
Payments under development agreements	\$1,151,621
Special Revenue Funds:	
Traffic Mitigation	
Payments under development agreements	409,816
Pleasant Grove Drain Basin	
Community Development and Planning	84,159
Housing Authority Section 8	
Housing Assistance Payments	111,640
Redevelopment Agency of the City of Roseville	
Community Development and Planning	117,310
Capital Outlay	722,021
Debt Service	124,337
Debt Service Fund:	
Roseville Finance Authority	
Debt Service	18,835

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Categorization of Credit Risk of Securities Instruments

The City 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 City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the bank employed by the City solely for this purpose. The City is the registered owner of securities held in book entry form by the bank's Trust Department.

Category 2 - Securities instruments and book entry form securities in this category are in the bank's name but are held by its Trust Department in a separate account in the City's name.

Category 3 - None of the City's investments are in this category, which would include only City-owned securities instruments or book entry form securities which were not in the City's name or which were not held by the bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value and are categorized as follows at June 30, 2002:

<i>Category 2 Investments:</i>	
U.S. Government Securities	\$242,467,512
Forward delivery agreement	55,996,514
<i>Pooled Investments (non Categorized):</i>	
Guaranteed Investment Contracts	57,939,159
Mutual Funds and Money Market Funds (U.S. Securities)	9,086,288
State of California Local Agency Investment Fund	80,222,412
California Arbitrage Management Program	<u>52,488,046</u>
Total Investments	498,199,931
<i>Cash Deposits with Banks</i>	<u>28,348,715</u>
Total Cash and Investments	<u><u>\$526,548,646</u></u>

B. 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 City debt instruments or agency agreements.

Cash and investments in City Treasury	\$281,631,777
Restricted cash and investments with fiscal agent	<u>12,711,876</u>
Total City cash and investments	294,343,653
Cash and investments in Fiduciary Funds (Separate statement)	<u>232,204,993</u>
Total Cash and Investments	<u><u>\$526,548,646</u></u>

Cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Cash Deposits

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was \$28,348,715 at June 30, 2002. Bank balances before reconciling items were \$28,672,091 of which \$481,454 was insured (Category 1), and \$28,190,637 was collateralized as discussed above (Category 2) at June 30, 2002.

D. Authorized Investments

The City's investment policy and the California Government Code allow the City to invest in the following:

- City of Roseville Bonds
- Securities of the U. S. Government or its agencies
- Forward Delivery Agreements
- Obligations of the State of California
- Repurchase Agreements
- Banker's Acceptances
- Commercial Paper
- Medium Term Corporate Notes
- Certificates of Deposit
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Insured Savings Accounts
- Money Market and Mutual Funds
- Shares in a California Common Law Trust

The City does not enter into reverse repurchase agreements. Trustees under bond indentures may also invest in guaranteed investment contracts.

The City's investments are carried at fair value instead of cost, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City is a voluntary 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 fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal 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, and corporations.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Among Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund.

Transfers between funds during the fiscal year ended June 30, 2002 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Non-Major Governmental Funds	\$5,447,460 (A)
	Electric Enterprise Fund	6,075,303 (B)
	Water Enterprise Fund	1,467,730 (C)
	Wastewater Enterprise Fund	1,556,096 (C)
	Solid Waste Enterprise Fund	1,011,031 (C)
	Golf Course Enterprise Fund	343,630 (C)
	Local Transportation Enterprise Fund	53,700 (C)
	School-Age Child Care Enterprise Fund	308,990 (C)
	Internal Service Funds	888,623 (F)
Non-Major Governmental Funds	General Fund	5,950,563 (D)
	Non-Major Governmental Funds	2,605,001 (E)
	Electric Enterprise Fund	1,119,805 (F)
	Water Enterprise Fund	83,050 (F)
	Wastewater Enterprise Fund	99,738 (F)
	Solid Waste Enterprise Fund	106,208 (F)
Electric Enterprise Fund	Local Transportation Enterprise Fund	10,000 (F)
	Water Enterprise Fund	79,670 (F)
	Wastewater Enterprise Fund	79,660 (F)
Water Enterprise Fund	Solid Waste Enterprise Fund	79,670 (F)
	Wastewater Enterprise Fund	326,374 (F)
Wastewater Enterprise Fund	Solid Waste Enterprise Fund	191,134 (F)
	General Fund	10,336 (E)
Solid Waste Enterprise Fund	General Fund	155,941 (E)
Golf Course Enterprise Fund	Non-Major Governmental Funds	22,009 (F)
Local Transportation Enterprise Fund	General Fund	15,100 (E)
	Community Facilities District Projects	
	Capital Projects Fund	589 (F)
Internal Service Funds	General Fund	333,736 (E)
	Non-Major Governmental Funds	47,860 (F)
	Electric Enterprise Fund	17,499 (F)
	Water Enterprise Fund	80,487 (F)
	Solid Waste Enterprise Fund	115,889 (F)
	Internal Service Fund	1,087 (F)
Total Interfund Transfers		\$28,683,969

- (A) To fund street projects and to fund FEMA assisted flood projects.
- (B) To transfer in lieu franchise fees and fund indirect costs.
- (C) To pay for indirect costs.
- (D) To fund various projects in the capital funds and pay debt service.
- (E) Transfer to fund operations.
- (F) Recurring transfers.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2002 interfund balances comprised the following:

<u>Fund with Due From</u>	<u>Fund with Due To</u>	<u>Amount</u>
General Fund	Traffic Safety Special Revenue Fund	\$59,684
	Redevelopment Agency Special Revenue Fund	200,000
Special Revenue Fund:		
Affordable Housing	Redevelopment Agency Special Revenue Fund	50,000
Capital Projects Fund:		
Community Facilities Districts	Lighting and Landscape and Service District Special Revenue Fund	703,970
Enterprise Fund:		
Water	Community Facilities District Projects Capital Projects Fund	57,544
	Automotive Replacement Internal Service Fund	207,720
	Lighting and Landscape and Service District Special Revenue Fund	201
	Crocker Ranch Community Facilities District Agency Fund	505
	Other Agency Fund	439
Internal Service Fund:		
Automotive Replacement	Redevelopment Agency Special Revenue Fund	50,000
	Golf Course Enterprise Fund	100,000
	Solid Waste	310,000
		<u>\$1,740,063</u>

C. Long-Term Interfund Advances

At June 30, 2002 the funds below had made advances which were not expected to be repaid within the next year.

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Special Revenue Funds:		
Park Development	General Fund	\$4,600,000
Redevelopment Agency of the City of Roseville	General Fund	1,787,888
	Affordable Housing Special Revenue Fund	350,000
	Automotive Replacement Internal Service Fund	888,901
Enterprise Funds:		
Golf Course	Automotive Replacement Internal Service Fund	4,120,000
Solid waste	Automotive Replacement Internal Service Fund	553,128
		<u>\$12,299,917</u>

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

Park Development advance consists of two advances. The \$600,000 advance will be repaid over a period of five years. The \$4,000,000 advance will begin interest only payments in fiscal year 2004 and full repayment by fiscal year 2010. Both advances bear interest at the Local Agency Investment Fund (LAIF) rate.

Redevelopment Agency advances will begin payments in fiscal year 2003 and will be repaid in fiscal year 2009. The advances bear interest at the Local Agency Investment Fund (LAIF) rate.

Golf Course advance bears interest at 3.5%. It will be repaid over a period of 27 years and will be repaid in fiscal year 2029.

Solid waste advance has annual payments of \$310,000 and will be repaid by fiscal 2004. This advance bears interest at the Local Agency Investment Fund (LAIF) rate.

D. Internal Balances

Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - NOTES RECEIVABLE

The City and Agency engage in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by deferred revenue or a reservation of fund balance as they are not expected to be repaid during fiscal year 2003. These notes receivable comprised the following at June 30, 2002:

Notes	\$265,398
Employee Notes	122,608
Housing Rehabilitation and Affordable	
Housing	2,476,950
First Time Home-Buyer	2,327,984
Housing Elevation	<u>48,978</u>
Total	<u>\$5,241,918</u>

A. Notes Receivable

The City has provided loans to various homeowners and businesses for rehabilitation due to flood damage. The maximum loan amount is \$5,000 carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2002 was \$28,656.

In fiscal year 2000, the City sold an air compressor to Western Placer County JPA. The City will receive ten annual payments of \$4,518 toward the purchase of this equipment. At June 30, 2002 the balance due was \$36,147.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 5 - NOTES RECEIVABLE (Continued)

In fiscal year 1989, the City made a loan to a property owner in the amount of \$7,719, secured by a first deed of trust. The note does not bear interest and payment is deferred until July 2, 2007 unless the property is transferred or sold. The balance of this note has been offset by a reservation of fund balance.

The Agency engages in a commercial rehabilitation program designed to aid small business owners in renovating and rehabilitating commercial property in need of repair. These notes will be forgiven at the end of the Owner Participation Agreement term, which is five to fifteen years, if the property has not been sold. If the property is sold prior to the completion of the agreement term, a proportionate amount of the note will be forgiven. The notes are secured by a deed of trust on the property. At June 30, 2002, \$192,876 in notes had been issued to fifteen property owners.

B. *Employee Notes Receivable*

All full-time and part-time City employees who have completed their probationary period are eligible to obtain an interest free loan of up to \$2,500 to purchase a computer. All requests for loans are subject to review by the Management Information Systems Department and must be approved by the Personnel Director. Repayment of these loans is handled through payroll deductions which are spread out equally over a two year period. Employees must pay off any outstanding balance on their loans upon ending employment with the City. As of June 30, 2002, 114 employees had \$122,608 in notes due to the City.

C. *Housing Rehabilitation and Affordable Housing Notes Receivable*

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to home-owners or developers who agree to spend these funds in accordance with the City's terms. Although these loans and notes are expected to be repaid in full, their balance has been offset with the liability, Due to Other Governments, as they are not expected to be repaid during fiscal year 2003 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from these programs at June 30, 2002 was \$2,476,950.

D. *First Time Home-Buyer Notes Receivable*

The City engages in a first time home-buyer program designed to encourage home ownership among low income persons. Under this program, grants or loans are provided at no interest and are due upon sale or transfer of the property. These loans have been offset by due to other governments and deferred revenue as they are not expected to be repaid during fiscal year 2003 and any repayments will be used to reduce future grant draw-downs by the City. The balance of the notes receivable arising from this program at June 30, 2002 was \$2,327,984.

E. *Housing Elevation Notes Receivable*

In fiscal 1997, the Federal Emergency Management Agency (FEMA) approved Hazard Mitigation Grant Program funds to be used for residential home elevation projects in the City at a maximum of \$33,934 per household, with the total federal share not to exceed \$1,493,096. The City provides matching funds to each eligible household at a maximum of \$5,000 in the form of a zero percent, deferred loan payable upon sale, change of title or change of use (See A. above). As of June 30, 2002, fifteen loans, funded through the FEMA Hazard Mitigation Grant Program, were outstanding with a total balance of \$48,978.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 6 - DEFERRED RECEIVABLES

The City has entered into a number of agreements with developers to defer permit fees for various projects within the City. The terms of these agreements call for various interest rates and payment dates. Although these fees are expected to be repaid in full, their balance has been offset by deferred revenue in governmental funds, as they are not expected to be repaid early enough to be treated as a current asset. The long-term portion of these receivables at June 30, 2002 was \$11,414,421, which has been classified as deferred receivables, and the short-term portion of these receivables, which totaled \$2,276,484 at June 30, 2002 is included in accounts receivable.

NOTE 7 - DEVELOPMENT AGREEMENTS

The City may enter into development agreements in an effort to provide incentives to develop new businesses and new tax revenues. The substance of these agreements is that developers will be paid a portion of future sales tax or traffic mitigation fee revenues produced by their developments. These payments are conditioned on the generation of sales tax revenues or traffic mitigation fee revenues by these developments and the City is not required to use any other resources to pay these amounts.

A. *Galleria at Roseville*

In fiscal 2001, the City agreed to share a portion of future sales tax revenues generated from the Galleria at Roseville regional mall. The Developer agreed to construct the mall along with water and storm sewer mains, a bike trail, pedestrian walks, landscaping, parking areas and infrastructure improvements to surrounding streets. The mall opened for business in August 2000 and the term of the sales tax sharing agreement commenced on that date. In fiscal 2002, the City revised the payment schedule in order to revise the projected future sales tax revenues since the project had been completed. The remaining portion of sales tax revenues to be returned approximated \$24 million at June 30, 2002. The agreement terminates in 2017, regardless of whether this amount has been returned; after that date all future sales tax revenues remain with the City. During fiscal year 2002 payments made to the developer under the agreement totaled \$2,270,481.

B. *Elliot Homes Inc. / Stoneridge Development*

In fiscal 2002, the City agreed to reimburse a portion of traffic mitigation fees generated from the Elliot Homes Inc. Stoneridge development. The Developer agreed to construct improvements to Roseville Parkway that were in excess of the normal frontage improvements required by the City. The improvements were completed in May 2001 at a cost of \$10.1 million with the agreement commencing on that date. Although the City must remit quarterly payments to the developer from traffic mitigation fees collected, the City may elect to pay the developer, regardless of whether any fees had been collected. The agreement terminates when reimbursement is complete; after that date all future traffic mitigation fees remain with the City. During fiscal year 2002, payments made to the developer under the agreement totaled \$2,944,421. The remaining portion of traffic mitigation fees to be reimbursed was \$5,953,483, which has been accrued in the Entity-wide financial statements.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 8- CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

With the implementation of GASB Statement 34, the City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	20-40 years
Improvements	40 years
Machinery and Equipment	3-6 years
Bike Paths	20 years
Bridges	90 years
Culverts	75 years
Curb, Gutter, Sidewalks & Median Curbs	20 years
Drain Inlets	50 years
Flood Control Improvements	75 years
Soundwall	35 years
Stormdrains	75 years
Traffic Signals	20 years
Water and Sewer Lines	40 years
Electric Improvements:	
Electric Substations	10-120 years
Electric Distribution Systems	7-100 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital assets at June 30 comprise:

	Balance at June 30, 2001	Additions	Retirements	Transfers	Balance at June 30, 2002
<i>Governmental activities</i>					
Capital assets not being depreciated:					
Land	\$9,813,954	\$1,149,335			\$10,963,289
Streets (modified)	141,210,181	4,126,964			145,337,145
Parks (modified)	34,188,192	1,038,016			35,226,208
Landscaping (modified)	394,826	935,934			1,330,760
Construction in progress		50,096,250			50,096,250
Total capital assets not being depreciated	185,607,153	57,346,499			242,953,652
Capital assets being depreciated:					
Buildings	69,306,557	5,971,544	(\$2,253)		75,275,848
Improvements	2,135,011	158,851	(43,947)		2,249,915
Equipment	38,977,952	3,762,756	(5,583,769)		37,156,939
Bike paths	6,364,277	96,612			6,460,889
Bridges	45,570,000				45,570,000
Culverts	18,710,915	12,600			18,723,515
Curb, gutter, sidewalk, & median curbs	99,244,031	7,540,417			106,784,448
Drain inlets	17,747,639	302,950			18,050,589
Flood control improvements	12,790,000				12,790,000
Soundwall	8,901,518	925,219			9,826,737
Stormdrains	38,123,547	2,140,584			40,264,131
Traffic signals	16,827,845	627,867			17,455,712
Total capital assets being depreciated	374,699,292	21,539,400	(5,629,969)		390,608,723
Less accumulated depreciation for:					
Buildings	(20,208,137)	(1,774,621)			(21,982,758)
Improvements	(373,928)	(57,660)			(431,588)
Equipment	(20,082,067)	(4,052,565)	1,271,843		(22,862,789)
Bike paths	(2,618,672)	(246,730)			(2,865,402)
Bridges	(2,812,500)	(506,333)			(3,318,833)
Culverts	(2,150,884)	(249,563)			(2,400,447)
Curb, gutter, sidewalk, & median curbs	(47,256,258)	(4,242,675)			(51,498,933)
Drain inlets	(3,530,498)	(357,982)			(3,888,480)
Flood control improvements	(322,000)	(149,133)			(471,133)
Soundwall	(1,805,152)	(267,546)			(2,072,698)
Stormdrains	(5,055,882)	(522,585)			(5,578,467)
Traffic signals	(6,479,195)	(764,393)			(7,243,588)
Total accumulated depreciation	(112,695,173)	(13,191,786)	1,271,843		(124,615,116)
Net capital assets being depreciated	262,004,119	8,347,614	(4,358,126)		265,993,607
Governmental activity capital assets, net	\$447,611,272	\$65,694,113	(\$4,358,126)		\$508,947,259

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2001	Additions	Retirements	Transfers	Balance at June 30, 2002
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$12,958,876	\$761,534			\$13,720,410
Landscaping	550,000				550,000
Construction in progress	88,768,315	68,327,766		(\$10,615,674)	146,480,407
Total capital assets not being depreciated	<u>102,277,191</u>	<u>69,089,300</u>		<u>(10,615,674)</u>	<u>160,750,817</u>
Capital assets, being depreciated:					
Buildings	31,831,984	430,284		(590,560)	31,671,708
Improvements	202,320,271	7,645,820	(\$72,568)	11,197,347	221,090,870
Machinery and Equipment	9,870,865	556,108	(1,386,630)	8,887	9,049,230
Electric substations	35,625,834	1,141,413			36,767,247
Electric distribution	132,567,706	15,970,134			148,537,840
Total capital assets being depreciated	<u>412,216,660</u>	<u>25,743,759</u>	<u>(1,459,198)</u>	<u>10,615,674</u>	<u>447,116,895</u>
Less accumulated depreciation for:					
Buildings	(11,748,430)	(727,233)			(12,475,663)
Improvements	(41,671,355)	(5,188,816)	24,636		(46,835,535)
Machinery and Equipment	(4,395,739)	(762,280)	997,294		(4,160,725)
Electric substations	(5,383,382)	(776,392)			(6,159,774)
Electric distribution	(20,899,421)	(2,549,660)			(23,449,081)
Total accumulated depreciation	<u>(84,098,327)</u>	<u>(10,004,381)</u>	<u>1,021,930</u>		<u>(93,080,778)</u>
Net capital assets being depreciated	<u>328,118,333</u>	<u>15,739,378</u>	<u>(437,268)</u>	<u>10,615,674</u>	<u>354,036,117</u>
Business-type activity capital assets, net	<u>\$430,395,524</u>	<u>\$84,828,678</u>	<u>(\$437,268)</u>		<u>\$514,786,934</u>

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 8 - CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<i>Governmental Activities</i>	
General government	\$400,410
Community development and planning	1,325
Public works	7,326,144
Police	1,085,467
Fire	283,273
Library	154,412
Parks and recreation	162,928
Community Facilities Districts	997,338
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	2,780,489
Total Governmental Activities	<u><u>\$13,191,786</u></u>
<i>Business-Type Activities</i>	
Electric	\$3,474,044
Water	2,150,409
Wastewater	3,381,983
Solid Waste	90,958
Golf Course	359,662
Land Transportation	541,369
School-age Child Care	5,956
Total Business-Type Activities	<u><u>\$10,004,381</u></u>

C. Streets, Parks and Landscaping Covered By The Modified Approach

The City has elected to use the modified approach discussed above with respect to its roads, most of which are relatively new. The City's policy based on current funding is to maintain the arterial and collector roadways at an average Pavement Quality Index (PQI) of 7.5 and residential roadways at an average PQI of 6.5, instead of providing depreciation. During fiscal 2002 the City expended \$3,730,265 to preserve its roads. The City estimates that it will be required to expend approximately \$4,766,980 in fiscal 2003 to maintain its roads at this condition level.

The City has also elected to use the modified approach with respect to its parks and landscaping, most of which are relatively new. The City's policy based on current funding is to maintain the parks and landscape at an average Ground Management Index (GMI) of Level 2, instead of providing depreciation. During fiscal 2002 the City expended \$3,078,263 to preserve its parks and landscaping. The City estimates that it will be required to expend approximately \$3,796,952 in fiscal 2003 to maintain its parks at this condition level.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 9 - LONG-TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002	Current Portion
Governmental Activity Debt:						
Certificates of Participation:						
1993 Public Facilities Bond, 2.8%-5.1%, due 8/1/20	\$23,970,000	\$20,025,000		\$620,000	\$19,405,000	\$650,000
Installment Purchase Obligations:						
Equipment	1,018,429	425,498	\$142,889	180,360	388,027	153,811
Motorola Radio Equipment, 5.6%, due 8/1/04	1,955,734	1,157,006		266,057	890,949	280,956
Total Installment Purchase Obligations	2,974,163	1,582,504	142,889	446,417	1,278,976	434,767
Other Long Term Obligations:						
Foothill Blvd. Extension, due 4/1/07	114,423	78,779		10,785	67,994	11,724
Total Governmental Activity Debt:	\$27,058,586	\$21,686,283	\$142,889	\$1,077,202	\$20,751,970	\$1,096,491
Business-type Activity Debt:						
Certificates of Participation:						
1997 Electric System Revenue, 3.6%-5.25%, due 2/1/17	\$11,880,000	\$6,035,000		\$260,000	\$5,775,000	\$270,000
1999 Electric System Revenue, 4.0%-5.5%, due 2/1/24	21,630,000	21,630,000		425,000	21,205,000	445,000
1993 Golf Course Project, 4.6%-6.0%, due 8/1/23	9,325,000	8,575,000		190,000	8,385,000	200,000
1997 Water Utility Revenue, 3.9%-5.2%, due 12/1/18	33,000,000	30,875,000		1,125,000	29,750,000	1,175,000
Total Certificates of Participation	75,835,000	67,115,000		2,000,000	65,115,000	2,090,000
Revenue Bonds:						
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/27	59,465,118	59,465,118		1,037,356	58,427,762	1,191,740
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	37,919,000	37,919,000			37,919,000	
Total Revenue Bonds	97,384,118	97,384,118		1,037,356	96,346,762	1,191,740
Other Long Term Obligations:						
Notes, 5%, due 10/1/17	333,108	218,857		8,470	210,387	8,894
Total Business-type Activity Debt:	\$173,552,226	\$164,717,975		\$3,045,826	\$161,672,149	\$3,290,634

B. 1993 Certificates of Participation

The City issued Certificates of Participation in the original principal amount of \$23,970,000 on October 1, 1993 to advance refund and defease the outstanding \$16,855,000 principal amount of the 1989 Refunding Revenue Bonds and to reimburse the City for some of the costs of the Corporation Yard Improvement and is repayable from the General Fund. Principal payments are payable annually on August 1 and interest payments are due semi-annually on February 1 and August 1, through August 1, 2020.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

C. *Foothill Blvd. Extension*

The City acquired several parcels of land, in August of 1989, within the Foothill Blvd. Extension Assessment District to build the Corporation Yard. Upon acquisition, the City took over the assessment debt in the amount of \$114,423, due on these parcels. Principal and interest payments are payable annually on April 1, through April 1, 2007.

D. *1997 Electric System Revenue Certificates of Participation*

The City issued Certificates of Participation in the original principal amount of \$11,880,000 on November 1, 1997 to finance a substation for the Electrical System and to refinance its' 1985 COP's and is repayable from net revenue of the Electric Utility System. Principal payments are payable annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2017.

E. *1999 Electric System Revenue Certificates of Participation*

On August 3, 1999, the City issued \$21,630,000 of Certificates of Participation to finance a portion of the cost of capital improvements and is repayable from net revenue of the Electric Utility System. The Certificates bear interest at 4.0% - 5.5% and are due semi-annually on February 1 and August 1. Principal payments are due annually on February 1 and interest payments are due semi-annually on February 1 and August 1, through February 1, 2024.

F. *1993 Golf Course Project Certificates of Participation*

The City issued Certificates of Participation in the original principal amount of \$9,325,000 on October 1, 1993 to provide funds to acquire and construct the Golf Course Improvements and is repayable from the General Fund. Principal payments are payable annually on August 1 and interest payments are due semi-annually on February 1 and August 1, through August 1, 2023.

G. *1997 Water Utility Revenue Certificates of Participation*

The City issued Certificates of Participation in the original principal amount of \$33,000,000 on September 1, 1997 to finance the acquisition, construction, and installation of additions to the water utility system, and is repayable from net revenue from the Water Utility System. Principal payments are payable annually on December 1 and interest payments are due semi-annually on December 1 and June 1, through December 1, 2018.

H. *2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A; and 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B*

In November 2000, the South Placer Wastewater Authority issued Revenue Bonds Series A and Series B in the original principal amounts of \$109,775,000 and \$70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. Upon completion, this Plant will benefit the City of Roseville, the South Placer Municipal Utility District, and the County of Placer. These three entities in return share the obligation of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

The South Placer Wastewater Authority Wastewater Revenue Bonds, Series A were issued as fixed rate bonds. Principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

The South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B were issued as variable rate bonds, with interest calculated weekly. The rate fluctuates according to the market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2001-02 was \$97,637. Beginning in fiscal year 2028-29, principal payments as shown below will be made in addition to the variable interest payments.

Year Ending June 30	Principal Repayment	Interest (at current rate)	Total
2003		\$436,069	\$436,069
2004		436,069	436,069
2005		436,069	436,069
2006		436,069	436,069
2007		436,069	436,069
2008-2012		2,180,343	2,180,343
2013-2017		2,180,343	2,180,343
2018-2022		2,180,343	2,180,343
2023-2027		2,180,343	2,180,343
2028-2032	\$17,472,534	1,754,843	19,227,377
2033-2036	20,446,467	442,558	20,889,024
	<u>\$37,919,000</u>	<u>\$13,099,114</u>	<u>\$51,018,114</u>

I. Notes Payable

The City borrowed \$333,108 original principal amount, on November 9, 1977, from the U. S. Department of Commerce to aid in financing drought emergency projects. The debt is repayable from the surplus revenue account of the Water Revenue Bonds. Principal and interest payments are payable annually on October 1, through October 1, 2017.

J. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt except the variable rate demand bonds discussed above:

For the Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2003	\$1,096,491	\$997,365	\$3,290,634	\$6,244,038
2004	1,083,099	943,693	3,427,123	6,104,962
2005	1,119,148	889,419	3,566,343	5,957,291
2006	784,653	831,610	3,728,294	5,800,446
2007	808,579	793,503	3,895,688	5,632,927
2008-2012	4,480,000	3,330,854	22,341,958	25,236,906
2013-2017	5,725,000	2,056,516	28,748,383	18,710,965
2018-2022	5,655,000	553,017	28,793,869	10,700,492
2023-2027			22,036,247	3,736,484
2028			3,924,610	103,021
Total	<u>\$20,751,970</u>	<u>\$10,395,977</u>	<u>\$123,753,149</u>	<u>\$88,227,532</u>

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 10 – DEBT WITHOUT CITY COMMITMENT

A. Special Assessment Districts

Special Assessment Districts in various parts of the City have issued debt to finance infrastructure improvements and facilities within their boundaries. The City is the collecting and paying agent for the debt issued by these Districts, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this debt is not included in general long-term debt of the City. The outstanding balance of each of these issues as of June 30, 2002 is as follows:

Rocky Ridge/Harding Refunding District	\$1,255,000
Taylor Road Sewer Assessment District	19,000
North Roseville-Rocklin Sewer Refunding District	1,375,000
Foothills Boulevard Extension Assessment District	2,760,000
Northeast Roseville Community Facilities District #1 & #2	26,785,000
North Roseville Community Facilities District #1	18,850,000
North Central Roseville Community Facilities District #1	54,445,000
Northwest Roseville Community Facilities District #1	29,330,000
Highland Reserve North Community Facilities District #1	32,840,000
Woodcreek West Community Facilities District #1	16,635,000
Woodcreek East Community Facilities District #1	5,465,000
Stoneridge Parcel 1 Community Facilities District #1	1,975,000
Stoneridge East Community Facilities District # 1	16,000,000
Stoneridge West Community Facilities District # 1	12,995,000
Crocker Ranch Community Facilities District # 1	4,525,000
Total	<u>\$225,254,000</u>

NOTE 11 – NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balances, Reserves and Designations

In the Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity, which provided the funds. The City cannot modify or remove these restrictions or reserves. At June 30, 2002, reservations included:

Reserves for **advances, inventories, deferred receivables and notes receivable, and prepaid expenses** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **capital projects** is the portion of fund balance to be used for construction within the various community facilities districts of the City.

Reserve for **low and moderate income housing** is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

Unreserved fund balance in the General Fund represents the resources available at June 30, 2002 to meet the financial needs of the City through approximately December 10, 2002 when the next property tax payment is due from the County. Unreserved fund balance in the Special Revenue and Capital Projects funds are not available for general expenditures as they are reserved for the particular purposes of the funds they reside in.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 11 – NET ASSETS AND FUND BALANCES (Continued)

D. Designations

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period. Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for economic reserve is the portion of fund balance which represents 10% of the original adopted operating expenditure budget to be used in the event of fiscal need.

Designated for carryover of capital improvement projects is the portion of fund balance to be used for approved capital projects.

Designated for utility users tax is the portion of fund balance set aside by Council as a litigation reserve to deal with potential refunds.

E. Fund Balance and Net Assets Deficits

The Redevelopment Agency of the City of Roseville Special Revenue Fund had a deficit fund balance at June 30, 2002 of \$2,080,350. The Solid Waste Enterprise Fund had deficit net assets at June 30, 2002 of \$1,778,286. Future revenues are expected to offset this deficit.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 11 – NET ASSETS AND FUND BALANCES

F. Fund Balance /Net Assets Restatements

As part of the conversion of the City's GASB reporting, during the fiscal year ended June 30, 2002 the City revised its reporting presentation and fund classification to comply with new requirement. The recategorizations and restatements below, all of which took effect as of July 1, 2001, resulted from this conversion to the new requirements.

	General Fund	Special Revenue	Permanent	Enterprise	Private-Purpose Trust
Ending Fund Balance/Retained Earnings/ Net Assets June 30, 2001	\$29,589,394	\$63,390,412		\$374,037,036	
Restated current portion of compensated absences	(3,554,955)	(3,361)			
Special Revenue Fund Recategorized as Permanent Fund		(15,928,630)	\$15,928,630		
Agency Funds Recategorized as General Fund	2,297				
Agency Funds Recategorized as Special Revenue Funds		153,309			
Agency Funds Recategorized as Permanent Fund			14,779		
Agency Funds Recategorized as Endowment Private-Purpose Trust Fund					\$1,174,717
Infrastructure recorded with Implementation of GASB 34				13,684,076	
Elimination of contributed capital from Implementation of GASB 34				97,469,238	
Elimination of equity in joint venture from Implementation of GASB 34				57,527,610	
Restated Beginning Fund Balance/ Net Assets July 1, 2001	<u>\$26,036,736</u>	<u>\$47,611,730</u>	<u>\$15,943,409</u>	<u>\$542,717,960</u>	<u>\$1,174,717</u>

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 12 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service; one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2002, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	3%	1.426%-2.418%
Required employee contribution rates	9%	7%
Required employer contribution rates	5.297%	0%
Actuarially required contributions	\$1,477,876	\$2,614,003

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 12 - PENSION PLAN (Continued)

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
1999	\$41,288,321	\$47,958,769	(\$6,670,448)	116.2%	\$7,864,442	(84.818%)
2000	47,423,350	54,094,076	(6,670,726)	114.1%	8,909,183	(74.875%)
2001	60,655,770	57,312,502	3,343,268	94.5%	9,817,194	34.055%

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
1999	\$72,237,960	\$88,364,377	(\$16,126,417)	122.3%	\$26,875,060	(60.005%)
2000	83,502,216	100,573,810	(17,071,594)	120.4%	30,898,942	(55.250%)
2001	109,399,318	105,784,049	3,615,269	96.7%	34,683,299	10.424%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2001:

	Safety	Miscellaneous
Beginning Balance 6/30/00	\$54,094,076	\$100,573,810
Contributions received	1,706,768	2,391,151
Benefits and Refunds Paid	(1,322,527)	(2,520,871)
Transfers and Miscellaneous Adjustments Paid	(43,957)	(20,167)
Expected Investment Earnings Credited	4,476,520	8,291,279
Expected Actuarial Value of Assets 6/30/01	\$58,910,880	\$108,715,202
Market Value of Assets 6/30/01	\$54,115,747	\$99,921,743
Actuarial Value of Assets 6/30/01	\$57,312,502	\$105,784,049

Actuarially required contributions for fiscal years 2002, 2001, and 2000 were \$4,091,879, \$4,024,651, and \$4,725,535, respectively.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 13 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks. The City maintains insurance coverage from a commercial carrier for its long-term disability and dental benefit plan.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

A. Risk Coverage

The City is a member of the California Joint Powers Risk Management Authority (CJPRMA) which covers general liability claims up to \$25,000,000, property damage up to \$295,000,000, and boiler and machinery up to \$20,000,000. The City has a self-insured retention or deductible of \$500,000, \$25,000, and \$5,000, respectively, per claim. Once the City's self-insured retention for general liability claims is met, CJPRMA becomes responsible for payment of all claims up to the limit. CJPRMA has purchased commercial insurance against property damage and boiler and machinery claims. During the fiscal year ended June 30, 2002, the City contributed \$499,222 for coverage during the current year and received a refund of \$177,571 of prior year excess contributions.

The City is also a member of the Local Agency Workers' Compensation Excess Joint Powers Authority (LAWCX) which covers workers' compensation claims up to \$500,000 and provides additional coverage up to statutory limits. The City has a self-insured retention of up to \$250,000 per claim. During the fiscal year ended June 30, 2002, the City contributed \$147,285 for current year coverage.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

Financial statements for the risk pools may be obtained from CJPRMA, 2333 San Ramon Valley Blvd., Suite 250, San Ramon, CA 94583 and LAWCX, c/o Bickmore & Associates, 6371 Auburn Boulevard, Citrus Heights, CA 95621.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 13 - RISK MANAGEMENT (Continued)

B. Insurance Internal Service Funds

The Governmental Accounting Standards Board (GASB) requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The change in the Worker's Compensation Internal Service Fund's claims liability, including claims incurred but not reported is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	<u>2002</u>	<u>2001</u>
Claims liability, beginning of year	\$3,042,000	\$3,085,000
Current year claims	1,600,000	1,300,000
Change in prior year claims	52,000	(952,000)
Claims paid, current year claims	(246,000)	(169,000)
Claims paid, prior year claims	<u>(832,000)</u>	<u>(222,000)</u>
Claims liability, end of year	<u>\$3,616,000</u>	<u>\$3,042,000</u>

The City's liability for uninsured general liability claims, including claims incurred but not reported is reported in the General Liability Internal Service Fund. The liability is based on an independent actuarial study prepared annually and was computed as follows for the years ended June 30:

	<u>2002</u>	<u>2001</u>
Claims liability, beginning of year	\$1,579,000	\$1,422,000
Current year claims	650,000	700,000
Change in prior year claims	(553,000)	(227,000)
Claims paid, current year claims	(101,000)	(86,000)
Claims paid, prior year claims	<u>(230,000)</u>	<u>(230,000)</u>
Claims liability, end of year	<u>\$1,345,000</u>	<u>\$1,579,000</u>

The Unemployment Reserve and Vision Internal Service Funds had no outstanding claims liability at June 30, 2002.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 13 - RISK MANAGEMENT (Continued)

C. *Litigation Settlement*

The City was served with a lawsuit December 11, 2000, alleging that the City's utility user taxes collected as five percent of charges made for water, telephone, sewer, refuse, gas, electricity, and cable services violates the provisions of Proposition 218. On the plaintiff's motion for summary judgment, the trial court declared the taxes invalid. The City filed a Notice of Appeal with the Third District Court of Appeal. The City's motion was again denied under a ruling on February 10, 2003. The City has recognized a potential liability of \$8.5 million in its Entity-Wide Financial Statements.

NOTE 14 - PREPAID PURCHASED ELECTRICITY

During fiscal 1999 the City paid \$6,138,335 to the Northern California Power Agency (NCPA) (see Note 15) as a capital contribution for the Geothermal and Hydroelectric Projects debt refinancing. This contribution has been capitalized on the City's balance sheet and will be amortized in conjunction with the related debt service savings. During fiscal 2002 the City paid an additional \$66,588 to the NCPA. The amount amortized for fiscal year 2002 was \$220,233.

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA)

A. *General*

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

The City is a member of NCPA, a joint powers agency which operates under a joint powers agreement among fifteen public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities, and to optimize the use of those facilities and the members position in the industry. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and certain members have entered into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

During the year ended June 30, 2002, the City incurred expenses totaling \$19,820,021 for purchased power and assessments and prepaid assets paid to NCPA.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

The City's interest in certain NCPA Projects and Reserve, as computed by NCPA using unaudited information, is set forth below.

	June 30, 2002
General Operating Reserve (including advances)	\$2,061,328
Associated Member Services (including advances)	266,072
Undivided equity interest, at cost, in certain NCPA Power Projects:	
Geothermal Projects	488,544
Calaveras Hydroelectric Project	550,267
Combustion Turbine Project No. 1	38,657
Geothermal Public Power Line	NIL
Combustion Turbine Project No. 2	877,743
Graeagle Hydroelectric Project	NIL
Northwest Power Purchase Contract	482,225
	\$4,764,836

The General Operating Reserve represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

B. Projects

Geothermal Projects

A purchased power agreement with NCPA obligates the City for 7.880% of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Plant Number 1 and Plant Number 2.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects is higher than anticipated.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District have constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

Based on an internal assessment of the melded costs of power from the Geothermal Project and all other resources available to the members, NCPA believes its members will continue to be able to operate their electric utilities on a competitive basis, when compared to local investor-owned utility rates, while meeting all electric system obligations including those to NCPA. In January 1996, NCPA issued \$167,940,000 (1996 Refunding Series B), and \$5,420,000 (1996 Taxable Series C) in variable rate revenue bonds, the proceeds of which were used to refund a portion of the 1987 Refunding Series A Revenue Bonds. In August 1998, NCPA remarketed \$121,590,000 (1996 Refunding Series A) of revenue bonds changing the interest rate from a weekly interest rate to a long term rate. The City is obligated to pay its contractual share of the debt until it is fully satisfied, regardless of resulting cost or availability of energy. At June 30, 2002, the book value of this Project's plant, equipment and other assets was \$352,937,483, while its long-term debt totaled \$301,710,000 and other liabilities totaled \$51,227,483. The City's share of the Project's long-term debt amounted to \$23,774,748 at that date.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 12% of this Project's debt service and operating costs. On April 16, 2002, NCPA completed the \$86,620,000 refunding of revenue bonds at a weekly variable interest rate, initially set at 5.097%, and a net present value savings of \$10,160,431. During fiscal year 2002 the City paid \$11.6 million to NCPA for its share of refunding the 1992 Refunding Series A Bonds and costs of issuance related to the 2002 Refunding Series A, B and C Bonds. At June 30, 2002, the book value of this Project's plant, equipment and other assets was \$525,000,247, while its long-term debt totaled \$506,270,000 and other liabilities totaled \$18,730,247. The City's share of the Project's long-term debt amounted to \$60,752,400 at that date.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

Combustion Turbine Project No. 1

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. In December 1989, NCPA issued \$68,958,257 in fixed rate revenue bonds, the proceeds of which were used to defease the bonds then outstanding. Under the NCPA power purchase agreement, the City is obligated to pay 13.5840% of this Project's debt service and operating costs. At June 30, 2002, the book value of this Project's plant, equipment and other assets was \$35,813,517, while its long-term debt totaled \$30,645,000 and other liabilities totaled \$5,168,517. The City's share of the Project's long-term debt amounted to \$4,162,817 at that date.

Geothermal Public Power Line

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 14.1756% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 14.1756% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2002, the book value of this Project's plant, equipment and other assets was \$6,853,875, while its long-term debt totaled \$6,760,000 and other liabilities totaled \$93,875. The City's share of the Project's long-term debt amounted to \$958,271 at that date.

Combustion Turbine Project No. 2 (Steam Injected Gas Turbine Project)

The City is a participant in a 49.8 megawatt Steam Injected Gas Turbine project which was built under turnkey contract near the City of Lodi and declared substantially complete on April 23, 1996. In October 1992, NCPA issued \$152,320,000 of Multiple Capital Facilities Revenue Bonds to finance this project, a similar project for the Turlock Irrigation District in Ceres, and Lodi system facilities. Under the NCPA power purchase agreement, the City is obligated to pay 36.50% of the debt service and operating costs for the Lodi unit.

The City's participation in procurement of natural gas for fuel for existing and new combustion turbine units was approved in 1993. Although there is currently no additional debt financing, the City and NCPA have committed to long-term payments for gas transmission pipeline capacity, and entered a purchase contract for natural gas. The City is obligated to pay 17.9218%.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

At June 30, 2002, the book value of this Project's plant, equipment and other assets was \$148,973,904, while its long-term debt totaled \$144,065,000 and other liabilities totaled \$4,908,904. The City's share of the Project's long-term debt amounted to \$52,583,725 at that date.

Graeagle Hydroelectric Project

The City's participation in this small hydroelectric project was approved in 1993. Although this project does not involve any financing, it does involve a long-term contractual commitment to purchase the power produced by the project.

Northwest Power Purchase Contract

The City's participation with other NCPA members in a long-term contract for purchase of power from the Washington Water Power Company was approved in 1993. At that date the City did not have a share of the Project's long-term debt. On February 1, 1997, the NCPA issued \$18,310,000 in Northwest Resource Revenue Bonds. The proceeds will permit early termination of the contract by financing a portion of a payment to be made under the Northwest Power Purchase Contract and costs of issuance of the debt. Under the NCPA Agreement for Financing Electric Capacity, the City was obligated to pay 22.8940% of this debt service. At June 30, 2002 the book value of this Project's total assets was \$7,779,137, while its other liabilities totaled \$7,779,137.

California Electric Industry Restructuring

In September 1996, the California State legislature signed into law Assembly Bill 1890 (AB 1890) deregulating the electric power supply market and restructuring the electric power industry in California. While the majority of the legislation is directed at investor-owned utilities (IOU), the City and other California public utilities are affected by the restructuring of markets serving 70% of the electric load in California and the introduction of direct access in neighboring service territories.

NCPA's Industry Restructuring Task Force plays an active role in protecting members contractual rights in FERC, California Public Utilities Commission (CPUC), and other legislative/regulatory proceedings. Priorities are the preservation of local rate making authority for publicly owned utilities, assuring that NCPA member investments are fully recovered, removing IRS restrictions on the use of NCPA and member assets after deregulation, and maintaining members' preference access to power from the Central Valley Project and Western Area Power Authority.

NCPA's Generation Operations and Marketing, Pooling and Member Services Business Units seek to enhance members' competitive position by capitalizing on new marketing and service opportunities resulting from restructuring. Generation Operations and Marketing services work in tandem to optimize system operations and identify market power sales/purchase opportunities.

In addition, as restructuring increased the need for scheduling coordinators, NCPA was able to market its scheduling capabilities. During the 1996-1997 fiscal year, NCPA provided scheduling and interchange management services for eight power marketers, including PG & E Services, US Generating Company, and Cinergy.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 15 - NORTHERN CALIFORNIA POWER AGENCY (NCPA) (Continued)

NCPA's Generation Operations and Power Management Business Units work in tandem to optimize system operations and identify market power sales/purchase opportunities. NCPA is working to expand membership and services to other public sector organizations.

NCPA Financial Information

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

NOTE 16 - SOUTH PLACER WASTEWATER AUTHORITY

The City is a member of the South Placer Wastewater Authority (SPWA), a joint powers agency which operates under a joint powers agreement among three public agencies, the City of Roseville, South Placer Municipal Utility District and Placer County. The purpose of SPWA is to provide for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities.

Under the terms of a funding agreement, the City will own and operate the Regional Wastewater Facilities. Under the terms of this agreement the member agencies will share the operating costs of the Facilities after construction is complete. The Regional Wastewater Facilities include the Dry Creek Plant and the Pleasant Grove Plant. In November 2000, the SPWA issued Revenue Bonds Series A and Series B in the original principal amounts of \$109,775,000 and \$70,000,000 respectively. The purpose of these bonds is to partially finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant. The three agencies are responsible for the repayment of the Revenue Bonds. The City's share of this obligation was determined to be 54.17%. As a result, this portion of the debt was recorded on the City's financial statements, as discussed in Note 9.

During the year ended June 30, 2002, the City paid \$11,729,964 to SPWA based on connection fees collected during the fiscal year.

The City records its share of income and expenses from SPWA in the Wastewater Enterprise Fund and these changes are reflected in the Statement of Revenues, Expenses and Changes in Retained Earnings. The City's Interest in SPWA Reserves at June 30, 2002 was \$110,976,780. The City's equity in SPWA was \$62,945,053 at June 30, 2002.

SPWA's financial statements can be obtained from the City of Roseville, 311 Vernon Street, Roseville, California, 95678.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 17 - MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the City perform certain maintenance and monitoring functions at the Roseville sanitary landfill site, which is closed, through the year 2024. Accordingly, the City has recorded a liability and expense in the Enterprise Solid Waste Fund for the estimated postclosure care cost. The recorded amount is based on applicable state and local laws and regulations concerning closure and postclosure care. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may result in increased charges to future landfill users or the usage of future tax revenues. During fiscal year 2002 the City reviewed its future closure and postclosure care costs and as a result, the City recognized an additional liability of \$4,000,000. As of June 30, 2002, landfill closure liability was \$4,481,039.

NOTE 18 - COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements, as discussed in Note 15. The City's estimated share of such debt outstanding at June 30, 2002 was \$142,231,960. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

The City was served with a lawsuit October 19, 1998, alleging that the City's long-standing practice of transferring funds in lieu of fees City's Water, Wastewater and Solid Waste departments violates the provisions of Proposition 218. Proposition 218 related issues have not been litigated to conclusion in California yet, so no controlling precedent exists. The Court granted plaintiff's motion for summary judgment, and denied the City's motion at a hearing was held on February 4, 2003. Per the City Attorney, the City expects to continue to vigorously defend this action.

The City is in the process of expanding its wastewater treatment capacity through the construction of a new wastewater treatment plant known as the Pleasant Grove Wastewater Treatment Plant through the South Placer Wastewater Authority, as discussed in Note 16. Certain environmental organizations have also filed an administrative appeal of the permit for the Pleasant Grove facility. The outcome of those proceedings could significantly affect the availability of the City to provide wastewater service or the cost of providing such service. The City believes it is likely it will prevail.

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2002 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, other than disclosed above, which is likely to have a material adverse effect on the financial position of the City.

CITY OF ROSEVILLE
Notes to Basic Financial Statements

NOTE 18 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The City has committed approximately \$1.8 million, \$1.1 million and \$0.5 million for the City's Vernon Street Streetscape, Fire Station #6 and Washington Railing Replacement Projects, respectively.

NOTE 19 – SUBSEQUENT EVENTS

In October 2002 the Redevelopment Agency of the City of Roseville issued Tax Allocation Bonds, Series 2002 in the amount of \$14,500,000. The Agency anticipates using the proceeds for converting the Tower Theatre from a movie theatre to a performing arts center, constructing a downtown parking garage for approximately 500 cars across from City Hall and the performing arts center, and improving the streetscape for the City's historic district. The Tax Allocation Bonds bear interest at 3.0% - 5.0%. Principal payments are due annually on September 1 and interest payments are due semiannually on March 1 and September 1, through September 1, 2033.

Subsequent to year end the City paid \$13.3 million from the Electric Enterprise Fund to terminate certain power purchase agreements.

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APPENDIX C-1

INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT

General

The South Placer Municipal Utility District (“SPMUD” or the “District”) was established pursuant to the Municipal Utility District Act (California Public Utilities Code Sections 11501 et seq.) (the “Act”) in 1956 under the original name of the Rocklin-Loomis Municipal Utility District. In 1987, the District changed its name to the South Placer Municipal Utility District. The District services an area of approximately 23 square miles, involving the entire City of Rocklin, a major portion of the Town of Loomis and certain unincorporated areas of Placer County (near Penryn). The District provides sewer collection service to a population of approximately 50,000, involving approximately 25,000 equivalent dwelling units.

Governance and Management

The District is governed by a five-member board of directors. Pursuant to the Act, the directors are elected at biennial general elections for staggered terms of four years.

The names of the directors and the expiration of their terms of office are shown below:

<u>Name</u>	<u>Term Expires (December 31)</u>
Angelo Lemos (President)	2004
John Murdock (Vice President)	2006
Gerald Blackwell	2006
James Williams	2004
Gerald Mitchell	2004

The District’s senior management consists of the following personnel:

G.T. LOSCALZO, General Manager. Mr. Loscalzo, as General Manager, manages the operations of the District. He has served the District for 20½ years, including 15 years as General Manager. Prior to his current position, Mr. Loscalzo was Agency Engineer for the Placer County Water Agency. Mr. Loscalzo has a Bachelor of Science (Civil Engineering) degree from Loyola University, Los Angeles.

SIMS PARKER, Superintendent. Mr. Parker is responsible for the day-to-day operation of the District. He has served the District in this capacity for 15 years. Prior to his current position, Mr. Parker was Superintendent for the Rainbow Municipal Water District.

CAROL BEAN, Office Manager. Ms. Bean has served the District for 24 years, including 15 years as Office Manager. As Office Manager, Ms. Bean is responsible for overseeing and supervising all administrative and clerical functions of the District’s daily operations in connection with financial and customer service matters. Ms. Bean also serves as secretary to the District’s board of directors.

Wastewater Facilities

The District owns and operates a sewage collection system involving approximately 210 miles of pipe and nine pump stations. The District transmits its sewage to the Dry Creek Plant through two major conveyance pipelines for treatment by the City of Roseville. Upon completion, the Pleasant Grove Wastewater Treatment Plant (the "Pleasant Grove Plant") will also serve the District. Construction of the Pleasant Grove Plant is approximately 95% complete and is expected to be completed substantially within its original budget. The Pleasant Grove Plant is currently in its testing phase and is anticipated to be on-line and operational by the end of the calendar year 2003. When on-line, the Pleasant Grove Plant is expected to have a capacity of 12 mgd average dry weather flow. See "THE REGIONAL WASTEWATER SYSTEM" in the forepart of this Official Statement.

Wastewater Permits, Licenses and Other Regulations

The District's sewer collection system is not subject to any regulation by state or local agencies.

Wastewater Service Area and Customers

The area served by the District consists of approximately 23 square miles, involving the entire City of Rocklin, a major portion of the Town of Loomis and certain unincorporated areas of Placer County (near Penryn). The District provides sewer collection service to a population of approximately 50,000, involving approximately 25,000 equivalent dwelling units. Approximately 89% of the equivalent dwelling units serviced by the District are located in the City of Rocklin.

The following tables show the current number of equivalent dwelling units and connections served by the District by class of user and wastewater service charge revenues by class of user.

**South Placer Municipal Utility District
Number of Equivalent Dwelling Units and Connections
by Class of User
As of June 30, 2002**

<u>Class of User</u>	<u>Equivalent Dwelling Units</u>	<u>Connections</u>
Residential	19,699	15,905
Commercial	<u>3,720</u>	<u>545</u>
Total Users	23,419	16,450

Source: SPMUD

**South Placer Municipal Utility District
Wastewater Service Charge Revenue by Class of User
Fiscal Year Ended June 30, 2002**

<u>Class of User</u>	<u>Revenue⁽¹⁾</u>	<u>Percentage of Revenue</u>
Residential	\$3,652,621	84%
Commercial	<u>700,209</u>	<u>16</u>
	\$4,352,830	100%

Source: SPMUD

⁽¹⁾ The amount of Wastewater Service Charge Revenue in this table excludes revenue generated from late charges.

The following table shows the five largest users of the District by wastewater service charge revenues during the Fiscal Year ended June 30, 2002.

**South Placer Municipal Utility District
Five Largest Users
Fiscal Year Ended June 30, 2002**

<u>User</u>	<u>Revenue</u>	<u>Percentage</u>
Sierra College	\$46,117	1.05%
Del Oro High School	16,356	0.38
Rocklin High School	14,738	0.34
Loomis RV Park	12,480	0.29
Howard Johnson	<u>12,467</u>	<u>0.29</u>
Total	\$102,158	2.35%

Source: SPMUD

Rates and Charges

The District funds the cost of the operation, maintenance and replacement, and capital expansion of its collection system through a user fee system involving service fees and connection charges. Sewer service fees and connection charges are determined by an ordinance adopted by the Board of Directors of the District and are subject to change in accordance with the provisions of Section 14401 of the Act. Such rates are examined each year and are adjusted as needed to meet budgetary requirements. The charges established by the District are not subject to review or approval by any other agency. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES -- Articles XIIC and XIID of the California Constitution" in the forepart of this Official Statement.

Current Service Charges and Billing. The current monthly rate for residential wastewater service is \$16.00 and has been in effect since July 1, 2001. The monthly rate for commercial wastewater service is based upon the rate of \$16.00 multiplied by the number of equivalent dwelling units allocated to such commercial building. Residential and commercial customers are billed quarterly.

Future Service Charges. On September 4, 2003, the District adopted an ordinance providing for an increase to its monthly rates for wastewater service of \$16.00 to \$16.25 for the Fiscal Year ending June 30, 2005, to

\$16.50 for the Fiscal Year ending June 30, 2006, to \$16.75 for the Fiscal Year ending June 30, 2007 and to \$17.00 for the Fiscal Year ending June 30, 2008 and thereafter.

Current Connection Charges. The connection fee for fiscal year ending June 30, 2003 is \$4,890.00, which included the District's Local Connection Fee in the amount of \$1,500.00 and the Regional Connection Fee collected by the District and remitted to the City in the amount of \$3,390.00.

Delinquencies. At the end of each Fiscal Year, delinquent sewer charges are forwarded to Placer County where they are added to the tax rolls. Accounts assigned to the tax rolls during the Fiscal Year ended June 30, 2002 amounted to \$52,760.72. The District has not experienced annual uncollected delinquencies for wastewater users exceeding \$62,500.00 (approximately 2%) of total billings over the last five years.

Financial Information

Budgetary Process. The Board of Directors of the District approves each year's budget submitted by the District's General Manager. The operating budget is subject to supplemental appropriations, budget transfers and other changes throughout the year in order to provide flexibility to meet changing needs and conditions. These supplemental appropriations, budget transfers and other changes are subject to the approval of the Board of Directors of the District.

Financial Statements. The table below presents summaries of financial data relating to the District for the Fiscal Years ended June 30, 1999 through 2003. This data is extracted from the District's audited financial statements for such years. The District's audited financial statements are currently audited by Jackson D. (Jack) Brown, Carmichael, California, in accordance with generally accepted auditing standards, and contain opinions that the financial statements present fairly the financial position of the various funds maintained by the District. The report includes certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements. See APPENDIX C-2 -- "SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT."

Significant Accounting Policies. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. See Note 1 to Appendix C-2 for more information on significant accounting policies of the District.

**South Placer Municipal Utility District
Summary of Historical Operating Results⁽¹⁾
Fiscal Years Ending June 30, 1999 through 2003**

	1999	2000	2001	2002	2003 ⁽⁴⁾
Gross Revenues :					
Wastewater Service Charges	\$3,266,007	\$3,712,118	\$3,975,213	\$4,358,108	\$4,642,846
Local Connection Fees	2,918,239	2,257,242	2,372,101	2,550,772	2,100,922
Interest Income	989,152	1,312,779	1,625,916	895,494	658,768
Taxes	227,509	268,527	324,205	375,120	427,352
Other Revenue	284,835	217,126	208,808	155,573	339,612
Total Gross Revenues	<u>7,685,742</u>	<u>7,767,792</u>	<u>8,506,243</u>	<u>8,335,067</u>	<u>8,169,499</u>
Operation & Maintenance Costs ⁽²⁾ :					
	2,951,873	3,168,176	2,996,534	3,536,198	4,680,421
Available Net Revenues	<u>4,733,869</u>	<u>4,599,616</u>	<u>5,509,709</u>	<u>4,798,869</u>	<u>3,489,078</u>
Regional Connection Fees ⁽³⁾					
	6,085,684	4,783,672	5,204,111	5,763,877	4,752,775
Gross Revenue & Regional Connection Fees	<u>\$13,771,426</u>	<u>\$12,551,464</u>	<u>\$13,710,354</u>	<u>\$14,098,944</u>	<u>\$12,922,274</u>

(1) Figures derived from SPMUD's audited financial statements.

(2) Operation & Maintenance Costs exclude depreciation and include both local collection system operation and maintenance costs and SPMUD's share of Regional Operation & Maintenance Costs. Capital Outlay Fund Operation and Maintenance Costs not included in Fiscal Year 2000-01 (\$126,773) and Fiscal Year 2001-02 (\$150,987).

(3) Regional Connection Fees were transferred to Roseville for deposit into the Regional Construction Fund.

(4) Unaudited, projected results.

Management's Discussion and Analysis. The following discussion relates to certain items shown in the table above.

Gross Revenues and Regional Connection Fees. Gross Revenues have generally increased over the period from the Fiscal Years ended June 30, 1999 through 2003, from \$7.69 million to \$8.17 million as a result of additional connections coming on line. Regional Connection Fees have decreased over the period from the Fiscal Years ended June 30, 1999 through 2003, from \$6.09 million to \$4.75 million, due to a decrease in new connection fees; however, new customers are continually being connected to the SPMUD system and new connections continue to come in above projections. Wastewater Service Charges grew at an average annual rate of 9.2 percent. Local Connection Fees fluctuated, but generally decreased overall from \$2,918,239 in Fiscal Year ended June 30, 1999 to \$2,100,922 in Fiscal Year ended June 30, 2003, due primarily to a decrease in growth rate, both residential and commercial.

Operations and Maintenance Costs. Operations & Maintenance Costs for SPMUD fluctuated but generally increased from \$2,951,873 in Fiscal Year June 30, 1999 to \$4,680,421 in Fiscal Year June 30 2003. This increase was due to an increase in Regional Treatment Costs, utilities and personnel costs.

Outstanding Long-Term Obligations

A portion of the 2000A Bonds will be defeased by a portion of the proceeds of the Series 2003 Bonds. Other than the 2000 Bonds, the District has no outstanding long-term obligations payable from revenues of the District's Wastewater Utility; provided that the Series 2003 Bonds and the 2000 Bonds will be on a parity with the Swap Agreement.

Insurance

The District currently maintains commercial property insurance with a claims limit for buildings of approximately \$1,000,000 and a deductible of \$2,500 per claim. The District also maintains comprehensive general liability insurance with a claims limit of \$2,000,000 in the aggregate, an each occurrence limit of \$1,000,000 and a deductible of \$1,500 per claim. Excess liability insurance currently is maintained by the District with a claims limit up to \$5,000,000. The District currently maintains a separate workers' compensation policy.

Employees

The District has 18 full-time equivalent employees. The District has not had any work stoppages by its employees.

Investment Policy

The District adopted an Investment Policy in 1996 pursuant to Resolution No. 96-4. In accordance with Section 10 of the Resolution No. 96-4, the Board of Directors of the District is required to review the Investment Policy on an annual basis. Certain provisions of the Investment Policy are summarized below.

Authorized Investments. The District is authorized to invest in investments listed in Section 53601 and related subsections of the California Government Code.

Basic Policy and Objectives. The Investment Policy of the District is a conservative policy guided by three principles of public fund management. In specific order of importance, the three principles are:

- (a) Safety of Principal – Investments shall be undertaken in a manner which first seeks to preserve portfolio principal.
- (b) Liquidity – Investments shall be made with maturity dates that are compatible with cash flow requirements and which will permit easy and rapid conversion into cash, at all times, without a substantial loss of value.
- (c) Return on Investment – Investment shall be undertaken to produce an acceptable rate of return after first consideration for principal and liquidity.

Reporting Requirements. Each month the Treasurer of the District, with the cooperation of staff, is required to prepare and submit a report of investment transactions to the Board of Directors of the District. This report will be sufficiently detailed to provide information for investment evaluation. This report will also contain a statement of compliance of the portfolio with the statement of Investment Policy and a statement of the District's ability to meet its expenditure requirements for the next six (6) months.

Current Investment. All funds invested by the District are currently invested in the State of California Local Agency Investment Fund (LAIF). The District is currently exploring the possibility of investing a portion of its funds with the Placer County Treasurer's Office.

APPENDIX C-2

SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT

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**SOUTH PLACER MUNICIPAL UTILITY DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2002**

Jackson D. (Jack) Brown
Certified Public Accountant
C-2-1

Jackson D. (Jack) Brown
Certified Public Accountant

5800 Jameson Court, Suite 7
Carmichael, California 95608
Telephone (916) 487-2181
Fax (916) 487-2401

INDEPENDENT AUDITORS' REPORT ON
FINANCIAL STATEMENTS

Board of Directors
South Placer Municipal Utility District
P.O. Box 45
Loomis, California 95650

I have audited the accompanying general purpose financial statements as described in the Table of Contents of the South Placer Municipal Utility District as of June 30, 2002 and for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Placer Municipal Utility District as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated September 25, 2002 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts.


JACKSON D. BROWN
Certified Public Accountant

Carmichael, California
September 25, 2002

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
BALANCE SHEET
JUNE 30, 2002
(WITH COMPARATIVE AMOUNTS AT JUNE 30, 2001)

<u>Assets</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Cash and investments	\$ 29,238,045	\$ 24,998,470
Receivables:		
Current sewer charges	1,136,484	1,043,323
Assigned to Placer County tax rolls	60,418	48,197
Accrued interest	189,044	333,809
Taxes	26,259	20,508
Prepaid expense	3,360	-
Property, plant and equipment	45,126,781	41,367,805
Accumulated depreciation	<u>(1,525,388)</u>	<u>(1,399,577)</u>
 Total Assets	 <u>\$ 74,255,003</u>	 <u>\$ 66,412,535</u>
 <u>Liabilities and Fund Equity</u>		
Liabilities:		
Accounts payable	\$ 1,574,990	\$ 1,062,275
Accrued salaries	23,843	21,039
Accrued payroll taxes and benefits	4,092	3,443
Accrued vacation and sick leave	110,600	101,210
Refundable projects	-	5,325
Due to other agencies	<u>2,364</u>	<u>1,014</u>
 Total Liabilities	 <u>1,715,889</u>	 <u>1,194,306</u>
Fund Equity:		
Contributed capital	32,584,674	29,493,574
Retained earnings:		
Reserved for capital outlay	17,901,413	15,464,958
Unreserved	<u>22,053,027</u>	<u>20,259,697</u>
 Total Fund Equity	 <u>72,539,114</u>	 <u>65,218,229</u>
 Total Liabilities and Fund Equity	 <u>\$ 74,255,003</u>	 <u>\$ 66,412,535</u>

The accompanying notes are an integral part of the financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30,2002
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30,2001)

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
<u>Operating Revenues:</u>		
Service charges	\$ 4,358,108	\$ 3,975,213
Connection fees (Net)	2,550,772	2,372,101
Permits and other fees	<u>141,119</u>	<u>200,250</u>
Total Operating Revenue	<u>7,049,999</u>	<u>6,547,564</u>
<u>Operating Expenses:</u>		
Collection and treatment	2,912,818	2,341,019
Administration and general	623,380	655,515
Depreciation	141,194	110,218
Improvements	131,257	121,760
Emergency repairs	<u>19,730</u>	<u>5,013</u>
Total Operating Expenses	<u>3,828,379</u>	<u>3,233,525</u>
Operating Income	<u>3,221,620</u>	<u>3,314,039</u>
<u>Non-Operating Revenues (Expenses):</u>		
Taxes	375,120	324,205
Interest income	895,494	1,625,916
Miscellaneous revenue	14,455	10,215
Gain (Loss) on disposition of assets	<u>1,378</u>	<u>(154,568)</u>
Total Non-Operating Revenues (Expenses)	<u>1,286,447</u>	<u>1,805,768</u>
Net Income	<u>4,508,067</u>	<u>5,119,807</u>
Retained Earnings - Beginning of year	35,724,655	31,173,742
Prior period adjustments	<u>(278,282)</u>	<u>(568,894)</u>
Retained Earnings - Beginning of year, adjusted	<u>35,446,373</u>	<u>30,604,848</u>
Retained Earnings - End of year	<u>\$ 39,954,440</u>	<u>\$ 35,724,655</u>

The accompanying notes are an integral part of the financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30,2001)

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
<u>Operating Activities:</u>		
Net income	\$ 4,508,067	\$ 5,119,807
Expenses not requiring cash:		
Depreciation	141,194	110,218
Changes in:		
Receivables - (Increase) Decrease	33,632	(23,840)
Other current assets - (Increase) Decrease	(3,360)	-
Payables - Increase (Decrease)	510,843	741,167
Accrued vacation liability - Increase (Decrease)	9,390	(4,018)
Due to other agencies - Increase (Decrease)	<u>1,350</u>	<u>(2,558,999)</u>
Cash provided by operating activities	<u>5,201,116</u>	<u>3,384,335</u>
<u>Non-Capital Financing Activities:</u>		
Prior year adjustments to revenues and expenses	<u>(278,282)</u>	<u>(568,894)</u>
Cash consumed by non-capital financing activities	<u>(278,282)</u>	<u>(568,894)</u>
<u>Capital and Related Financing Activities:</u>		
Acquisition of fixed assets	(682,885)	(3,013,844)
Disposition of fixed assets	<u>(374)</u>	<u>162,408</u>
Cash consumed by capital and related financing activities	<u>(683,259)</u>	<u>(2,851,436)</u>
Net increase (decrease) in cash	4,239,575	(35,995)
Cash, beginning of year	<u>24,998,470</u>	<u>25,034,465</u>
Cash, end of year	<u>\$ 29,238,045</u>	<u>\$ 24,998,470</u>

The accompanying notes are an integral part of the financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accounting policies of the South Placer Municipal Utility District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

B. Reporting Entity

The reporting entity for the South Placer Municipal Utility District includes all the funds and operations under the jurisdiction of the Board of Directors.

The reporting entity does not include any of the operations of activities governed by Placer County, the Town of Loomis, or any other local governmental agency whose jurisdiction includes any of the territory comprising the South Placer Municipal Utility District.

C. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into one broad category which is comprised of one fund type as follows:

Proprietary Funds:

Enterprise Fund - 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 (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

For internal accounting, reporting and control purposes for the year ended June 30, 2002, the District maintained its accounts in funds designated as:

- a) South Placer Maintenance
- b) Capital Projects

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Enterprise fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned. Expenses are recognized in the accounting period in which the liability is incurred, if measurable, except for the unmatured interest on general long-term debt which is recognized when due.

E. Budgets

The Board of Directors approve each year's budget submitted by the General Manager. Supplemental appropriations, where required during the period, and budget transfers and other changes are also approved by the Board of Directors. At fiscal year-end all operating budget appropriations lapse.

F. Accumulated Vacation and Sick Leave

Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District in accordance with generally accepted accounting principles.

Employees may accumulate an amount of vacation time not to exceed 240 hours through the first 10 years of employment, and 320 hours thereafter. At termination of employment for any reason, the District shall compensate the employee for his/her accumulated vacation time at his/her straight time rate of pay at the time of termination.

Sick leave will accrue for employees, beginning with the date of employment, at the rate of 96 hours for each full year of service with no limit of accumulation of sick leave credits. Upon retirement or termination in good standing, an employee will receive 50 percent of all unused sick leave over 192 hours, up to a maximum of \$3,000, based on the employee's straight time rate of pay. This shall not apply to an employee who is discharged for cause or quits without notice.

G. Fund Equity Reserves

The District records reserves to indicate that a portion of retained earnings is legally segregated for a specific future use. The remaining portion is unreserved retained earnings.

H. Property Taxes

Property taxes are levied by Placer County on real and personal property designated as secured and unsecured taxes respectively. A mid-year completion of construction or transfer of property generates a supplemental tax bill reflecting the market value at the time of transfer. This bill is in addition to the regular roll and may be due at various times of the year. The table below highlights the significant tax data.

	Secured Property Tax Roll	Unsecured Property Tax Roll
Lien Date	March 1	March 1
Levy Date	July 1	July 1
Due Date:		
First Installment	November 1	March 1
Second Installment	February 1	
Delinquent Date:		
First Installment	December 10	August 31
Second Installment	April 10	

All ad valorem taxes are assessed by the Assessor levied by the Auditor and collected by the Tax Collector of the County.

Property tax revenues are recognized when they are apportioned.

The District receives a share of the general property tax revenue from Placer County generated by the \$1.00 rate permitted by Proposition 13.

Note 2 **CASH AND INVESTMENTS**

The District maintains a checking account with a local Bank of America branch office and invests all cash in excess of immediate needs with the Local Agency Investment Fund (L.A.I.F.) administered by the State of California. Moneys invested with L.A.I.F. are treated as cash equivalents since they are available by wire transfer. Total cash and investments are allocated to the individual funds based on their equity in the pooled amount.

The cash held in bank is insured up to \$100,000 per account by the F.D.I.C.

Interest income from the pooled investment in the L.A.I.F. is allocated on a quarterly basis based on the aggregate cash balances in each fund receiving interest.

The reconciled balances of cash and investments consisted of the following at June 30:

<u>Description</u>	<u>Amount</u>
Cash on hand	\$ 200
Bank of America - commercial account	34,323
State of California - LAIF	<u>29,203,522</u>
Total	<u>\$ 29,238,045</u>

Note 3 **RECEIVABLES**

A. **Current Sewer Charges**

The balance of uncollected sewer service charges at June 30, 2002 was \$1,136,484 out of total sewer billings of \$4,165,549 for the year. The balance at June 30, 2002 includes the billing for the quarter ended June 30, 2002 in the amount of \$1,065,233.

B. **Receivables Assigned to Placer County Tax Rolls**

At the end of each fiscal year, delinquent sewer charges are forwarded to Placer County where they are added to the property tax rolls. Under these conditions, provision in the financial statements for uncollected receivables is not included. Accounts assigned to the tax rolls during the 2001-2002 year amounted to \$58,039.

C. **Accrued Interest**

Accrued interest represents interest earned on LAIF deposits during the quarter ended June 30, 2002.

D. **Taxes Receivable**

Taxes collected by Placer County but unapportioned at June 30, 2002 amounted to \$26,259.

Note 4

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, or at estimated cost when actual cost cannot be determined. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from 4 to 25 years.

The sewer system is comprised of various components added as property has been developed over the life of the District. Each year the District accepts bills-of-sale from individual developers for the sewer components added during construction of new projects. \$3,091,100 of the addition of \$3,111,138 to the sewer system represents donated assets from developers accepted by the District during the 2001-2002 year. Depreciation has not been computed or recorded on the sewer system since all of the current costs to maintain the system have been expensed.

A summary of changes in fixed assets for the year ended June 30, 2002 is as follows:

	Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Land	\$ 59,966	\$ -	\$ -	\$ 59,966
Buildings	961,105	191,597	-	1,152,702
Sewer system	39,195,631	3,111,138	-	42,306,769
Equipment	451,292	17,234	-	468,526
Office furniture & equipment	171,901	1,529	-	173,430
Vehicles	527,910	272,782	15,009	785,683
Construction in Progress	-	179,705	-	179,705
Totals	<u>\$ 41,367,805</u>	<u>\$ 3,773,985</u>	<u>\$ 15,009</u>	<u>\$ 45,126,781</u>

A summary of changes in accumulated depreciation for the year ended June 30, 2002 is as follows:

	Balance <u>July 1, 2001</u>	Current <u>Provisions</u>	<u>Deletions</u>	Balance <u>June 30, 2002</u>
Buildings	\$ 564,326	\$ 35,239	\$ -	\$ 599,565
Equipment	340,249	35,893	-	376,142
Office furniture & equipment	137,909	13,761	374	151,296
Vehicles	357,093	56,301	15,009	398,385
Totals	<u>\$ 1,399,577</u>	<u>\$ 141,194</u>	<u>\$ 15,383</u>	<u>\$ 1,525,388</u>

Note 5

REGIONAL WASTEWATER TREATMENT

In October, 2000, the District, City of Roseville, and County of Placer entered into a Joint Exercise of Powers Agreement and formed the South Placer Wastewater Authority. The purpose of the Authority is to jointly finance the new regional treatment facility at Pleasant Grove and related regional infrastructure, together with expanded facilities at the Dry Creek Plant, and other future regional wastewater facilities. Financing is being provided through the issuance of revenue bonds by the Authority, and connection fees collected by the participants. Retirement of the bonded indebtedness will be made by payment from sewer connection fees collected by the District, City and County. The allocation of costs, individual participant's financial responsibilities, and use of capacity are specified in the Funding Agreement dated October 1, 2000.

Maintenance and operation expenses incurred at the Regional Treatment Plant(s) by the District are based on the volume of flow from District lines in relation to the total volume of flow into the Plant. Specific details of the operation of regional wastewater facilities and the respective rights and obligations of the District, as well as the City and County, are specified in the Operations Agreement dated October 1, 2000.

All existing and future capacity in the Regional Wastewater Treatment Facilities is on a first come-first served basis.

Note 6 **REFUNDABLE PROJECTS**

The \$ 5,325 was refundable to an individual developer under an agreement made October 6, 1966. The developer paid for installation and was reimbursed for same as connection fees were collected during 2001/2002.

Note 7 **DUE TO OTHER AGENCIES**

In years prior to 1999-2000 the District reported assessments collected and the related payments on the Bonded Debt for the Penryn Road Assessment District as a fiduciary (agency) fund of the District. This debt was retired during the 1998-99 fiscal year. At July 1, 1999 the residual assets of this fund were transferred to the Maintenance Fund and offset by an account reflecting the liability to the Assessment District for these assets. The initial balance transferred was \$55,768. This has been augmented by collection of delinquent assessments and interest in the amount of \$3,076. Refunds to property owners who comprise the Assessment District amounted to \$56,480 resulting in a remaining liability of \$2,364.

Note 8 **CONNECTION FEES**

Under the South Placer Wastewater Authority J.P.A., the District collects the gross sewer connection fees for all new connections to the sewer system in the District's service area. The amounts due to the South Placer Wastewater Authority per the agreement are forwarded the first week of each month for the prior months collections. The amounts shown as Connection Fee revenue on the District financial statements are the net amounts retained as the District's share of the gross collections. The following is a summary of the connection fee activity for the years ended June 30, 2002 and 2001:

	<u>Year Ended</u> <u>06/30/02</u>	<u>Year Ended</u> <u>06/30/01</u>
Gross fees collected	\$ 8,314,649	\$ 7,576,212
Forwarded to S.P.W.A.	<u>(5,763,877)</u>	<u>(5,204,111)</u>
Net fees to District	<u>\$ 2,550,772</u>	<u>\$ 2,372,101</u>

Note 9 **PRIOR YEAR ADJUSTMENTS**

Enterprise Fund:

Transactions recorded in the 2001-2002 year which were applicable to prior fiscal years resulted in the following adjustments to retained earnings:

Maintenance Fund:

Correct prior years costs (Rogersdale)	\$ (2,641)
Increase in prior year receivables	61
Correct prior year M & O costs (Roseville)	(276,959)
Increase in prior year payables	<u>(173)</u>
Total	<u>\$ (279,712)</u>

Capital Projects Fund:

Decrease in prior year payables	<u>\$ 1,430</u>
---------------------------------	-----------------

Note 10 DEFINED BENEFIT PENSION PLAN

Plan Description:

The South Placer Municipal Utility District's defined benefit pension plan, California Public Employees' Retirement System (CalPERS), provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The District's plan is part of the Public Agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy:

Active plan members in the CalPERS plan are required to contribute 7 percent of their annual covered salary to the plan. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2001/2002 was ZERO%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs:

For fiscal year 2001/2002, the District's annual pension cost was \$ ZERO and the District actually contributed \$ZERO. The required contribution for fiscal year 2001/2002 was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members, and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the District's plans assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The District's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percent of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
06/30/98	\$ 79,505	100%	\$ -0-
06/30/99	\$ 62,131	100%	\$ -0-
06/30/00	\$ 63,280	100%	\$ -0-

Required Supplementary Information - Funded Status of Plan

<u>Valuation</u> <u>Date</u>	<u>Early Age</u> <u>Normal</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Liability</u>	<u>Funded</u> <u>Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>% of Payroll</u>
06/30/98	1,934,806	2,467,785	(532,979)	127.5 %	685,163	(77.789%)
06/30/99	2,153,566	2,894,978	(741,412)	134.4 %	708,981	(104.574%)
06/30/00	2,396,113	3,290,291	(894,178)	137.3%	732,489	(122.074%)

Note 11 **DEFERRED COMPENSATION**

Employees of the South Placer Municipal Utility District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is available for withdrawal upon termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by unrelated financial institutions. The Small Business Job Protection Act of 1996 changed IRC Section 457 by protecting participant assets from creditors of a bankrupt or financially troubled public jurisdiction. Prior to this change all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, were the property of the District subject only to the claims of the District's general creditors. In addition, the participants in the plan had rights equal to those of the general creditors of the District, and each participant's rights were equal to his or her share of the fair market value of the plan assets. The Deferred Compensation Plan is not presented in the District's financial statements.

As part of its fiduciary role, the District has an obligation of due care in selecting the third party administrator. The Deferred Compensation Plans are administered by CALPERS (3 accounts) and Hartford Life & Annuity Insurance Company (14 accounts).

The following schedule represents the activity in the deferred compensation plan during the last two years:

	<u>2001-02</u>	<u>2000-01</u>
Balance, July 1,	\$ 437,866	\$ 458,169
Contributions	45,563	49,645
Investment income (loss)	(65,625)	(62,748)
Withdrawals	<u>(14,400)</u>	<u>(7,200)</u>
Balance, June 30	<u>\$ 403,404</u>	<u>\$ 437,866</u>

Note 12 **CONTINGENT LIABILITIES**

The South Placer Municipal Utility District is unaware of any current outstanding claims against it in amounts that may be material to the financial statements.

APPENDIX D-1

INFORMATION CONCERNING THE PROVISION OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS WITHIN THE COUNTY OF PLACER

Certain County Wastewater Entities

The County of Placer (the "County") provides wastewater collection services to certain of its residents through a sewer maintenance district ("SMD No. 2") and three county service areas ("CSA No. 2A," "CSA No. 55" and "CSA No. 173") (collectively, the "County's Wastewater Entities"). Each of these entities is accounted for as a separate enterprise fund. Only a small number of customers in CSA No. 55 presently are connected to the Regional Wastewater Facilities; the majority of customers in CSA No. 55 are connected to Sacramento County's regional sewer system. Additional portions of CSA No. 55 may be added to the areas served by Regional Wastewater Facilities in the future upon the County's compliance with all legal and administrative requirements therefore. Sewer collection service is provided to other residents of the County through other sewer maintenance districts and county service areas, revenues from which are not in any way pledged under the Funding Agreement, the Indenture or involved in the repayment of the Bonds. SMD No. 2 was established in 1961, comprises 11.2 square miles and serves a population of approximately 16,000, involving 6,728 equivalent dwelling units. CSA No. 2A was established in 1963, comprises 2.3 square miles of industrial property, involving 927 equivalent dwelling units. CSA No. 55 was established in 1978, comprises 0.2 square miles and serves a population of approximately 500, involving 215 equivalent dwelling units. In 2003 the County created CSA No. 173, for the provision of wastewater services to the Dry Creek Community Plan Area. CSA No. 173 serves approximately 950 acres of land, with capacity for approximately 1,020 equivalent dwelling units, currently serving 281 equivalent dwelling units. Construction of the significant infrastructure, including the collection and transmission system, is funded by development, and is currently underway.

It is possible that the County may connect a fourth entity, sewer maintenance district No. 3 ("SMD No. 3"), to the Regional Wastewater System in the future as part of an effort to regionalize sewer treatment throughout the western portion of the County. The County has been working to develop federal funding for the costs involved in regionalizing sewer treatment. The County has received grant funds totaling \$4.8 million dollars for regionalizing wastewater treatment. Approximately \$1 million of this amount is dedicated to the connection of SMD No. 3 to SMD No. 2. The County anticipates constructing the transmission line and connecting the SMD No. 3 in 2005. However, there is no assurance that such entity will be added to the Regional Wastewater System.

Governance and Management

The County's Wastewater Entities are independent special districts that are governed by the Board of Supervisors of the County and are operated by the Special Districts Division of the County's Department of Facility Services. The senior management of the Department consists of the following personnel:

JIM DURFEE, Assistant Director. Mr. Durfee attended Sierra College, California State University Sacramento and the University of California at Davis, and has a degree in Agriculture and certificates in Environmental Management and Hazardous Materials Management. Mr. Durfee has been employed with the County since 1985, serving as a Senior Project Manager, Senior Planner, Solid Waste Program Manager, and is currently Deputy Director of the Department of Facility Services responsible for the Solid Waste Management and Special Districts Divisions. Mr. Durfee has extensive experience in managing construction and environmental projects, and in government management.

WARREN J. TELLEFSON, Special Districts Program Manager. Mr. Tellefson holds a B.S. in Civil Engineering from the California State Polytechnic College, Pomona, and a M.S. in Sanitary Engineering from the California State University Sacramento. Mr. Tellefson has been employed by the County since 1976. Until 1994, Mr. Tellefson was an Associate Civil Engineer, in charge of sanitary engineering projects for the Special Districts Division, including supervision of engineering and office staff. In 1994, Mr. Tellefson was appointed the Special Districts Program Manager, and is responsible for management of the Special Districts Division of the Department

of Facility Services. The Division operates and maintains seven county sewer districts and twelve drainage districts. Prior to working for the County, Mr. Tellefson was employed by Raymond Vail and Associates Engineers, specializing in wastewater projects in the central California area.

TOM MILLER, Director of Facility Services. Mr. Miller has a B.A. in Environmental Studies from California State University at Sacramento. Mr. Miller has extensive experience managing County public works and planning programs, having served for over 17 years in the capacity as either a Director of Facility Services, Transportation, Planning or County Administrator. In his current capacity of Director of Facility Services, Mr. Miller manages a large general services department which provides custodial and maintenance service for over 1.5 million square feet of occupied space, new facility construction, property management, park development and maintenance, wastewater services including plant operations, and county-wide solid waste services including maintenance of, and operation of, active and closed landfills.

Wastewater Collection Facilities

SMD No. 2 is comprised of approximately 110 miles of six to twenty-one inch sewer pipe and 7 lift stations. CSA No. 2A is comprised of 7.8 miles of four to twenty-one inch sewer pipe and 2 sewage pump stations. CSA No. 55 is comprised of about 10,000 feet of six and eight inch sewer pipe. In 2003 the County created CSA No. 173, to provide wastewater services to the Dry Creek Community Plan Area. When completed, the collection system will be comprised of 8 inch to 15 inch trunk sewers, one lift station, and approximately 2 miles of force-main connecting the system to the Dry Creek Treatment Plant.

Wastewater Permits, Licenses and Other Regulations

The County's Wastewater Entities are not subject to any regulation by state or local agencies.

Wastewater Service Area and Customers

The following tables show the current number of equivalent dwelling units and connections served by SMD No. 2, CSA No. 2A, CSA No. 55 and CSA No. 173 by class of user and revenues by class of user.

**County's Wastewater Entities
Number of Equivalent Dwelling Units
by Class of User
As of June 30, 2003**

<u>Class of User</u>	<u>SMD</u> <u>No. 2</u>	<u>CSA</u> <u>No. 2A</u>	<u>CSA</u> <u>No. 55</u>	<u>CSA</u> <u>No. 173</u>	<u>Total</u>
Residential	6,199	0	210	281	6,690
Commercial/Industrial	246	864	3	0	1113
Direct Bill ⁽¹⁾	<u>283</u>	<u>63</u>	<u>2</u>	<u>0</u>	<u>348</u>
Total	6,728	927	215	281	8,151

Source: Placer County

(1) See "Rates and Charges – Current Service Charges and Billing" below.

**County's Wastewater Entities
Number of Connections
by Class of User
As of June 30, 2003**

<u>Class of User</u>	<u>SMD No. 2⁽¹⁾</u>	<u>CSA No. 2A</u>	<u>CSA No. 55</u>	<u>CSA No. 173⁽¹⁾</u>	<u>Total</u>
Residential	6,188	0	210	236	6,634
Commercial/Industrial	54	66	1	0	121
Direct Bill ⁽²⁾	<u>17</u>	<u>7</u>	<u>1</u>	<u>0</u>	<u>25</u>
Total	6,259	73	212	236	6,780

Source: Placer County

⁽¹⁾ Over the past year, 208 connections were transferred from SMD No. 2 to CSA No. 173.

⁽²⁾ See "Rates and Charges – Current Service Charges and Billing" below.

**County's Wastewater Entities
Revenues⁽¹⁾ by Class of User
Fiscal Year Ended June 30, 2003**

<u>Class of User</u>	<u>SMD NO. 2</u>	<u>CSA No. 2A</u>	<u>CSA No. 55</u>	<u>CSA No. 173</u>	<u>Total</u>	<u>Percentage</u>
Residential	\$2,301,936	--	\$50,400	\$63,295	\$2,415,631	75.02%
Commercial/ Industrial	20,088	\$16,236	240	--	36,564	1.14
Direct Bill	<u>6,324</u>	<u>1,722</u>	<u>240</u>	<u>--</u>	<u>8,286</u>	<u>0.26</u>
Total	\$2,328,348	\$17,958	\$50,880	\$63,295	\$2,460,481	76.41%

Source: Placer County

⁽¹⁾ Includes revenues generated from wastewater service charges and local connection fees. Based on projected, unaudited results.

The following table shows the five largest users of County's Wastewater Entities by revenues during the Fiscal Year ended June 30, 2003.

**Five Largest Users
Fiscal Year Ended June 30, 2003**

<u>User</u>	<u>Revenue⁽¹⁾</u>	<u>Percentage of Total Revenues</u>
Formica	\$40,063	1.24%
Hewlett Packard	20,253	0.63
Granite Bay High School	19,680	0.61
Sunset International	14,217	0.44
Placer Corporate Center	<u>678</u>	<u>0.02</u>
Total	\$94,891	2.94%

Source: Placer County

⁽¹⁾ Includes revenues generated from wastewater service charges and local connection fees. Based on projected, unaudited results.

Rates and Charges

The rate setting method for user fees for the County's Wastewater Entities is as follows:

- (1) A budget is prepared for each of the County's Wastewater Entities. Each budget consists of four parts: wastewater treatment charges from the City of Roseville; maintenance costs to operate the wastewater collection systems that transport sewage to the City of Roseville; maintenance related improvement projects; and capital improvement projects.
- (2) Local Connection Fees fund capital improvement projects for the wastewater collection systems of the County's Wastewater Entities.
- (3) The City of Roseville estimates the cost of providing wastewater treatment to each of the County's Wastewater Entities each year. The cost of operation and maintenance related projects are then estimated and the total cost of operation and maintenance are combined.
- (4) The estimated operations and maintenance cost is divided by the total number of equivalent dwelling units connected to the wastewater collection system of each of the County's Wastewater Entities. The result is the needed user fee for the proposed budget.
- (5) If the fee needs to be increased, recommended increases are presented to the County's Board of Supervisors for approval at a public hearing in accordance with Proposition 218.

See "CONSTITUTIONAL LIMITATIONS ON TAXES AND SEWER RATES AND CHARGES -- Articles XIII C and XIII D of the California Constitution" in the forepart of this Official Statement.

Current Service Charges and Billing. The current sewer service charge per equivalent dwelling unit is \$38.15 per month for SMD No. 2, \$20.50 for CSA No. 2A, \$25.50 per month for CSA No. 55 and \$23.00 for CSA No. 173. The Placer County Assessor collects the majority of these fees twice a year in conjunction with property taxes. Properties that are exempt from property taxes are billed for sewer service directly.

Current Connection Charges. A connection fee is a one-time fee for a new, additional or larger connection to the County's Wastewater Entities. Because connection fees are primarily collected on new construction within the County, revenues obtained from such fees vary based on the level of construction activity. The connection fees are a combination of the Regional Connection Fee and a Local Connection Fee charged by each of the County's Wastewater Entities. The fees are projected based on capital improvements plans and are adjusted for inflation. When a fee adjustment is proposed by either the City of Roseville (with respect to the Regional Connection Fee) or by County staff (with respect to the Local Connection Fee), the proposed new connection fee is presented to the County's Board of Supervisors for approval at a public hearing.

The current connection fees for the County's Wastewater Entities are:

<u>Entity</u>	<u>Regional Connection Fee</u>	<u>Local Connection Fee</u>
SMD No. 2	\$3,195	\$795
CSA No. 2A	3,195	795
CSA No. 55	3,195	230
CSA No. 173	3,195	795

See "SECURITY FOR THE BONDS -- Funding Agreement -- Rate Stabilization Fund; Regional Connection Fees."

Delinquencies. The majority of the user fees are collected on the property tax rolls. Several years ago, the County implemented a "Teeter" program. The County's Wastewater Entities are guaranteed 99% of the fee submitted each year for inclusion on the tax rolls.

Financial Information

Budgetary Process. The operating budgets for the County’s Wastewater Entities are developed on an annual basis. The budgets are presented on an objective basis, and are developed to achieve identified objectives at the lowest possible cost to the rate-payers.

Financial Statements. The table below presents summaries of financial data relating to the County’s Wastewater Entities for the Fiscal Years ended June 30, 1999 through 2002. This data is extracted from the County’s audited financial statements for such years. The County’s audited financial statements are currently audited by Macias, Gini & Company LLP, Sacramento, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the County. The report includes certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited financial statements. See APPENDIX D-2 -- “FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER’S WASTEWATER ENTITIES.”

Significant Accounting Policies. The accounting policies of the County conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. See Note 1 to Appendix D-2 for more information on significant accounting policies of the County.

**Combined Enterprise Funds for County’s Wastewater Entities
Summary of Historical Results⁽¹⁾
Fiscal Year Ended June 30, 1999 through 2002**

	1999	2000	2001	2002
Gross Revenues:				
Wastewater Service Charges	\$1,554,873	\$1,512,127	\$1,566,290	\$2,253,642
Local Connection Fees	244,848	248,065	354,982	205,828
Interest Income	217,898	264,537	258,048	104,575
Other Revenue	122,714	168,461	317,260	1,582,986 ⁽⁴⁾
Total Gross Revenues	2,140,333	2,193,190	2,496,580	4,147,031
Operation & Maintenance Costs ^{(1), (2)} :	1,551,611	2,325,722	2,136,093	2,733,451
Available Net Revenues	588,722	(132,533)	360,487	1,503,580
Regional Connection Fees ⁽³⁾	\$667,760	\$462,618	\$1,294,711	\$1,413,580

(1) Figures were prepared by the County. FY 1994-1995 through FY 1997-1998 figures are based on the County's audited financial reports. Figures for FY 1998-1999 have been audited and provided by the County.

(2) Operation & Maintenance Costs exclude depreciation and include both local collection system operation and maintenance costs and the County's share of Regional Operation & Maintenance Costs.

(3) Regional Connection Fees were transferred to Roseville for deposit into the Regional Construction Fund.

(4) Large increase in Other Revenues due to the implementation by the County of GASB 34 in Fiscal Year 2001-02, which required the County to begin reporting developer constructed infrastructure as revenues to the County. .

Management’s Discussion and Analysis. The following discussion relates to certain items shown in the table above.

Gross Revenues. Gross Revenues for the County’s Wastewater Entities, not including Regional Connection Fees, grew from \$2.14 million in the Fiscal Year ended June 30, 1999 to \$4.23 million in the Fiscal Year ended June 30, 2002, an average annual rate of 28.18 percent. This increase was due primarily to increases in user fees approved by the Board of Supervisors to address ongoing rehabilitation of infrastructure.

Regional Connection Fees increased significantly from the Fiscal Year ended June 30, 1999 to 2002. The increase is generally attributed to the significant growth in the County's service areas over the last two fiscal years.

Operations and Maintenance Costs. Operations & Maintenance Costs for the County fluctuated, but generally grew from \$1.55 million (for the Fiscal Year ended June 30, 1999) to \$2.73 million (for the Fiscal Year ended June 30, 2002) This increase was due primarily to general increased efforts to update and refurbish older parts of the system, particularly SMD No. 2.

Outstanding Long-Term Obligations

A portion of the 2000A Bonds will be defeased by a portion of the proceeds of the Series 2003 Bonds. Other than the 2000B Bonds, the City has no outstanding long-term obligations payable from revenues of the City's Wastewater Utility; provided that the Series 2003 Bonds and the 2000 Bonds will be on a parity with the Swap Agreement.

Insurance

The County is exempt from insurance requirements of the State of California and is therefore legally uninsured. However, the County does maintain a self-insurance fund for purposes of either general liability or automobile liability claims, up to \$1,000,000 per person. The County carries excess General/Automobile Liability Insurance up to \$10,000,000 per accident. The County is also self-insured for Workers' Compensation coverage up to \$125,000 and carries Excess Workers' Compensation coverage above \$125,000 to the statutory limit.

Employees

The Special Districts Division of the County's Department of Facility Services manages the sewer, drainage and water operations throughout the County, including the County's Wastewater Entities, with 44 full-time employees, including the Division Manager, a twelve-member engineering/permitting group, seven treatment plant operators, two laboratory technicians, nineteen utility service workers, a project manager, a clerk and a GIS technician. Labor costs are budgeted for each of the County's Wastewater Entities and unforeseen labor needs are provided on a cost basis. All of the nonmanagement employees are unionized. The County has not had any work stoppages by its employees.

Investment Policy

The County Treasurer manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited in the Treasury by the County, all County school districts, various special districts, including the County's Wastewater Entities and some cities within the County. State law requires that all moneys of the County, school districts and certain special districts be held in the County Treasury. The County Treasurer accepts funds only from agencies located within the County. The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, state and federal funding and other fees and charges.

Moneys deposited in the County Treasury by the participants represent an undivided interest in all assets and investments in the County Treasury based upon the amount deposited and the average daily balances. All investments in the County Treasurer's investment pool are amortized and accrued monthly and are priced on a monthly basis for informational purposes. Gains and losses are recorded when they are actually realized upon sale or other disposition of an investment and adjusting entries for market value are made at year-end if necessary as required by GASB 31. Investment earnings, less actual treasury administrative cost, are distributed monthly to all pool participants on a pro-rata basis based on average daily balance.

The County's investment policy states that preservation of capital and maintenance of liquidity shall be of primary concern with earnings to be at market rates of return commensurate with minimum levels of risk. The County Treasurer maintains a reserve of cash and cash equivalents projected to be more than sufficient to meet

foreseeable liquidity needs. The policy allows for the purchase of a variety of securities as specified by California Government Code Sections 53601 and 53635 with further limitations and specifications regarding market risk, maturity, credit ratings and diversification. The County's Treasury Oversight Committee is required by state law to approve the investment policy and monitor conformance to the Supervisors of the County annually. Copies of the County's investment policy can be obtained from the County Treasurer-Tax Collector, 2976 Richardson Drive, Auburn, California 95603.

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APPENDIX D-2

**FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER'S
WASTEWATER ENTITIES**

The information in this Appendix D-2 referring to “Livotti Sewer” relates to CSA No. 55 and the information in this Appendix D-2 referring to “Sunset Whitney Sewer” relates to CSA No. 2A.

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Members of the Board of Supervisors and
Grand Jury of the County of Placer, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the County of Placer, California (the County), as of and for the fiscal year ended June 30, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the County of Placer, California, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No.6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2003 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and schedules of funding progress and budgetary comparison information on pages 3 through 11 and pages 60 through 64 respectively, are not a required part of the basic financial statements but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Macias, Meri & Company CP

Certified Public Accountants

Sacramento, California
April 1, 2003

EXHIBIT 1-A

**SEWER MAINTENANCE DISTRICT #2
STATEMENT OF NET ASSETS
JUNE 30, 2002**

ASSETS

Current assets:	
Cash and investments	\$ 3,433,974
Receivables:	
Accounts, net	<u>44,006</u>
Total current assets	<u>3,477,980</u>
Other assets:	
Advances to other funds	62,659
Property, plant and equipment:	
Land	24,465
Buildings and improvements	2,578,622
Equipment	60,931
Infrastructure	38,387,633
Less accumulated depreciation	<u>(11,956,752)</u>
Total other assets	<u>29,157,558</u>
Total assets	<u>\$ 32,635,538</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	\$ 24,957
Deposits	<u>25,706</u>
Total current liabilities	<u>50,663</u>

EQUITY

Net assets	<u>32,584,875</u>
Total liabilities and net assets	<u>\$ 32,635,538</u>

**SEWER MAINTENANCE DISTRICT #2
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

REVENUES	
Taxes	\$ 23,332
Connection fees	164,480
Direct charges	2,029,568
Other charges for current services	980,985
Interest	<u>155,665</u>
Total revenues	<u>3,354,030</u>
OPERATING EXPENSES	
Services and supplies	2,498,339
Depreciation	<u>620,047</u>
Total operating expenses	<u>3,118,386</u>
Net income	235,644
Capital contributions	25,974,928
Net assets, beginning of year	<u>6,374,303</u>
Net assets, end of year	<u><u>\$ 32,584,875</u></u>

**SUNSET WHITNEY SEWER
STATEMENT OF NET ASSETS
JUNE 30, 2002**

ASSETS

Current assets:	
Cash and investments	\$ 853,189
Receivables:	
Accounts, net	<u>40,533</u>
Total current assets	<u>893,722</u>
 Property, plant and equipment:	
Land	7,480
Buildings and improvements	4,620
Infrastructure	2,980,906
Less accumulated depreciation	<u>(519,524)</u>
Total property, plant and equipment	<u>2,473,482</u>
Total assets	<u><u>\$ 3,367,204</u></u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	\$ 166
Advance from other fund	<u>62,659</u>
Total current liabilities	62,825

EQUITY

Net assets	<u>3,304,379</u>
Total liabilities and net assets	<u><u>\$ 3,367,204</u></u>

**SUNSET WHITNEY SEWER
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

REVENUES	
Contribution from other fund	\$ 571,498
Connection fees	32,625
Interest	34,115
Direct charges	173,892
Other charges for current services	<u>47,752</u>
 Total revenues	 <u>859,882</u>
 OPERATING EXPENSES	
Services and supplies	173,582
Depreciation	<u>34,068</u>
 Total operating expenses	 <u>207,650</u>
 Net income	 652,232
 Capital contributions	 1,832,631
 Net assets, beginning of year	 <u>819,516</u>
 Net assets, end of year	 <u>\$ 3,304,379</u>

EXHIBIT 1-C

**LIVOTTI SEWER
STATEMENT OF NET ASSETS
JUNE 30, 2002**

ASSETS

Current assets:		
Cash and investments	\$	92,730
Restricted cash and investments		
Receivables:		
Accounts, net		<u>525</u>
Total assets	\$	<u>93,255</u>

LIABILITIES

Current liabilities:		
Accounts payable and accrued liabilities	\$	<u>-</u>
Total current liabilities		-

EQUITY

Net assets		<u>93,255</u>
Total liabilities and net assets	\$	<u>93,255</u>

**LIVOTTI SEWER
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

REVENUES	
Connection fees	\$ 8,723
Direct charges	50,182
Interest	4,795
Other charges for current services	<u>7,180</u>
Total revenues	<u>70,880</u>
 OPERATING EXPENSES	
Services and supplies	<u>61,535</u>
Net income	9,345
Net assets, beginning of year	<u>83,910</u>
Net assets, end of year	<u>\$ 93,255</u>

APPENDIX E

GENERAL DEMOGRAPHIC INFORMATION CONCERNING THE COUNTY OF PLACER

Each of the Participants is located within the southern portion of the County of Placer (the "County"). The combined service area of the Participants includes over 4.5% of the County's total area and the combined population of Participants is approximately 58% of the County's total population. Set forth below in this Appendix E is general demographic information concerning the County.

General

The County, which borders the state of Nevada on the east, Nevada County on the north, Yuba and Sutter Counties on the west and Sacramento and El Dorado Counties on the south, was incorporated in 1851. The County encompasses an area of approximately 1,506 square miles and includes six incorporated cities, with Auburn being the County seat. As of January 1, 2002, the County's population was estimated to be approximately 264,900. See "Population" below.

The County offers a great variety of elevations and terrain. From a minimum of 40 feet above sea level in the southwestern corner of the County near Roseville, the land rises to an elevation of 9,000 feet at the summit of the Sierra Nevada Mountains, near the County's northeastern boundary. The western portion of the County, an area of rolling foothills, provides the site for several large industrial areas and a major railroad marshaling and switching yard. To the northeast, the terrain becomes more mountainous, advancing from orchard land to high elevation timberland. The eastern side of the County, particularly the area surrounding Lake Tahoe, provides a setting for high-altitude winter sports and summer recreational activities. Over much of its length, the County is bounded by the American and Bear Rivers.

The climate in the lower elevations is generally characterized by warm summers and mild winters. The higher elevations experience the extremes of winter typical of such climates. In the more populated areas, monthly averages of daily extreme temperatures range from 39 degrees Fahrenheit minimum to 52 degrees Fahrenheit maximum in January, and 58 degrees Fahrenheit and 90 degrees Fahrenheit in July. The average annual rainfall is 36 inches, with an average annual snowfall of 216 inches in the Lake Tahoe area. Approximately 90% of average annual rainfall occurs in the six-month period extending from November to April.

Organization

The California Legislature approved the formation of the County in 1851 from portions of what were then Sutter and Yuba Counties. The County is a charter county divided into five districts on the basis of registered voters and population. The County is governed by a five member, non-partisan Board of Supervisors who serve alternate four year terms. The Supervisors elect one of the members as chairman annually and make program and policy decisions for the County. The County Administration includes appointed and elected officials, boards, commissions and committees that assist the Board of Supervisors in making decisions.

Population

The County's estimated 2002 population of 265,700 represents an increase of 15.6% over the 1998 population. The rate of growth in the County continues to exceed that of the greater Sacramento Area. The County's population is expected to be over 339,300 by July 2010. The fastest growing cities are expected to continue to be the Cities of Lincoln, Rocklin and Roseville. The following table shows population estimates for the County and the State as of January 1 for the past eight calendar years.

**Placer County and State of California Population Estimates
Calendar Years 1996 through 2003**

<u>Year</u>	<u>Placer County</u>	<u>California</u>
1996	215,000	31,837,000
1997	222,300	32,207,000
1998	229,700	32,657,000
1999	238,300	33,140,000
2000	246,100	33,753,000
2001	255,100	34,367,000
2002	265,700	35,000,000
2003	275,600	35,591,000

Source: California State Department of Finance, Demographic Research Unit.

Employment and Industry

The unemployment rate in the County as of June 2003 was 4.9% and the monthly average during calendar year 2003 has been 4.9%. Comparably the unemployment rates for the State and the nation, as of June 2003, were 6.7% and 6.5%, respectively. The following table shows the labor force, employment and unemployment figures for the County, the State and the nation for calendar years 1995 through 2002 and through August 2003.

**Placer County, State of California and United States
Labor Force, Employment and Unemployment
Annual Average for Calendar Years 1995 through 2002
and through June, 2003**

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Rate</u>
1995				
Placer County	102,900	96,500	6,400	6.2%
State of California	15,412,200	14,202,800	1,209,400	7.8
United States	144,863,000	124,900,000	7,404,000	5.6
1996				
Placer County	106,300	100,700	5,600	5.3%
State of California	15,511,600	14,391,500	1,120,100	7.2
United States	200,591,000	126,708,000	7,236,000	5.4
1997				
Placer County	110,700	105,600	5,100	4.6%
State of California	15,947,200	14,942,500	1,004,700	6.3
United States	203,133,000	129,558,000	6,739,000	4.9
1998				
Placer County	114,000	109,300	4,700	4.1%
State of California	16,336,150	15,367,500	969,000	5.9
United States	137,673,000	131,463,000	6,210,000	4.5
1999				
Placer County	120,000	117,000	3,900	3.2%
State of California	16,596,500	15,731,700	864,800	5.2
United States	139,368,000	133,488,000	5,880,000	4.2
2000				
Placer County	125,600	121,600	4,000	3.2%
State of California	16,884,200	16,048,900	835,300	4.9
United States	142,583,000	136,891,000	5,692,000	4.0
2001				
Placer County	134,000	129,300	4,700	3.5%
State of California	17,182,900	16,260,100	922,800	5.4
United States	143,734,000	136,933,000	6,801,000	4.7
2002				
Placer County	138,000	132,500	6,300	4.5%
State of California	17,404,000	16,241,000	1,162,000	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003 ⁽¹⁾				
Placer County	141,000	134,066	6,950	4.9%
State of California	17,545,667	16,349,367	1,196,333	6.8
United States	146,257,000	137,534,000	8,715,000	6.5

⁽¹⁾ Average through June 2003.

Source: California Employment Development Department (County and State data); Bureau of Labor Statistics (National data).

The follow table shows the annual average labor force and industry employment in the Sacramento Metropolitan Statistical Area (MSA) labor market, which includes the counties of Sacramento, El Dorado and Placer.

**Sacramento MSA
Annual Average Labor Force and Industry Employment
Calendar Years 1998 through 2002**

<u>Industry</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Mining	500	500	600	600	600
Construction	37,300	43,900	48,300	54,800	56,100
Manufacturing	43,900	44,600	44,900	44,400	40,800
Services	570,500	596,900	615,900	631,500	646,200
Government	171,800	178,600	181,400	187,800	195,800
Total Non-Agricultural	3,700	3,900	4,000	4,000	3,400
Total Agriculture	652,100	685,900	709,700	731,200	743,700
Total All Industries	655,800	689,800	713,800	735,200	747,100

Source: California Employment Development Department.

According to the California Employment Development Department, the unemployment rate in the Sacramento MSA was 5.5 percent in June 2003, up from a revised 5.2 percent in May 2003, and above the year-ago estimate of 5.3 percent. This compares with an unadjusted unemployment rate of 6.7 percent for California and 6.5 percent for the nation during the same period. The unemployment rate was 5.1 percent in El Dorado County, 4.9 percent in Placer County and 5.7 percent in Sacramento County.

The total number of wage and salary jobs in the Sacramento MSA grew from 749,000 in May 2003 to 753,100 in June 2003, a gain of 3,200 jobs. Seasonal activity accounted for much of the gain with leisure and hospitality increasing by 1,600 jobs and construction by 1,000 jobs. The professional and business services industry added 500 jobs, government and the trade, transportation and utilities industry expanded by 400 jobs each, while employment in financial activities and other services grew by 200 and 100 jobs, respectively. Slightly offsetting those gains, educational and health services declined by 700 jobs, farm jobs were down by 200 and information by 100 jobs. Employment in manufacturing and natural resources and mining was unchanged.

Between June 2002 and June 2003, total wage and salary employment was down slightly by 500 jobs or 0.1 percent. Manufacturing was down by 4,000 jobs, largely due to cuts in durable goods, particularly in computers and electronics. Information was down by 2,100 jobs due to cuts in telecommunications. Leisure and hospitality declined by 1,000 jobs, farm by 700 jobs, and other services by 400 jobs, while professional and business serves slipped by 100 jobs. Offsetting much of the losses, financial activities increased by 3,100 jobs, construction by 2,100 jobs and educational and health services by 1,100 jobs. Government was up by 900 jobs, trade, transportation, and utilities by 500 jobs, while natural resources and mining increased by 100 jobs over the year.

According to the County's estimates as of June 2003, the County's labor force of 141,600 included 134,600 employed and 7,000 unemployed persons.

Commercial Activity

Total taxable sales in the County for 2002 increased by approximately 6.9% over 2001. The following table shows total taxable transactions within the County during calendar years 1999 through 2001 and through second quarter 2002.

**Placer County
Taxable Sales
Calendar Years 1999 through 1998 and through Second Quarter 2002
(Dollars in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
Apparel Stores	\$ 48,763	\$ 86,874	\$ 130,639	\$ 31,730
General Merchandise Stores	309,988	415,365	497,013	127,407
Specialty Stores	376,205	449,925	493,508	123,314
Food Stores	191,754	215,609	227,640	59,594
Packaged Liquor Stores	6,482	5,359	5,692	1,347
Eating and Drinking Establishments	276,270	321,954	360,756	94,483
Home Furnishings and Appliances	81,724	105,599	130,254	36,348
Building Materials and Farm Implements	220,532	253,900	301,831	94,327
Automotive, dealers and parts outlets	1,139,255	1,327,042	1,418,317	381,478
TOTAL RETAIL OUTLETS	2,807,480	3,384,347	3,793,236	1,019,019
Business and Personal Services	180,674	203,768	205,368	52,147
All Other Outlets	<u>1,059,376</u>	<u>1,153,452</u>	<u>1,203,325</u>	<u>307,922</u>
TOTAL ALL OUTLETS	<u>\$4,047,530</u>	<u>\$4,741,567</u>	<u>\$5,201,929</u>	<u>\$1,379,088</u>

⁽¹⁾ As of end of Second Quarter 2002.
Source: State Board of Equalization

Building Permit Activity

The following table shows the number and value of building permits issued in the County for the Fiscal Years 1999 through 2002 and through June 2003.

**Placer County
Building Permits and Valuations
Fiscal Years 1998 through 2002 and through June 2003
(Valuations for County Only)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003⁽¹⁾</u>
County Valuation:					
Residential	\$191,802,151	\$188,312,554	\$209,176,631	\$199,718,954	\$189,617,927
Nonresidential	<u>24,881,523</u>	<u>19,706,564</u>	<u>46,135,292</u>	<u>29,722,920</u>	<u>38,059,403</u>
Total County Valuation	\$216,683,674	\$208,019,118	\$255,311,923	\$229,441,874	\$227,677,330
County Building Permits:					
Residential	4,504	4,511	4,425	4,402	4,808
Nonresidential	<u>307</u>	<u>309</u>	<u>353</u>	<u>334</u>	<u>355</u>
Total County Permits	4,811	4,820	4,778	4,736	5,163

⁽¹⁾ Through June 2003.
Source: County of Placer

The following table shows information relating to the ten largest taxpayers in the County.

**County of Placer
Ten Largest Taxpayers
Fiscal Year 2001-02**

<u>Taxpayer</u>	<u>2001-02 Tax Levy</u>	<u>% of Total Property Taxes</u>
NEC Electronics USA Inc. (1)	\$ 5,939,207	1.99%
Hewlett Packard Co. (1)	5,385,153	1.80%
Pacific Gas and Electric Co.	3,849,559	1.29%
Roseville Telephone Co. (1)	1,377,011	0.46%
Pacific Bell & Subsidiaries	991,038	0.33%
Squaw Valley Ski Corporation	621,142	0.21%
Urban Roseville LLC	594,541	0.20%
Squaw Creek Associates	578,980	0.19%
Fairfield Properties	566,597	0.19%
SierraPine	<u>518,285</u>	<u>0.17%</u>
	20,423,503	6.83%

⁽¹⁾ Located primarily or exclusively within the City of Roseville.
Source: County of Placer Treasurer-Tax Collector

The following table shows information relating to the ten largest employers in the County.

**County of Placer
Ten Largest Employers
As of March 2002**

<u>Rank</u>	<u>Company</u>	<u>No. of Employees</u>	<u>Type of Business</u>
1	Hewlett-Packard Co.	6,000	Electronics
2	Placer County	2,547	County Government
3	Sutter Health	1,425	Healthcare
4	Kaiser Permanente	1,604	Healthcare
5	Squaw Valley Ski Corp.	1,300	Ski Resort
6	Raley's Inc.	1,204	Grocery, Retail, drug
7	Union Pacific Railroad Co. Inc.	1,200	Freight Railroad
8	City of Roseville	1,058	City Government
9	PRIDE Industries Inc.	1,050	Manufacturing
10	SureWest Communications	816	Telecommunications

Source: Sacramento Business Journal, March 29, 2002

APPENDIX F

BOOK-ENTRY SYSTEM

The information concerning DTC set forth herein has been supplied by DTC, and the Authority assumes no responsibility for the accuracy thereof.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“DTC Participants”) deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. “DTC Direct Participants” include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its DTC Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly (“DTC Indirect Participants”). The Rules applicable to DTC and its DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2003 Bonds under the DTC system must be made by or through DTC Direct Participants, which will receive credit for the Series 2003 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2003 Bond (a “Beneficial Owner”) is in turn to be recorded on the Direct and DTC Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or DTC Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by DTC Participants with DTC are registered in the name of DTC’s nominee, Cede & Co. The deposit of Series 2003 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC’s records reflect only the identity of the DTC Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Direct Participants, by DTC Direct Participants to DTC Indirect Participants, and by DTC Direct Participants and DTC Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Series 2003 Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each DTC Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2003 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those DTC Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003 Bonds will be made to DTC. DTC’s practice is to credit DTC Direct Participants’ accounts on the payment date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by

DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such DTC Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and DTC Indirect Participants.

The Authority and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (i) principal and interest on the Series 2003 Bonds, (ii) certificates representing an ownership interest in or other confirmation of ownership interests in the Series 2003 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Series 2003 Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described in the Official Statement.

The Authority and the Trustee will be entitled to treat the person in whose name any Series 2003 Bond is registered as the Bond Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee will have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any Beneficial Owners of the Series 2003 Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or its successor), except for the registered owner of any Series 2003 Bond.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 Bonds at any time by giving notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2003 Bonds are required to be printed and delivered.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2003 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2003 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

The following are brief summaries of the provisions of the Funding Agreement and the Indenture of Trust not fully described elsewhere in the Official Statement. These summaries are not intended to be definitive. Reference is made to the actual documents (copies of which are available from the Authority) for the complete terms thereof.

FUNDING AGREEMENT

See SECURITY FOR THE SERIES 2003 BONDS - Funding Agreement, for a description of provisions in the Funding Agreement relating to (i) Pledge and Application of Participant Net Revenues, (ii) Rate Stabilization Fund; Regional Connection Fees, (iii) Rate Covenant, (iv) Participant Parity Obligations Secured by Participant Net Revenues, and (v) Additional Regional Wastewater Facilities. The provisions in the Funding Agreement relating to said topics are not summarized or repeated below.

Determination of Participants' Proportionate Shares. The Funding Agreement provides that the Participants' Proportionate Shares shall be calculated as follows:

a. Initially, each Participant's estimated maximum capacity usage, and its Proportionate Share, shall be as follows:

<u>Participant</u>	<u>Est. Max. Capacity Usage</u>	<u>Proportionate Share</u>
City:	6.5 MGD	54.17%
County:	2.5 MGD	20.83
District:	3.0 MGD	25.00
TOTAL:	12.0 MGD	100.00%

The foregoing initial estimated maximum capacity usages and Proportionate Shares shall be applicable while the 2000 Bonds, 2003 Bonds and any other Parity Bonds are outstanding, unless and until reallocated in accordance with the provisions of the Funding Agreement.

b. The initial Proportionate Shares shall constitute the Participants' Proportionate Shares until the City notifies the Authority and the Trustee that at least one Participant's use of Phase I Capacity (as determined by that Participant's Average Dry Weather Flow) exceeds that Participant's estimated maximum capacity usage. The City shall determine, using information supplied by all Participants, Average Dry Weather Flow for each Participant, and give a report of its findings to the Authority and the other Participants on or before November 30" of each year. Upon receipt of such notification, the Participants' Proportionate Shares shall automatically be reallocated, based upon the most recent Average Dry Weather Flow for each Participant and estimated maximum capacity usage of the Participants in the future.

Covenants of the Participants. In the Funding Agreement, the Participants have agreed to observe and comply with the following covenants:

a. Punctual Payment. Compliance With the Funding Agreement and the Indenture. Each Participant shall punctually pay or cause to be paid the interest and principal to become due with respect to its Proportionate Share of Debt Service in strict conformity with the terms of all Parity Bonds, and of the Funding Agreement and the Indenture, and shall faithfully observe and perform all of the conditions, covenants and requirements of the Funding Agreement and the Indenture.

b. Against Encumbrances. No Participant shall mortgage or otherwise encumber, pledge or place any charge open its Participant System or any part. thereof, or open any of its Participant Net

Revenues, which would have the effect of impairing its obligation to make payments under the Funding Agreement.

c. Discharge of Claims. Each Participant covenants that in order to fully preserve and protect the priority and security of the Parity Bonds, such Participant shall pay and discharge all lawful claims for labor, materials and supplies furnished for or in connection with its Participant System which, if unpaid, may become a lien or charge upon its Participant Net Revenues prior or superior to the lien of the Parity Bonds or impair the security of the Parity Bonds. Each Participant shall also promptly pay all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of its Participant System or upon any part thereof or upon any of its Participant Net Revenues.

d. Acquisition Construction or Financing of Improvements to the Participant's System. Each Participant shall construct, or finance improvements to its Participant System which are necessary for the continuing operation of its Participant System, and such improvements shall be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

e. Operation and Maintenance of Participant's System in Efficient and Economical Manner. Each Participant covenants and agrees to maintain and operate its Participant System in an efficient and economical manner and to operate, maintain and preserve the Participant System in good repair and working order.

f. Against Sale Eminent Domain.

(1) No Participant shall sell, lease or otherwise dispose of its Participant System or any part thereof essential to the proper operation of its Participant System or to the maintenance of its Participant Net Revenues, except as expressly permitted in the Funding Agreement. No Participant shall enter into any lease or agreement which impairs the operation of its Participant System or any part thereof necessary to secure adequate Participant Net Revenues for the payment of the interest on and principal or redemption price, if any, on the Parity Bonds, or which would otherwise impair the rights of the holders of the Parity Bonds with respect to its Participant Net Revenues or the operation of its Participant System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of its Participant System, or any material or equipment which has worn out, may be sold without the consent of the holders of the Parity Bonds if such sale will not reduce Participant Net Revenues.

(2) If all or any part of a Participant's System shall be taken by eminent domain proceedings, the net proceeds realized by the Participant therefrom shall be deposited by the Participant with the Trustee in a special fund in trust and applied by the Participant as the Participant deems prudent, if (A) the Participant first secures and files with the Trustee a certificate showing (I) the estimated loss in annual Participant Net Revenues, if any, suffered, or to be suffered, by the Participant by reason of such eminent domain proceedings, (II) a general description of the Participant's proposed use of such net proceeds, and (III) an estimate of the additional Participant Net Revenues, if any, to be derived from such use of net proceeds; and (B) the Trustee, on the basis of such certificate, determines that the ability of the Participant to meet its obligations under the Funding Agreement will not be substantially impaired, which determination shall be final and conclusive. If the foregoing conditions are met, the Participant shall then promptly proceed with the proposed use of such net proceeds substantially in accordance with such certificate and payments therefor shall be made by the Trustee from such net proceeds and from other monies of the Participant lawfully available therefor, and any balance of such net proceeds not required by the Participant for the purposes aforesaid shall be transferred to the Participant.

g. Insurance. Each Participant covenants that it shall at all times maintain such insurance on its Participant System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. No Participant shall be required to maintain earthquake insurance. If any useful part of the Participant System shall be damaged or destroyed, such part shall be restored to use. The net proceeds of insurance against accident to or destruction of the physical Participant System shall be used for repairing or rebuilding the damaged or destroyed portions of the Participant System, (to the extent that such repair or rebuilding is determined by the Participant to be useful or of continuing value to the Participant's System) and to the extent not so applied, shall be applied to as provided in the Funding Agreement.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Participant, or may be in the form of self-insurance by the Participant. The Participant shall establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The Participant shall file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a certificate describing the insurance in effect on its Participant System.

h. Records and Accounts. Each Participant shall keep proper books of record and accounts of the finances of its Participant System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to its Participant System. Said books shall, upon reasonable request, be subject to the inspection of the holders of Parity Bonds.

Each Participant covenants that it shall cause the books and accounts of its Participant System to be audited annually by an Independent Certified Public Accountant and shall make available for inspection by the owners of Parity Bonds.

Each Participant covenants that it shall cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on Parity Bonds, the disbursements from the revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of its Participant System. The Participant shall furnish a copy of the statement to the Trustee, and upon written request, to any Parity Bond owner.

i. Protection of Security and Rights of Owners. Each Participant shall preserve and protect the security of the Parity Bonds and the rights of all Parity Bond owners, and shall warrant and defend their rights against all claims and demands of all persons.

j. Against Competitive Facilities. No Participant shall acquire, construct, operate or maintain a utility within the service area of such Participant that would be competitive with its Participant System.

k. Payment of Taxes Etc. Each Participant shall pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed open its Participant System or any part thereof, or upon any Participant Net Revenues, when the same shall become due. Each Participant shall duly observe and conform with all valid requirements of any governmental authority relative to its Participant System or any part thereof, and shall comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any improvements to its Participant System.

l. Enforcement of Funding Agreement. Each Participant shall enforce its rights under the Agreement to receive its allocation of wastewater treatment capacity so as to ensure availability of wastewater treatment to customers within its jurisdiction.

m. No Priority for Participant Parity Obligations. Each Participant covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment over the Parity Bonds as to revenues pledged to the Parity Bonds.

n. Further Assurances. Each Participant shall adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention of, or to facilitate the performance of the Authority under the Indenture.

o. Continuing Disclosure. Each Participant shall comply with and carry out all of the provisions of the Continuing Disclosure Undertakings regarding its obligation to provide the Authority with information necessary to meet the Authority's continuing disclosure obligations, as set forth in the Indenture or any corresponding provisions of Parity Bonds Instruments, if any.

TRUST INDENTURE

See SECURITY FOR THE SERIES 2003 BONDS - Pledge Under the Indenture, - Flow of Funds Under the Indenture, - Reserve Account, and -Additional Parity Obligations for a description of the portions of the Indenture relating to said topics. The provisions in the Indenture relating to said topics are not summarized or repeated below.

Certain Definitions

“After-Tax Equivalent Rate” means on any date of determination the interest rate per annum equal to the product of (x) the Commercial Paper/Treasury Rate on such date and (y) 1.00 minus the highest tax rate bracket (expressed in decimals) applicable in the then current taxable year on the taxable income of every corporation as set forth in Section 11 of the Tax Code or any successor Section without regard to any minimum additional tax provision or provisions regarding changes in rates during such taxable year.

“Applicable Percentage” means, on any date of determination, the percentage determined as set forth under the definition thereof in the Indenture.

“Auction” means each periodic implementation of the Dutch Auction Procedures.

“Auction Agent Agreement” means the Auction Agent Agreement, dated as of September 1, 2003, between the Trustee and the Auction Agent, and any similar agreement with a successor Auction Agent, in each case, as amended or supplemented from time to time.

“Auction Date” means, for the initial Auction Period after the Closing Date, September 24, 2003, and for each respective Auction Period thereafter, every Wednesday thereafter (subject to adjustment as provided in the Indenture) or, if such Auction Date is not a Business Day, the next succeeding Business Day.

“Auction Period” means, for the initial Auction Period, the period commencing on the Date of the 2003 Bonds and ending on and including September 24, 2003, and (ii) for each subsequent Auction Period, the period commencing on and including the day following each Auction Date and ending on and including the seventh (7th) day thereafter (subject to adjustment as provided in the Indenture) or, if earlier, (a) the date preceding the maturity date of the 2003 Bond or (b) the last day of the Dutch Auction Rate Period.

“Auction Rate Event of Default” means failure by the Authority to make payments of principal or interest on the 2003 Bonds and failure by the Bond Insurer to make payments with respect thereto under the Bond Insurance Policy.

“Authorized Denominations” means denominations of \$5,000 or any integral multiple thereof, provided that if the Interest Rate Mode for the 2003 Bonds is the Daily Rate, the Weekly Rate or the Commercial Paper Rate, the 2003 Bonds may be issued only in denominations of \$100,000 and any larger denomination constituting an integral multiple of \$5,000, and provided further that if the Interest Rate Mode for the 2003 Bonds is the Dutch Auction Rate, the 2003 Bonds may be issued only in denominations of \$25,000 and any integral multiple thereof.

“Authorized Official” means the Executive Director, Treasurer or Chairperson of the Board, or any other officer of the Authority duly authorized by the Board for that purpose.

“BMA Municipal Index” means, on any day, The Bond Market Association Municipal Swap Index™ as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or otherwise designated by The Bond Market Association; provided, however, that, if such index is no longer provided by Municipal Market Data, Inc. or its successor, the “Municipal Index” shall mean such other reasonably comparable index selected by the Trustee.

“Bond Counsel” means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest

on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Authority.

“Bond Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successors thereto.

“Bond Insurance Policy” means the municipal bond new issue insurance policy, issued by the Bond Insurer, that guarantees payment of principal and interest on the 2003 Bonds.

“Bond Law” means the Marks-Roos Local Bond Pooling Act, commencing with Section 6584 of the California Government Code.

“Broker-Dealer” means Morgan Stanley & Co. Incorporated or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Dutch Auction Procedures which is an “Authorized Broker-Dealer” under the Broker-Dealer Agreement and which: (a) is a Depository System Participant (or an affiliate of a Depository System Participant); (b) has been appointed as such by the Authority and approved by the Bond Insurer; and (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

“Broker-Dealer Agreement” means each agreement between a Broker-Dealer and the Auction Agent, substantially in the form attached to the Auction Agent Agreement as Exhibit A, pursuant to which a Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Dutch Auction Procedures, as from time to time amended and supplemented.

“Business Day” means (i) any day other than (a) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Trust Office of the Trustee is located are authorized by law or executive order to close or (b) a day on which the New York Stock Exchange is closed or (ii) during a Dutch Auction Rate Period, solely for purposes of conducting an Auction, any other day or days as may be agreed to in writing by the Auction Agent, the Broker-Dealers, the Trustee and the Authority.

“Certificate of the Authority” means an instrument in writing signed by an Authorized Official.

“City” means the City of Roseville, a charter city duly organized and existing under the laws of the State of California.

“Commercial Paper Dealer” means Morgan Stanley & Co. Incorporated or, in lieu thereof, its affiliates or successors, provided that any such entity is a commercial paper dealer.

“Commercial Paper Rate” means the Interest Rate Mode in which the interest rate is determined with respect to a 2003 Bond during each Commercial Paper Rate Period applicable to that 2003 Bond, as provided in the Indenture.

“Commercial Paper Rate Period” means, with respect to any 2003 Bond bearing interest at a Commercial Paper Rate, each period, which may be from one day to two hundred seventy (270) days determined for such 2003 Bond as provided in the Indenture.

“Commercial Paper/Treasury Rate” means on any date of determination in the case of any Auction Period of less than 49 days, the interest equivalent of the 30-day rate, in the case of any Auction Period of 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, in the case of any Auction Period of 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, in the case of any Auction Period of 85 days or more but less than 99 days, the interest equivalent of the 90-day rate, in the case of any Auction Period of 99 days or more but less than 120 days, the arithmetic average of the interest equivalent of the 90-day and 120-day rates, in the case of any Auction Period of 120 days or more but less than 141 days, the interest equivalent of the 120-day rate, in the case of any Auction Period of 141 days or more but less than 162 days, the arithmetic average of the interest equivalent of the 120-day and 180-day rates, in the case of any Auction Period of 162 days or more but less

than 183 days, the interest equivalent of the 180-day rate, in the case of any Auction Period of 183 days or more but less than 274 days, the arithmetic average of the interest equivalent of the 190-day and 270-day rates, and in the case of any Auction Period of 274 days or more, the Treasury Rate with respect to such Auction Period, which rates shall be, in all cases other than the Treasury Rate, rates on commercial paper with the specified maturities placed on behalf of issuers whose corporate bonds are rated AA by S&P or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or in the event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealer to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

If the Commercial Paper Dealer does not quote a commercial paper rate required to determine the Commercial Paper/Treasury Rate, the Commercial Paper/Treasury Rate shall be determined on the basis of such quotation or quotations furnished by the Substitute Commercial Paper Dealer selected by the Authority to provide such quotation or quotations not being supplied by the Commercial Paper Dealer. For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (a) 100 and (b) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) and (y) the difference between (1) 1.00 and (2) a fraction the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360.

“Conversion” means, any conversion from time to time in accordance with the terms of the Indenture of the 2003 Bonds from one Interest Rate Mode to another Interest Rate Mode.

“Conversion Date” means the date on which any Conversion becomes effective.

“Costs of Issuance” means all the costs of issuing any 2003 Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, any 2003 Bonds and any preliminary official statement and final official statement pertaining to any 2003 Bonds; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel to the Authority; any computer and other expenses incurred in connection with any 2003 Bonds; the fees and expenses of the Trustee, the Auction Agent, the Broker-Dealer and any Remarketing Agent; and other fees and expenses incurred in connection with the execution of the 2003 Bonds or the refunding of certain of the 2000A Bonds to be refunded with proceeds of the 2003 Bonds, to the extent such fees and expenses are approved by the Authority.

“County” means the County of Placer, a county duly organized and existing under the laws of the State of California.

“Daily Rate” means the Interest Rate Mode in which the interest rate on the 2003 Bonds is determined on each Business Day in accordance with the Indenture.

“Daily Rate Period” means the period beginning on, and including, the Conversion Date for a Conversion to the Daily Rate and ending on, and including, the day preceding the next Business Day and each period thereafter beginning on, and including, a Business Day and ending on, and including, the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity the 2003 Bonds.

“Debt Service” means, for any computation period (the “Computation Period”), the sum of (1) the interest accruing on all 2003 Bonds and Parity Bonds (the term “2003 Bonds”, as used in this definition of “Debt Service”, shall include Parity Bonds) during such Computation Period, assuming that all 2003 Bonds are retired as scheduled, plus (2) the principal amount (including Sinking Fund Installment payments) allocable to all 2003 Bonds in such Computation Period, calculated as if such principal amounts were deemed to accrue daily during such Computation Period in equal amounts from, in each case, each payment date for principal or the date of delivery of such 2003 Bonds (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next

succeeding payment date for principal; provided, that the following adjustments shall be made to the foregoing amounts in the calculation of Debt Service:

(a) with respect to any such 2003 Bonds bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Debt Service shall be (i) with respect to such 2003 Bonds then outstanding, one hundred ten percent (110%) of the greater of (1) the daily average interest rate on such 2003 Bonds during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Computation Period that such 2003 Bonds has borne interest) and (2) the most recent effective interest rate on such 2003 Bonds prior to the date of such calculation or (ii) the average of The Bond Buyer Revenue Bond Index over the prior 12 months with respect to such 2003 Bonds then proposed to be issued;

(b) with respect to any such 2003 Bonds having twenty percent (20%) or more of the aggregate principal amount thereof due in any one Computation Period, Debt Service shall be calculated for the Computation Period of determination as if the interest on and principal of such 2003 Bonds were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of thirty (30) years from the date of such 2003 Bonds; provided, however, that the full amount of such 2003 Bonds shall be included in Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(c) with respect to any such 2003 Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such 2003 Bonds or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(d) Debt Service shall only be calculated on Outstanding 2003 Bonds, and shall not include interest, if any, on 2003 Bonds which is to be paid from amounts constituting capitalized interest; and

(e) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any 2003 Bonds to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Bonds Instrument shall be included in the calculation of Debt Service unless the sum of (i) the interest payable on such 2003 Bonds, plus (ii) the amounts payable by the Authority or the Participant under such interest rate swap agreement, less (iii) the amounts receivable by the Authority or the Participant under such interest rate swap agreement, are greater than the interest payable on such 2003 Bonds, in which case the amount of such payments to be made that exceed the interest to be paid on such 2003 Bonds shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (a) of this definition.

“Defeasance Obligations” means (a) cash, (b) non-callable direct obligations of the United States of America (“Treasuries”), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (d) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively (or any combination thereof).

“DTC” means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the 2003 Bonds including any such successor appointed pursuant to the Indenture.

“DTC Participant” means any broker-dealer, bank, or other financial institution for which DTC holds the 2003 Bonds as depository from time to time.

“Dutch Auction Rate Period” means each period during which the 2003 Bonds accrues interest at a Dutch Auction Rate.

“Electronic Means” means telecopy, telegraph, telex, facsimile transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

“Enterprise” means the Regional Wastewater Facilities, as that term is defined in the Funding Agreement.

“Escrow Agreement” means the Escrow Agreement dated as of September 1, 2003 by and between the Authority and the Escrow Bank.

“Escrow Bank” means the BNY Western Trust Company, a banking corporation under the laws of the State of California and having a principal corporate trust office located at San Francisco, California, and any other bank or trust company which may at any time be substituted in the place of the Escrow Bank.

“Existing Owner” means, for purposes of each Auction, a Person who is listed as the beneficial owner of 2003 Bonds in the records of the Auction Agent as of the Regular Record Date in respect of the last Interest Payment Date for the Auction Period then ending.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Authority and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the Authority, the Trustee and Bond Insurer to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not result in the inclusion of interest on the 2003 Bonds in gross income for federal income tax purposes.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

“Financial Newspaper” means The Wall Street Journal, The Bond Buyer or any other newspaper or journal printed in the English language which publishes financial news and is circulated in San Francisco, California, and in New York, New York, and selected by the Trustee, whose decision shall be final and conclusive.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or any other annual accounting period prescribed by law for local public agencies in the State of California.

“Funding Agreement” means that certain Funding Agreement relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000, among the Authority and the Participants.

“Improvement” means any addition, extension, improvement, equipment, machinery or other facilities to or for the Enterprise.

“Indenture” or “Trust Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the Authority, and who, or each of whom-

- (a) is in fact independent and not under domination of the Authority;
- (b) does not have any substantial identity of interest, direct or indirect, with the Authority; and
- (c) is not and no member of which is connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority.

“Independent Consultant” means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the Authority, and who, or each of whom-

- (a) is in fact independent and not under domination of the Authority;
- (b) does not have any substantial identity of interest, direct or indirect, with the Authority; and
- (c) is not and no member of which is connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to provide services to the Authority.

“Index” means, on any date of determination, the BMA Municipal Index.

“Interest Payment Date” means, with respect to the 2003 Bonds,

(a) (i) if the Interest Rate Mode for the 2003 Bonds is the Daily Rate or the Weekly Rate, the first Business Day of each month, (ii) if the Interest Rate Mode for the 2003 Bonds is the Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period for the 2003 Bonds and (iii) if the Interest Rate Mode for the 2003 Bonds is the Long Term Rate, May 1 and November 1, provided, however, that if any May 1 and November 1 which is a Conversion Date for Conversion to the Daily Rate, the Weekly Rate or the Commercial Paper Rate, is not a Business Day, then the first Business Day immediately succeeding such May 1 and November 1, as applicable;

(b) if the Interest Rate Mode for the 2003 Bonds is the Dutch Auction Rate, (i) for an Auction Period of 91 days or less, the Business Day immediately succeeding the last day of such Auction Period and (ii) for an Auction Period of more than 91 days, each 13th Wednesday after the first day of such Auction Period and the Business Day immediately succeeding the last day of such Auction Period (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, the Interest Payment Date with respect to the succeeding Auction Period shall be one Business Day immediately succeeding the next Auction Date); and

(c) the Conversion Date or the effective date of a change to a new Long Term Rate Period.

In any case, the final Interest Payment Date shall be the maturity date of the 2003 Bonds.

“Interest Period” means the period from, and including, each Interest Payment Date for such 2003 Bonds to, and including, the day next preceding the next Interest Payment Date for such 2003 Bonds, provided, however, that the first Interest Period for any 2003 Bonds shall begin on (and include) the Issue Date of the 2003 Bonds and the final Interest Period shall end the day next preceding the maturity date of the 2003 Bonds.

“Interest Rate Calculation Date” means the date or dates on which the Interest Rate(s) for the next succeeding Interest Payment Date(s) are determined.

“Interest Rate Mode” means the Commercial Paper Rate, the Daily Rate, the Dutch Auction Rate, the Weekly Rate and the Long Term Rate.

“Interest Requirement” means the amount of interest due and payable on the 2003 Bonds on the next occurring Interest Payment Date.

“Issue Date” means, as to any 2003 Bonds, the date on which such 2003 Bonds are delivered to the Purchaser thereof.

“Joint Powers Agreement” means that certain Joint Exercise of Powers Agreement For The South Placer Wastewater Authority, effective as of October 1, 2000, among the Participants, as amended from time to time.

“Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or other financial institution and acceptable in form and substance to the Bond Insurer.

“Liquidity Facility 2003 Bonds” means 2003 Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of the Liquidity Facility, but excluding 2003 Bonds no longer considered to be Liquidity Facility 2003 Bonds under the terms of the Liquidity Facility).

“Liquidity Facility Provider” means the commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institution so obligated, under) a Liquidity Facility then in effect and approved the Bond Insurer.

“Long Term Conversion Date” means the date on which the 2003 Bonds begin to bear interest at a Long Term Rate pursuant to the provisions of the Indenture.

“Long Term Rate” means the Interest Rate Mode in which the interest rate on the 2003 Bonds is determined in accordance with the Indenture.

“Long Term Rate Period” means any period established by the Authority pursuant to the Indenture and beginning on, and including, the Conversion Date for a Conversion to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period, if any, of substantially the same duration as that established period until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the 2003 Bonds.

“Maintenance and Operation Costs” has the meaning given to the term “Regional Operation and Maintenance Costs” in the Funding Agreement.

“Mandatory Purchase Date” means any date upon which any 2003 Bonds have been called for mandatory tender for purchase in accordance with the Indenture.

“Maximum Annual Debt Service” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

“Maximum Dutch Auction Rate” means, on any date of determination, (1) if such determination is in respect of an Auction with respect to a Standard Auction Period, and is made during a Standard Auction Period, the interest rate per annum equal to the lesser of (i) 12% and (ii) the Applicable Percentage of the greater of (a) the After-Tax Equivalent Rate, as determined on such date with respect to a Standard Auction Period and (b) the Index on such date or (2) if such determination is in respect of an Auction with respect to an Auction Period which is not of the same duration as the Auction Period then ending, the interest rate per annum equal to the lesser of (i) 12% and (ii) the greatest of the Applicable Percentage of the After-Tax

Equivalent Rate, as determined on such date with respect to a Standard Auction Period, the Applicable Percentage of the After-Tax Equivalent Rate, as determined on such date with respect to the Auction Period, if any, which is proposed to be established, the Applicable Percentage of the After-Tax Equivalent Rate, as determined on such date with respect to the Auction Period then ending and the Applicable Percentage of the Index on such date; provided, however, that such Maximum Dutch Auction Rate shall not exceed the Maximum Rate.

“Maximum Rate” means the lesser of (a) 12% and the maximum rate allowable under applicable law.

“Minimum Dutch Auction Rate” means, on any date of determination, the interest rate per annum equal to the least of 12% or the percentage set forth in the Indenture of the BMA Municipal Index on such date.

“Moody's” means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody's” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“Net Proceeds”, when used with reference to the 2003 Bonds, means the face amount of the 2003 Bonds, plus accrued interest and premium, if any, less original issue discount and less proceeds deposited in the 2003 Reserve Account; “Net Proceeds”, when used with reference to any insurance or condemnation award or sale of property, means the gross proceeds from the sale of property or insurance or condemnation award with respect to which that term is used remaining after payment of all expenses (including attorneys' fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding”, when used as of any particular time with reference to 2003 Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except –

(a) 2003 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) 2003 Bonds paid or deemed to have been paid within the meaning of set forth in the Indenture; and

(c) 2003 Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Indenture or any Parity Bonds Instrument.

“Overdue Rate” means, on any date of determination, for the 2003 Bonds, the lesser of (a) 12% and (b) the Applicable Percentage (determined as if the 2003 Bonds had a prevailing rating of Below BBB/BBB) of the Index on such date.

“Owner” means any person who shall be the registered owner of any Outstanding 2003 Bond as indicated in the registration books of the Trustee.

“Parity Bonds” means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements), including the 2000 Bonds, the 2003 Bonds and the Swap Agreement (only to the extent of Swap Periodic Payments), of the Authority payable from and secured by a pledge of and lien upon any of the Revenues issued or incurred pursuant to the Indenture or any Parity Bonds Instrument.

“Parity Bonds Instrument” means the resolution, trust indenture, swap agreement or installment sale agreement adopted, entered into or executed and delivered by the Authority, and under which Parity Bonds are issued.

“Participant Net Revenues” has the meaning given to said term in the Funding Agreement.

“Participant Parity Obligations” has the meaning given to said term in the Funding Agreement.

“Participant System” has the meaning given to said term in the Funding Agreement.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Participants” means the City, the County and the District.

“Permitted Investments” means any of the following to the extent then permitted by applicable laws and any investment policies of the Authority:

(a) Federal Securities.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) certificates of beneficial ownership of the Farmers Home Administration; (ii) Federal Housing Administration debentures; (iii) participation certificates of the General Services Administration; (iv) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (v) guaranteed Title XI financings of the U.S. Maritime Administration; and (vi) 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.

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAM-G, AAAM or AAM, and a rating by Moody’s of Aaa, Aa1 or Aa2 (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).

(e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P and “Prime-1” by Moody’s, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

(g) Investment agreements acceptable to the Bond Insurer.

(h) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's, and "A-1+" by S&P.

(k) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

(l) Shares in the California Asset Management Program.

(m) Any other investments permitted in writing by the Bond Insurer.

"Prevailing Market Conditions" means, without limitation, the following factors: existing short-term market rates for securities; indices of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the 2003 Bonds; general economic conditions and financial conditions that may affect or be relevant to the 2003 Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of the 2003 Bonds, at the principal amount thereof.

"Principal Payment" means with respect to any particular Principal Payment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial 2003 Bonds payable on such Principal Payment Date (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Payment Date as determined hereby.

"Principal Payment Date" means (i) with respect to the 2003 Bonds, prior to the Long-Term Rate Date, November 1, commencing on the first November 1 in which principal of the Bonds is due; and (ii) with respect to any 2003 Bonds bearing interest at a Long-Term Rate, November 1, commencing with the November 1 immediately following the Long-Term Rate Date or otherwise as in accordance with a Supplemental Indenture.

"Project" has the meaning given to said term in the recitals.

"Purchase Date" means, with respect to any 2003 Bond, (a) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, any Business Day as set forth in the Indenture, and (b) each day that such 2003 Bond is subject to mandatory purchase pursuant to the Indenture; provided, however, that the date of the stated maturity of such 2003 Bond shall not be a Purchase Date.

"Purchaser" means, Morgan Stanley & Co. Incorporated, underwriter and purchaser of the 2003 Bonds pursuant to the Refunding Wastewater Revenue Bonds Purchase Contract.

"Rate Period" means any period during which a single interest rate is in effect for the 2003 Bonds.

"Rate Stabilization Fund" means the fund of that name created and maintained by the Authority pursuant to the Funding Agreement.

"Rating Agency" means an agency which is providing a credit rating on any 2003 Bonds and shall include Moody's Investors Service, Standard & Poor's Ratings Services, or any successors thereto (but only so long as they are providing such ratings).

"Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

“Refunding Wastewater Revenue Bonds Purchase Contract” means that certain Contract of Purchase, dated on or about September 15, 2003, by and between the Purchaser and the Authority relating to the 2003 Bonds.

“Regional Connection Fees” has the meaning given thereto in the Funding Agreement.

“Regular Record Date” means (a) with respect to any Interest Period during which the Interest Rate Mode is the Daily Rate or the Weekly Rate, the close of business on the last Business Day of such Interest Period, (b) with respect to any Interest Period during which the Interest Rate Mode is the Dutch Auction Rate, the second Business Day preceding an Interest Payment Date for such Interest Period, (c) with respect to any Interest Period during which the Interest Rate Mode is the Long Term Rate, the fifteenth day (whether or not a Business Day) of the calendar month prior to the Interest Payment Date, and (d) with respect to any Interest Period during which the Interest Rate Mode is the Commercial Paper Rate, the Interest Payment Date for such Interest Period.

“Related Documents” means the 2003 Bonds, the Refunding Wastewater Revenue Bonds Purchase Contract, the Auction Agent Agreement, the Broker-Dealer Agreement, the Swap Agreement and the Funding Agreement.

“Remarketing Agreement” means a remarketing agreement entered into between the Authority and the Remarketing Agent providing for the remarketing of 2003 Bonds tendered for purchase, as the same may be amended from time to time, and any remarketing agreement between the Authority and a successor Remarketing Agent.

“Representation Letter” means each Letter of Representations from the Authority and the Trustee to DTC, or any successor securities depository for the 2003 Bonds.

“Request of the Authority” means a request in writing signed by an Authorized Official.

“Reserve Account Credit Instrument” has the meaning given to said term in the Indenture.

“Reserve Requirement” means an amount equal to the least of (i) the Maximum Annual Debt Service on the Outstanding 2003 Bonds, (ii) 10% of the proceeds of the 2003 Bonds or (iii) 125% of the average annual Debt Service on Outstanding 2003 Bonds, or (iv) the amount deposited in the Reserve Account on the Closing Date.

“Revenues” means, for any period of computation, (a) all amounts received by, or entitled to be received by, the Authority from the Participants under Section 7 of the Funding Agreement (but excluding Regional Connection Fees and amounts held in the Rate Stabilization Fund, unless and until said funds are deposited in the 2003 Debt Service Fund or a debt service fund established for payment of any Parity Bonds), and (b) all receipts derived from the investment of funds held by the Trustee under the Indenture or any Parity Bonds Instrument.

“Serial 2003 Bonds” means any 2003 Bonds which bear interest at a Long-Term Rate and which mature on consecutive semi-annual or annual dates other than by reason of Sinking Fund Installments.

“Serial Maturity Dates” means the dates on which the Serial 2003 Bonds mature.

“Sinking Fund Installment” means, with respect to any particular date, the amount of money required hereby to be paid by the Authority on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

“S&P” means Standard & Poor's Corporation, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“Standard Auction Period” initially means for the 2003 Bonds, the period commencing on and including the day following each Auction Date and ending on and including the seventh day thereafter (subject to adjustment as provided in the Indenture) or, if earlier, (a) the date preceding the maturity date of the 2003 Bonds or (b) the last day of the Dutch Auction Rate Period.

“State” means the State of California.

“Submission Deadline” means 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Brokers-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

“Supplemental Indenture” means an agreement amending or supplementing the terms of the Indenture entered into pursuant to the terms of the Indenture or any Parity Bonds Instrument.

“Swap Agreement” means the Master Agreement, including the schedules and the confirmation thereto, dated August 28, 2003 between the Authority and the Swap Counterparty.

“Swap Counterparty” means Morgan Stanley Capital Services Inc. and its successors and assigns.

“Swap Periodic Payment” means the periodic payments (which do not include any payment due upon early termination of the Swap Agreement or the transfer of Eligible Credit Support pursuant to the Credit Support Document, as defined in the Swap Agreement) due to or from the Authority and the Swap Counterparty under the Swap Agreement.

“Tax Certificate” means any certificate executed by the Authority at the time of execution and delivery of the 2003 Bonds relating to the requirements of Section 148 of the Tax Code, as such certificate may be amended or supplemented.

“Tax Code “ means the Internal Revenue Tax Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Tax Code shall include reference to all successors to such section of the Tax Code .

“Tax Regulations” means temporary and permanent regulations promulgated under the Tax Code.

“Treasury Rate” means on any date of determination for any Auction Period:

(a) the bond equivalent yield calculated in accordance with prevailing industry convention of the rate on the most recently auctioned direct obligations of the U.S. Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period as quoted in The Wall Street Journal on such date for the Business Day next preceding such date; or

(b) in the event that any such rate is not published by The Wall Street Journal, then the bond equivalent yield calculated in accordance with prevailing industry convention as calculated by reference to the arithmetic average of the bid price quotations of the most recently auctioned direct obligations of the U.S. Government having a maturity at the time of issuance of 364 days or less with a remaining maturity closest to the length of such Auction Period, based on bid price quotations on such date obtained by the Auction Agent from the U.S. Government Securities Dealer; provided, that, if the U.S. Government Securities Dealer does not provide a bid price quotation required to determine the Treasury Rate, the Treasury Rate shall be determined on the basis of the quotation or quotations furnished by any Substitute U.S. Government Securities Dealer selected by the Authority to provide such rate or rates not being supplied by the U.S. Government Securities Dealer.

“Trustee” means BNY Western Trust Company, a banking corporation under the laws of the State of California and having a principal corporate trust office located at San Francisco, California, and any other bank or trust company which may at any time be substituted in the place of the Trustee, as provided in the Indenture.

“Trust Office” means the corporate trust office of the Trustee at 555 Kearney Street, Suite 600, San Francisco, CA 94108-2527, or such other or additional offices as may be specified to the Authority by the Trustee in writing.

“2000 Bonds” means the 2000A Bonds and 2000B Bonds.

“2000A Bonds” means South Placer Wastewater Authority Wastewater Revenue Bonds, Series A, issued pursuant to the 2000 Indenture on November 15, 2000.

“2000B Bonds” means the South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B, issued pursuant to the 2000 Indenture on November 15, 2000.

“2000 Indenture” means the Indenture of Trust dated as of October 1, 2000 providing for the issuance of the 2000 Bonds.

“2003 Bonds” or “Series 2003 Bonds” means the South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) issued under the Indenture.

“User Charges” has the meaning given to said term in the Funding Agreement.

“U.S. Government Securities Dealers” means Morgan Stanley & Co. Incorporated, its successors and assigns.

“Variable Interest Rate” means the Daily Rate, the Weekly Rate, the Commercial Paper Rate and the Dutch Auction Rate.

“Variable Rate Period” means any period of time during which any 2003 Bonds evidence interest at a specified Variable Interest Rate determined with regard to such period.

“Weekly Rate” means the Interest Rate Mode in which the interest rate on the 2003 Bonds is determined weekly in accordance with the Indenture.

“Weekly Rate Period” means the period beginning on, and including, the Conversion Date for a Conversion to the Weekly Rate and ending on, and including, the next Tuesday and thereafter the period beginning on, and including, any Wednesday and ending on, and including, the earliest of the following Tuesday, the day preceding the Conversion of the 2003 Bonds to a different Interest Rate Mode or the maturity of the 2003 Bonds.

Pledge of Revenues; Funds and Accounts; Investments.

Pledge of Revenues. (a) The Authority has, under the Indenture, transferred, placed a charge upon, assigned and set over to the Trustee, for the benefit of the Owners and Swap Counterparty, that portion of the Revenues which is necessary to pay the principal of and premium, if any, and interest on the 2003 Bonds and any Parity Bonds in any Fiscal Year, together with all moneys on deposit in the 2003 Debt Service Fund, and such portion of the Revenues is irrevocably pledged to the punctual payment of the principal of and premium, if any, and interest on the 2003 Bonds and any Parity Bonds. The Revenues shall not be used for any other purpose while any of the 2003 Bonds remain Outstanding, except that out of Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture. Said pledge constitutes a first, direct and exclusive charge and lien on the Revenues for the payment of the principal of and premium, if any, and interest on the 2003 Bonds and the respective obligations under any Parity Bonds Instrument in accordance with the terms thereof.

(b) The Revenues constitute a trust fund for the security and payment of the principal of and premium, if any, and interest on the 2003 Bonds and any Parity Bonds. The principal of and premium, if any, and interest on the 2003 Bonds and any Parity are not a debt of the Authority, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Revenues.

Cost of Issuance Fund. There is created in the Indenture a fund to be known as the "South Placer Wastewater Authority Wastewater Revenue Bonds, 2003 Cost of Issuance Fund", which the Authority covenants and agrees to cause to be maintained and which shall be held in trust by the Trustee. The moneys in the Cost of Issuance Fund shall be used solely for the purpose of the payment of Costs of Issuance upon receipt by the Trustee of Requests of the Authority therefor, on or after the Closing Date.

Receipt and Deposit of Revenues. The Authority covenants and agrees that all Revenues, when and as received, will be deposited in the 2003 Debt Service Fund, and will be accounted for through and held in trust in the 2003 Debt Service Fund, and the Authority shall only have such beneficial right or interest in any of such money as in the Indenture provided. All such Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Authority.

Notwithstanding the foregoing, the 2003 Bonds and the 2000 Bonds are issued and secured on a parity basis, and the pledge, deposit and use of Revenues provided in the preceding paragraph and elsewhere in the Indenture is and shall be on a parity with the 2000 Bonds and any other Parity Bonds. All Revenues shall be applied to the payment of the interest on and principal of the 2003 Bonds to the respective Owners of the 2003 Bonds and the Swap Periodic Payments to the Swap Counterparty, as well as any other Parity Bonds, at the respective due dates.

Establishment of Funds and Accounts and Allocation of Revenues Thereto. The 2003 Debt Service Fund, as a special fund, and the 2003 Redemption Account and the 2003 Reserve Account, as special accounts therein, are hereby created and shall be held and maintained by the Trustee.

2003 Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Authority shall deposit with the Trustee, or cause to be deposited with the Trustee for deposit to the 2003 Debt Service Fund, Revenues in an amount equal to (i) the aggregate amount of interest to become due and payable on all Outstanding 2003 Bonds on the next succeeding Interest Payment Date, plus (ii) beginning on or before the second Business Day prior to November 1, 2004, an amount equal to the aggregate amount of Principal Payments (including any Sinking Fund Installments) becoming due and payable on all Outstanding 2003 Bonds on the next succeeding Principal Payment Date. Any amount held in the 2003 Debt Service Fund on any Interest Payment Date or Principal Payment Date (other than amounts resulting from the optional redemption of Bonds in part but not in whole and other than amounts required for payment of Bonds not yet surrendered) shall be credited towards the amount then due and payable. Except as provided in the Indenture with regard to amounts due on the Swap Agreement, no transfer and deposit need be made into the 2003 Debt Service Fund if the amount contained therein, taking into account transfers therein made by the Authority from the Rate Stabilization Fund, and investment earnings and profits, is at least equal to the Interest Requirement or Principal Payments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding 2003 Bonds.

2003 Reserve Account. After making the payments, allocations and transfers provided for in subsection (a) above, if the balance in the 2003 Reserve Account is less than the Reserve Requirement, the deficiency shall be restored by transfers from the sources specified in the Indenture; provided, however, that payments received from the Authority or a Participant to replenish the 2003 Reserve Account shall first be applied to (i) repay the provider of the Reserve Account Credit Instrument for a draw thereon and (ii) after all such amounts are paid in full, amounts necessary to fund the 2003 Reserve Account to the Reserve Requirement, after taking into account the amounts available under the Reserve Account Credit Instrument, shall be deposited from such payments made by the Authority or a Participant.

Application of 2003 Reserve Account.

(a) In General. If on the second Business Day prior to any Interest Payment Date there shall not be sufficient amounts in the 2003 Debt Service Fund to make payment of Principal Payments or Redemption Price of or interest on the 2003 Bonds, the Trustee shall provide notice of such fact to the Authority (provided that no such notice shall be required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the 2003 Bonds in whole or in part) and withdraw from the 2003 Reserve

Account (including a draw on any Reserve Account Credit Instrument, as defined in (b) below) and pay into the appropriate Fund or Account the amount of the deficiency. Any amounts in the 2003 Reserve Account in excess of the Reserve Requirement (whether derived from interest or gain on investments or otherwise) shall, when realized, be transferred to the 2003 Debt Service Fund.

(b) Reserve Account Credit Instrument. The Authority may satisfy its obligation to deposit the Reserve Requirement in the 2003 Reserve Account by the deposit of a surety bond, insurance policy or letter of credit (a "Reserve Account Credit Instrument") as set forth below:

(i) A Surety bond or insurance policy issued to the Trustee, as agent of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the 2003 Bonds (a "municipal bond insurer") may be deposited in the 2003 Reserve Account to meet the Reserve Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.

(ii) A surety bond or insurance policy issued to the Trustee, as agent of the Owners, by an entity other than a municipal bond insurer may be deposited in the 2003 Reserve Account to meet the Reserve Requirement if the form and substance of such instrument and the issuer thereof shall be approved by the Insurer.

(iii) An unconditional irrevocable letter of credit issued to the Trustee, as agent of the Owners, by a bank may be deposited in the 2003 Reserve Account to meet the Reserve Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Authority and the Trustee, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

(iv) If such notice indicates that the expiration date of a letter of credit shall not be extended, the Authority shall deposit in the 2003 Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the 2003 Reserve Account together with any other qualifying credit instruments, to equal the Reserve Requirement on all outstanding 2003 Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Account Credit Instrument is replaced by a Reserve Account Credit Instrument meeting the requirements in any of (i) to (iii) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Trustee shall draw upon the letter of credit prior to its expiration or termination and deposit the funds drawn into the 2003 Reserve Account, unless an acceptable replacement is in place or the 2003 Reserve Account is fully funded in its required amount.

(v) The use of any Reserve Account Credit Instrument pursuant to this paragraph shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).

(vi) The obligation to reimburse the issuer of a Reserve Account Credit Instrument for any fees, expenses, claims or draws upon such Reserve Account Credit Instrument shall be subordinate to the payment of debt service on the bonds. The right of the issuer of a Reserve Account Credit Instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the 2003 Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the 2003 Reserve Account. The Reserve Account Credit Instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Credit Instrument to reimbursement will be further subordinated to cash replenishment of the 2003 Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Credit Instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Account Credit Instrument becomes insolvent or (b) the issuer of a Reserve Account Credit Instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Account Credit Instrument shall be subordinate to the cash replenishment of the 2003 Reserve Account.

(vii) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the Authority shall either (1) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Requirement on all outstanding 2003 Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (2) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of paragraphs (i) to (iii) above, within six months of such occurrence. In the event (x) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (y) the rating of the issuer of the letter of credit falls below "A" or (z) the issuer of the Reserve Fund Credit Instrument defaults in its payment obligations or (AA) the issuer of the Reserve Account Credit Instrument becomes insolvent, the Authority shall either (I) deposit into the 2003 Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the 2003 Reserve Account to equal the Reserve Requirement on all outstanding 2003 Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (II) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of paragraphs (i) to (iii) above, within six months of such occurrence.

(viii) Where applicable, the amount available for draws or claims under the Reserve Account Credit Instrument may be reduced by the amount of cash or permitted investments deposited in the 2003 Reserve Account pursuant to clause (1) of the preceding subparagraph (vii).

(ix) If the Authority chooses the above described alternatives to a cash-funded 2003 Reserve Account, any amounts owed by the Authority to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to the Indenture for any purpose; e.g., rate covenant or additional bonds test.

(x) The Trustee shall ascertain the necessity for a claim or draw upon the Reserve Account Credit Instrument and provide notice to the issuer of the Reserve Account Credit Instrument in accordance with its terms not later than two Business Days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Account Credit Instrument) prior to each Interest Payment Date.

Cash on deposit in the 2003 Reserve Account shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Account Credit Instrument. If and to the extent that more than one Reserve Account Credit

Instrument is deposited in the 2003 Reserve Account, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

(c) Cash to the Authority. To the extent that the Reserve Requirement has been satisfied by delivery of a Reserve Account Credit Instrument, any cash or Permitted Investments on deposit in the 2003 Reserve Account shall be paid by the Trustee to the Authority, for distribution to the Participants on a pro rata basis, determined in accordance with the percentages calculated in accordance with Section 12 of the Funding Agreement.

2003 Redemption Account. Amounts in the 2003 Redemption Account shall be applied by the Trustee in accordance with the Indenture solely for the purpose of paying the Redemption Price of 2003 Bonds to be redeemed pursuant to mandatory and optional redemption as provided in the Indenture and to pay the purchase price of 2003 Bonds as provided in the Indenture.

Application of 2003 Redemption Account. On or before the date which is at least one Business Day prior to any Interest Payment Date on which 2003 Bonds are subject to redemption pursuant to special mandatory or optional redemption in accordance with the Indenture, the Trustee shall transfer from the 2003 Debt Service Fund to the 2003 Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the 2003 Debt Service Fund) of such 2003 Bonds to be redeemed on such Interest Payment Date. In addition, the Authority shall transfer to the Trustee for deposit in the 2003 Redemption Account all amounts required to redeem any 2003 Bonds which are subject to redemption pursuant to mandatory redemption in accordance with the Indenture when and as such amounts become available, it having been determined that such proceeds will not be applied to rebuild or repair the Enterprise. Amounts in the 2003 Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of 2003 Bonds to be redeemed pursuant to special mandatory or optional redemption in accordance with the Indenture and to pay the purchase price of 2003 Bonds in accordance with the Indenture. If after all of the 2003 Bonds have been paid or deemed to have been paid, there are moneys remaining in the 2003 Redemption Account, such moneys shall be transferred by the Trustee to the Authority.

Investments. All moneys in the 2003 Debt Service Fund, the 2003 Reserve Fund and 2003 Cost of Issuance Fund shall be invested by the Trustee solely in Permitted Investments, as directed pursuant to a Request of the Authority. In the absence of any such Request of the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such fund or account, and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Fund or Account from which such investment was made; and shall be accounted for and applied as provided in the Indenture.

Valuation; Investments.

(a) Method of Valuation and Frequency of Valuation. In computing the amount in any Fund or Account, Permitted Investments shall be valued at the lower of the cost or the market price, exclusive of accrued interest, if any. With respect to all funds and accounts, valuation shall occur annually, except in the event of a withdrawal from the 2003 Reserve Account, whereupon securities shall be valued immediately after such withdrawal. If amounts on deposit in the 2003 Reserve Account shall be determined, upon valuation thereof, to be less than the Reserve Requirement, such deficiency shall be made up in accordance with the provisions specified in the Indenture.

(b) Investment of Amounts Representing Accrued Interest. All amounts representing accrued interest shall be held by the Trustee in the 2003 Debt Service Fund, pledged solely to the payment of interest on the 2003 Bonds and invested only in Permitted Investments maturing at such times and in such amounts as are necessary to match the interest payments to which they are pledged.

(c) Additional Limitations. Except as otherwise provided in the following sentence, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the 2003 Bonds (within the meaning of

section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code and (unless valuation is undertaken at least annually) investments in the 2003 Reserve Account shall be valued by the Authority at their present value (within the meaning of section 148 of the Tax Code).

Covenants of the Authority

Punctual Payment; Compliance With Documents. The Authority shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the 2003 Bonds in strict conformity with the terms of the 2003 Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Parity Bonds Instruments.

Against Encumbrances. The Authority will not mortgage or otherwise encumber, pledge, or place any charge upon the Enterprise or any part thereof, or upon any of the Revenues, except as provided in the Indenture; nor will the Authority permit any Participant to do any of the foregoing except as provided in the Indenture or in the Funding Agreement.

Discharge of Claims. The Authority covenants that in order to fully preserve and protect the priority and security of the 2003 Bonds the Authority shall pay from the Revenues and discharge, or cause to be paid and discharged, all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or charge upon the Revenues prior or superior to the lien of the 2003 Bonds and impair the security of the 2003 Bonds. The Authority shall also pay from the Revenues, or cause to be paid, all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Revenues therefrom.

Acquisition, Construction or Financing of Improvements to the Enterprise. The Authority will acquire, construct, or finance Improvements to the Enterprise to be financed with the proceeds of any Parity Bonds, or cause the same to be acquired, constructed or financed, with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Maintenance and Operation of Enterprise in Efficient and Economical Manner. The Authority covenants and agrees to maintain, operate and preserve the Enterprise, or cause the same to be maintained, operated and preserved, in good repair and working order, and in an efficient and economical manner. The Authority shall pay the budgeted Maintenance and Operation Costs, or cause the same to be paid, as such costs become due and payable, shall regularly bill the Participants, or cause the Participants to be billed for such Maintenance and Operation Costs, and shall collect from the Participants their pro rata share of Maintenance and Operation Costs, or cause the same to be collected.

Against Sale, Eminent Domain.

(a) The Authority will not sell, lease or otherwise dispose of the Enterprise or any part thereof essential to the proper operation of the Enterprise or to the maintenance of the Revenues except as expressly permitted in the Indenture; nor will the Authority permit any Participant to do any of the foregoing except as expressly permitted in the Indenture or in the Funding Agreement. The Authority will not enter into any lease or agreement which impairs the operation of the Enterprise or any part thereof necessary to secure adequate Revenues for the payment of the interest on and principal or Redemption Price, if any, on the 2003 Bonds, or which would otherwise impair the rights of the Owners with respect to the Revenues or the operation of the Enterprise; nor will the Authority permit any Participant to do any of the foregoing. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has worn out, may be sold without the consent of the Owners if such sale will not reduce Revenues.

(b) If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Authority shall deposit or cause to be deposited, the Net Proceeds therefrom with the Trustee in a special fund in trust and said Net Proceeds shall be applied by the Authority to the cost of acquiring or constructing

or financing Improvements to the Enterprise if (a) the Authority first secures and files with the Trustee a Certificate of the Authority showing (i) the estimated loss in annual Revenues, if any, suffered, or to be suffered, by the Authority by reason of such eminent domain proceedings, (ii) a general description of the Improvements to the Enterprise then proposed to be acquired or constructed by the Authority from such Net Proceeds, and (iii) an estimate of the additional Revenues to be derived from such Improvements; and (b) the Trustee, on the basis of such Certificate of the Authority, determines that the ability of the Authority to meet its obligations under the Indenture will not be substantially impaired, which determination shall be final and conclusive. If the foregoing conditions are met, the Authority shall then promptly proceed with the acquisition or construction or financing of such Improvements, or cause the same to be acquired, constructed, or financed, substantially in accordance with such Certificate of the Authority and payments therefor shall be made by the Trustee from such Net Proceeds and from other moneys of the Authority lawfully available therefore, and any balance of such Net Proceeds not required by the Authority for the purposes aforesaid shall be paid to the Authority. If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Trustee pro rata to the redemption or purchase of the Parity Bonds of each Series then Outstanding in the proportion which the principal amount of the Outstanding 2003 Bonds bears to the aggregate principal amount of all Parity Bonds then Outstanding. If the Trustee is unable to purchase or redeem Parity Bonds in amounts sufficient to exhaust the available moneys, the remainder of such moneys shall be held in trust by the Trustee and applied to the payment of the Parity Bonds as the same become due by their terms, and, pending such application, such remaining moneys may be invested by the Trustee in the manner provided in the Indenture for the investment of moneys in the 2003 Reserve Account.

Insurance. The Authority covenants that it shall at all times maintain, or cause to be maintained, such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Enterprise shall be used for repairing, rebuilding or replacing the damaged or destroyed portions of the Enterprise (to the extent that such repair, rebuilding or replacing is determined by the Authority to be useful or of continuing value to the Enterprise), and to the extent not so applied, shall be applied to the redemption of the Outstanding Parity Bonds issued on a pro rata basis, and for such purpose shall be paid into the 2003 Redemption Account.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the Authority, or to the Participant then owning or operating the Enterprise, or may be in the form of self-insurance by the Authority. The Authority shall establish, or cause to be established, such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The Authority shall file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Fiscal Year, a Certificate of the Authority or Certificate of said Participant, (a) setting forth a description in reasonable detail of the insurance then in effect, including any self-insurance fund, maintained pursuant to the requirements of the Indenture, (b) stating that the Authority, or said Participant, is then in compliance with the requirements of the Indenture, and (c) stating whether during the preceding Fiscal Year any loss has been incurred with respect to the Enterprise and, if so, the amount of Net Proceeds of insurance, including the Net Proceeds of any self-insurance fund, covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

Records and Accounts. The Authority covenants that it shall keep, or cause to be kept, proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding 2003 Bonds or their representatives authorized in writing.

The Authority covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The Authority covenants that it will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a

summary statement showing the amount of Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Parity Bonds, the disbursements from the Revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of the Enterprise. The Authority shall furnish a copy of the statement to the Trustee, and upon written request, to any Owner.

Protection of Security and Rights of Owners. The Authority will preserve and protect the security of the 2003 Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Parity Bonds by the Authority, such Parity Bonds shall be incontestable by the Authority.

Against Competitive Facilities. The Authority will not acquire, construct, operate or maintain, or permit any Participant to acquire, construct, operate, or maintain, wastewater treatment facilities within the service area of the Authority served by the Enterprise as of the Closing Date, that would be competitive with the Enterprise.

Payment of Taxes, Etc. The Authority will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon any Revenues when the same shall become due. The Authority will duly observe and conform with all valid requirements of any governmental authority relative to the Enterprise or any part thereof, or cause the same to be observed and conformed with, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Enterprise, or cause the same to be complied with.

Enforcement of Funding Agreement. The Authority shall enforce its right to receive payments from the Participants under the Funding Agreement, to ensure timely payment on the 2003 Bonds.

No Priority for Additional Obligations. The Authority covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment of principal or interest out of the Revenues over the Parity Bonds. Nothing in the Indenture shall prohibit or impair the authority of the Authority to issue bonds or other obligations secured by a lien on or Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the Authority may determine.

No Arbitrage. The Authority shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the 2003 Bonds which would cause any of the 2003 Bonds to be "arbitrage bonds" within the meaning of the Tax Code.

Information Report. The Authority is hereby directed to assure the filing of an information report for the 2003 Bonds in compliance with Section 149(e) of the Tax Code.

Private Activity 2003 Bond Limitation. The Authority shall assure that the proceeds of the 2003 Bonds are not so used as to cause the 2003 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2003 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

Further Assurances. The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the 2003 Bonds the rights and benefits provided in the Indenture.

Continuing Disclosure. The Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate for the 2003 Bonds. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Continuing Disclosure Certificate

shall not be considered an Event of Default; however, the Trustee, at the written request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding 2003 Bonds, shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation fees and expenses of its attorneys, or any holder or beneficial owner of the 2003 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Rebate Requirement. The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2003 Bonds.

Maintenance of Tax-Exemption. The Authority shall take all actions necessary to assure the exclusion of interest on the 2003 Bonds from the gross income of the Owners of the 2003 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the 2003 Bonds.

Modification and Amendment of the Indenture

Amendment by Consent of Owners. This Indenture and the rights and obligations of the Authority and of the Owners of the 2003 Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the 2003 Bonds then Outstanding, exclusive of 2003 Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any 2003 Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any 2003 Bond without the express written consent of the Owner of such 2003 Bond, (b) reduce the percentage of 2003 Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Amendment Without Consent of 2003 Bondholders. The Indenture and the rights and obligations of the Authority and of the Owners of the 2003 Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery, without consent of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power in the Indenture reserved to or conferred upon the Authority; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the 2003 Bonds or the Swap Counterparty;

(c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the 2003 Bonds.

Supplements to Indenture. Additionally, this Trust Indenture may, without the consent of, or notice to, any of the Owners, be supplemented and amended, in such manner as shall not be inconsistent with the terms and provisions of this Trust Indenture, for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority to be observed or performed in the Indenture other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Authority, and which in either case shall not materially adversely affect the interests of the Owners; or

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Authority may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners; or

(iii) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided, further that the Authority and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Bond Counsel stating that the requirements of this subsection (iii) have been met with respect to such amendment or supplement; or

(iv) to provide for the issuance of one or more additional series of bonds; or

(v) to implement a conversion of the Interest Rate Mode; or

(vi) to provide for a Liquidity Facility or specify certain terms of a Liquidity Facility Certificate.

Disqualified 2003 Bonds. 2003 Bonds owned or held by or for the account of the Authority (but excluding 2003 Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding 2003 Bonds in this article provided for, and shall not be entitled to consent to, or take any other action in this article provided for.

Endorsement or Replacement of 2003 Bonds After Amendment. After the effective date of any action taken as provided in the Indenture, the Authority may determine that the 2003 Bonds shall bear a notation, by endorsement in form approved by the Authority, as to such action, and in that case upon demand of the Owner of any 2003 Bond Outstanding at such effective date and presentation of his 2003 Bond for that purpose at the Trust Office of the Trustee, a suitable notation as to such action shall be made on such 2003 Bond. If the Authority shall so determine, new 2003 Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such Owners' action, shall be prepared and executed, and in that case, upon demand of the Owner of any 2003 Bond Outstanding at such effective date, such new 2003 Bonds shall be exchanged at the Trust Office of the Trustee, without cost to each Owner, for 2003 Bonds then Outstanding, upon surrender of such Outstanding 2003 Bonds.

Amendment by Mutual Consent. The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular 2003 Bond held by him, provided that due notation thereof is made on such 2003 Bond.

Consent of Bond Insurer. Any amendment or supplement to the Indenture shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the 2003 Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any 2003 Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) Default in the due and punctual payment of any installment of interest on any 2003 Bond when and as such interest installment shall become due and payable;

(c) Default by the Authority in the observance of any other of the covenants, agreements or conditions on its part in the Indenture or in any Parity Bonds Instrument or in the 2003 Bonds contained,

and such default shall have continued for a period of sixty (60) days after the Authority shall have been given notice in writing of such default by the Trustee; or

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

(e) Default by the Authority or Participants in the observance of any of the covenants, agreements or conditions on their part in the Funding Agreement, and such default shall have continued for a period of thirty (30) days after the Authority or the Participants shall have been given notice in writing of such default by the Trustee.

In determining whether a payment default has occurred or whether a payment on the 2003 Bonds has been made under the Indenture, no effect shall be given to payments made under the Bond Insurance Policy.

Remedies; Rights of Owners. Upon the occurrence of an Event of Default, the Trustee may, with the consent of the Bond Insurer, pursue any available remedy, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding 2003 Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture and the Funding Agreement.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding 2003 Bonds and indemnified as provided in the Indenture, the Trustee shall, with the consent of the Bond Insurer, be obligated to exercise such one or more of the rights and powers conferred by this Article X, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners under the Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

For all purposes of the Indenture, except the giving of notice of an Event of Default to Owners, the Bond Insurer shall be deemed to be the sole holder of the 2003 Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

The Bond Insurer and Swap Counterparty shall be included as a party in interest and as a party entitled to (i) notify the Authority, the Trustee, if any, or any applicable receiver, of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the 2003 Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of an Event of Default from the Bond Insurer or the Swap Counterparty.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the 2003 Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the 2003 Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw,

compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding 2003 Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of 2003 Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of 2003 Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the 2003 Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the 2003 Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the 2003 Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Rights and Remedies of Owners. No Owner of any 2003 Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the 2003 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2003 Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of 2003 Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding 2003 Bonds.

The right of any Owner of any 2003 Bond to receive payment of the principal of and interest and premium (if any) on such 2003 Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding any other provision of the Indenture.

Discharge of Indenture

If the Authority shall pay and discharge any or all of the Outstanding 2003 Bonds in the Long Term Rate Period and the interest installments therefor at the maturity or redemption date thereof, or for any other 2003 Bonds in any Interest Period (except for any Long Term Rate Period through maturity) on the first available call or tender date (which shall include both optional or mandatory tenders) by setting aside moneys in any one or more of the following ways, which are held by the Trustee for the payment or redemption of any 2003 Bonds, such 2003 Bonds shall be deemed to be paid:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such 2003 Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay such 2003 Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the Authority (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on

such 2003 Bonds (including all principal, interest and redemption premiums, if any) at or before their respective Maturity Dates; and if such 2003 Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the Authority, and notwithstanding that any of such 2003 Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such 2003 Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to all such 2003 Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such 2003 Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Authority.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

To accomplish defeasance the Authority shall cause to be delivered (i) a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay the 2003 Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the 2003 Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority and the Trustee.

APPENDIX H
FORM OF BOND COUNSEL OPINION

_____, 2003

South Placer Wastewater Authority
2005 Hilltop Circle
Roseville, California 95747

OPINION: \$97,000,000 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate)

Members of the Board:

We have acted as bond counsel in connection with the issuance by the South Placer Wastewater Authority (the "Authority") of the \$97,000,000 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the "Bonds"), pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), an Indenture of Trust, dated as of September 1, 2003, by and between the Authority and BNY Western Trust Company, as trustee (the "Indenture"), and a resolution of the Authority (the "Resolution") of the Board of Directors of the Authority adopted on July 30, 2003. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly created and validly existing as a joint exercise of powers agency with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly approved by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority.
3. Pursuant to the Bond Law, the Indenture creates a valid lien on the Revenues pledged by the Indenture for the security of the Bonds, as described in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX I

FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS FOR THE SERIES 2003 BONDS

CONTINUING DISCLOSURE AGREEMENT – SOUTH PLACER WASTEWATER AUTHORITY

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the South Placer Wastewater Authority (the “Authority”), a joint powers authority duly organized and existing under the laws of the State of California and BNY Western Trust Company, as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the Authority of its \$97,000,000 Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of September 1, 2003 (the “Indenture”), between the Authority and BNY Western Trust Company, as trustee (the “Trustee”) for the purpose of providing funds to refinance the “Project” described therein, fund certain accounts held thereunder and pay costs of issuance related thereto. The Bonds are secured by and payable from payments from the County of Placer, the City of Roseville and the South Placer Municipal Utility District (collectively, the “Participants”) pursuant to a Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the “Funding Agreement”), among the Authority and the Participants. In furtherance of Section 6.19 of the Indenture, the Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture or the Funding Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean BNY Western Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority pursuant to Section 7 of this Disclosure Agreement.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at: “<http://www.sec.gov/consumer/nrmsir.htm>”.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports. (a) The Authority shall, or shall cause the Dissemination Agent to, not later than 210 days following the end of its Fiscal Year (which Fiscal Year as of the date hereof ends June 30), commencing with the report for the Fiscal Year ending June 30, 2003, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statements are not available by that date. If the Authority’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Authority shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to inquire about the status of the Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as **Exhibit A**.

(d) The Dissemination Agent shall (i) determine each year, within five (5) Business Days of the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and (ii) file a report with the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which they were provided.

The Dissemination Agent and the Trustee shall have no duty or obligation to review such Annual Report.

SECTION 4. Content of Annual Reports. The Authority’s Annual Report shall contain or include by reference the following:

(a) The audited financial statement of the Authority for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Government Accounting Standards Board. If the audited financial statement of the Authority is not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain an unaudited financial statement in a format similar to the financial statement contained in the final Official Statement relating to the Bonds, dated September 5, 2003 (the “Official Statement”) and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not provided in the audited financial statement of the Authority required in subsection (a) above, an update of the following information contained in the Official Statement.

1. The balance in each Participant’s account in the Rate Stabilization Fund as of the end of the immediately preceding Fiscal Year;
2. The amount of Regional Connection Fees collected during the immediately preceding Fiscal Year;
3. The remaining available capacity of the Regional Wastewater System (as defined in the Official Statement) as of the end of the immediately preceding Fiscal Year; and
4. The Proportionate Share for each Participant.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events. (a) The Authority shall give, or cause to be given, to each Repository, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution, or sale of property generating property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, as soon as possible, determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Authority’s and the Dissemination Agent’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Authority’s respective obligations under the Indenture and the Funding Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Authority and the Authority shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the

Authority. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Authority which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3, 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Authority or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds) shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order to, cause the Authority or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be considered an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Authority to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this

purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications may be given as follows:

To the Authority:

South Placer Wastewater Authority
c/o City of Roseville
2005 Hilltop Circle
Roseville, CA 95747
Attention: Art O'Brien

with a copy to:

Hyde, Miller, Owen & Trost
428 J Street, Suite 400
Sacramento, CA 95814
Attention: Kirk E. Trost

To the Dissemination Agent:

BNY Western Trust Company
550 Kearny Street, Suite 600
San Francisco, CA 94111

The Authority or the Dissemination Agent may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: September 17, 2003.

SOUTH PLACER WASTEWATER AUTHORITY

By _____
Executive Director

ATTEST:

SOUTH PLACER WASTEWATER AUTHORITY

By _____
Secretary

BNY WESTERN TRUST COMPANY, as
Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: South Placer Wastewater Authority

Name of Bond Issue: South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate)

Name of the Obligated Persons: South Placer Wastewater Authority, County of Placer, City of Roseville and South Placer Municipal Utility District

Date of Issuance: September 17, 2003

NOTICE IS HEREBY GIVEN that the South Placer Wastewater Authority has not provided an Annual Report with respect to the above-named Bond Issue as required by Section 6.19 of the Indenture of Trust, dated as of September 1, 2003, between the Issuer and BNY Western Trust Company, and by Section 13(o) of the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000, between each of the Obligated Persons listed above. The South Placer Wastewater Authority anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

**CONTINUING DISCLOSURE AGREEMENT –
COUNTY OF PLACER**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the County of Placer (the “County”), a political subdivision duly organized and existing under the laws of the State of California and BNY Western Trust Company, as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the South Placer Wastewater Authority (the “Authority”) of its \$97,000,000 Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of September 1, 2003 (the “Indenture”), between the Authority and BNY Western Trust Company, as trustee (the “Trustee”) for the purpose of providing funds to refinance the “Project” described therein, fund certain accounts held thereunder and pay costs of issuance related thereto. The Bonds are secured by and payable from payments from the County, the City of Roseville and the South Placer Municipal Utility District (collectively, the “Participants”) pursuant to a Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the “Funding Agreement”), among the Authority and the Participants. In furtherance of Section 13(o) of the Funding Agreement, the County covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the County and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture or the Funding Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean BNY Western Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the County pursuant to Section 6 of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at: “<http://www.sec.gov/consumer/nrmsir.htm>”.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports. (a) The County shall, or shall cause the Dissemination Agent to, not later than 210 days following the end of its Fiscal Year (which Fiscal Year as of the date hereof ends June 30), commencing with the report for the Fiscal Year ended June 30, 2003, provide to each Repository an Annual Report

which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statement of the County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statement are not available by that date. If the County's Fiscal Year changes, it shall give, or cause to be given, to each Repository, written notice of such change.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the County shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the County to inquire about the status of the Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as **Exhibit A**.

(d) The Dissemination Agent shall (i) determine each year, within five (5) Business Days of the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and (ii) file a report with the County, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which they were provided.

The Dissemination Agent and the Trustee shall have no duty or obligation to review such Annual Report.

SECTION 4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

(a) The audited financial statement of the County for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Government Accounting Standards Board. If the audited financial statement of the County is not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain an unaudited financial statement in a format similar to the financial statement contained in the final Official Statement relating to the Bonds, dated September 5, 2003 (the "Official Statement") and the audited financial statement shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not provided in the audited financial statements of the County required in subsection (a) above, an update as of the end of the immediately preceding Fiscal Year of the following information contained in Appendix D-1 to the Official Statement:

1. Tables entitled "County's Wastewater Entities Number of Equivalent Dwelling Units by Class of User," "County's Wastewater Entities Number of Connections by Class of User," "County's Wastewater Entities Revenues by Class of User" and "Five Largest Users";

2. A summary of the historical results of the information contained in the table entitled "Combined Enterprise Funds for County Wastewater Entities Summary of Projected Operating Results" for the immediately preceding Fiscal Year;

3. Service charges, connection charges and the amount of uncollected delinquencies; and

4. Participant Net Revenue and Rate Covenant Debt Service.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues with respect to which the County is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The County's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the County's obligation under the Funding Agreement is assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the County and the County shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the County shall give, or cause to be given, to each Repository, written notice of such termination or substitution.

SECTION 6. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the County. If at any time there is not any other designated Dissemination Agent, the County shall be the Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the County and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the County which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3 or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) the County shall give, or cause to be given, to each Repository, written notice of such amendment, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the County chooses to include any information in any Annual Report, in addition to that which is specifically required by this Disclosure Agreement, the County shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 9. Default. In the event of a failure of the County or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the

Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds) shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order to, cause the County or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be considered an Event of Default under the Funding Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the County to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the County, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Notices. Any notices or communications may be given as follows:

To the County:

County of Placer
Department of Facilities Services
Special Districts Divisions
11476 "C" Avenue
Auburn, CA 95603
Attention: Tom Miller

with a copy to:

Placer County Counsel
175 Fulweiler Avenue
Auburn, CA 95603
Attention: Scott Finley

To the Dissemination Agent:

BNY Western Trust Company
550 Kearny Street, Suite 600
San Francisco, CA 94111

The County or the Dissemination Agent may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the County, the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: September 17, 2003.

COUNTY OF PLACER

By: _____
Chair

ATTEST:

By: _____
Clerk of the Board

APPROVED AS TO FORM:

By: _____
County Counsel

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: South Placer Wastewater Authority

Name of Bond Issue: South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate)

Name of the Obligated Persons: South Placer Wastewater Authority, County of Placer, City of Roseville and South Placer Municipal Utility District

Date of Issuance: September 17, 2003

NOTICE IS HEREBY GIVEN that the County of Placer has not provided an Annual Report with respect to the above-named Bond Issue as required by Section 13(o) of the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000, between each of the Obligated Persons listed above. The County of Placer anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

cc: South Placer Wastewater Authority

CONTINUING DISCLOSURE AGREEMENT – CITY OF ROSEVILLE

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the City of Roseville (the “City”), a charter city duly organized and existing under the laws of the State of California and BNY Western Trust Company, as Dissemination Agent (the “Dissemination Agent”) in connection with the issuance by the South Placer Wastewater Authority (the “Authority”) of its \$97,000,000 Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of September 1, 2003 (the “Indenture”), between the Authority and BNY Western Trust Company, as trustee (the “Trustee”) for the purpose of providing funds to refinance the “Project” described therein, fund certain accounts held thereunder and pay costs of issuance related thereto. The Bonds are secured by and payable from payments from the County of Placer, the City and the South Placer Municipal Utility District (collectively, the “Participants”) pursuant to a Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the “Funding Agreement”), among the Authority and the Participants. In furtherance of Section 13(o) of the Funding Agreement, the City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture or the Funding Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean BNY Western Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City pursuant to Section 6 of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at: “<http://www.sec.gov/consumer/nrmsir.htm>”.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports. (a) The City shall, or shall cause the Dissemination Agent to, not later than 210 days following the end of its Fiscal Year (which Fiscal Year as of the date hereof ends June 30), commencing with the report for the Fiscal Year ended June 30, 2003, provide to each Repository an Annual Report

which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statement of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statement are not available by that date. If the City's Fiscal Year changes, it shall give, or cause to be given, to each Repository, written notice of such change.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to inquire about the status of the Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as **Exhibit A**.

(d) The Dissemination Agent shall (i) determine each year, within five (5) Business Days of the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and (ii) file a report with the City, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which they were provided.

The Dissemination Agent and the Trustee shall have no duty or obligation to review such Annual Report.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statement of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Government Accounting Standards Board. If the audited financial statement of the City is not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain an unaudited financial statement in a format similar to the financial statement contained in the final Official Statement relating to the Bonds dated September 5, 2003 (the "Official Statement"), and the audited financial statement shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not provided in the audited financial statement of the City required in subsection (a) above, an update as of the end of the immediately preceding Fiscal Year of the following information contained in Appendix B-1 to the Official Statement.

1. Tables entitled "Roseville Wastewater Utility Number of Dwelling Unit Equivalents and Connections by Class of User," "Roseville Wastewater Utility Revenues by Class of User" and "Roseville Wastewater Utility Five Largest Users";

2. A summary of the historical results of the information contained in the table entitled "City of Roseville Wastewater Utility Fund Summary of Projected Operating Results" for the immediately preceding Fiscal Year;

3. Service charges, connection charges and the amount of uncollected delinquencies; and

4. Participant Net Revenue and Rate Covenant Debt Service.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The City's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the City's obligation under the Funding Agreement is assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City and the City shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the City shall give, or cause to the Dissemination Agent to give, to each Repository, written notice of such termination or substitution.

SECTION 6. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the City. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3 or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) the City shall give, or cause to be given, to each Repository, written notice of such amendment, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report, in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 9. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the

Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds) shall, but only to the extent indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order to, cause the City or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be considered an Event of Default under the Funding Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Notices. Any notices or communications may be given as follows:

To the City:

City of Roseville
Environmental Utilities Department
2005 Hilltop Circle
Roseville, CA 95747
Attention: Derrick Whitehead, Environmental Utilities Director

with a copy to:

Roseville City Attorney
311 Vernon Street, Suite 202
Roseville, CA 95678

To the Dissemination Agent:
BNY Western Trust Company
550 Kearny Street, Suite 600
San Francisco, CA 94111

The City or the Dissemination Agent may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: September 17, 2003.

CITY OF ROSEVILLE

By: _____
City Manager

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: South Placer Wastewater Authority

Name of Bond Issue: South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate)

Name of the Obligated Persons: South Placer Wastewater Authority, County of Placer, City of Roseville and South Placer Municipal Utility District

Date of Issuance: September 17, 2003

NOTICE IS HEREBY GIVEN that the City of Roseville has not provided an Annual Report with respect to the above-named Bond Issue as required by Section 13(o) of the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000, between each of the Obligated Persons listed above. The City of Roseville anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

cc: South Placer Wastewater Authority

**CONTINUING DISCLOSURE AGREEMENT –
SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the South Placer Municipal Utility District (the “District”), a municipal utility district duly organized and existing under the laws of the State of California and BNY Western Trust Company, as Dissemination Agent (the “Dissemination Agent”), in connection with the issuance by the South Placer Wastewater Authority (the “Authority”) of its \$97,000,000 Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate) (the “Bonds”). The Bonds are being issued pursuant to an indenture of trust, dated as of September 1, 2003 (the “Indenture”), between the Authority and BNY Western Trust Company, as trustee (the “Trustee”) for the purpose of providing funds to refinance the “Project” described therein, fund certain accounts held thereunder and pay costs of issuance related thereto. The Bonds are secured by and payable from payments from the County of Placer, the City of Roseville and the District (collectively, the “Participants”) pursuant to a Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000 (the “Funding Agreement”), among the Authority and the Participants. In furtherance of Section 13(o) of the Funding Agreement, the District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture or the Funding Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District pursuant to Section 6 of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at: “<http://www.sec.gov/consumer/nrmsir.htm>”.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than 210 days following the end of its Fiscal Year (which Fiscal Year as of the date hereof ends June 30), commencing with the report for the Fiscal Year ending June 30, 2003, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be

submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statement of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statement are not available by that date. If the District's Fiscal Year changes, it shall give, or cause to be given, to each Repository, written notice of such change.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the District shall provide the Annual Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to inquire about the status of the Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as **Exhibit A**.

(d) The Dissemination Agent shall (i) determine each year, within five (5) Business Days of the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any; and (ii) file a report with the District, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which they were provided.

The Dissemination Agent and the Trustee shall have no duty or obligation to review such Annual Report.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) The audited financial statement of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Government Accounting Standards Board. If the audited financial statement of the District is not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain an unaudited financial statement in a format similar to the financial statement contained in the final Official Statement relating to the Bonds dated September 5, 2003 (the "Official Statement"), and the audited financial statement shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not provided in the audited financial statement of the District required in subsection (a) above, an update as of the end of the immediately preceding Fiscal Year of the following information contained in Appendix C-1 to the Official Statement.

1. Tables entitled "South Placer Municipal Utility District Number of Equivalent Dwelling Units and Connections by Class of User," "South Placer Municipal Utility District Revenues by Class of User" and "South Placer Municipal Utility District Five Largest Users";

2. A summary of the historical results of the information contained in the table entitled "South Placer Municipal Utility District Summary of Projected Operating Results" for the immediately preceding Fiscal Year;

3. Service charges, connection charges and the amount of uncollected delinquencies; and

4. Participant Net Revenues and Rate Covenant Debt Service.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The District's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the District's obligation under the Funding Agreement is assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the District and the District shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the District shall give, or cause to be given, to each Repository, written notice of such termination or substitution.

SECTION 6. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the District. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3 or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) the District shall give, or cause to be given, to each Repository, written notice of such amendment, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report, in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report.

SECTION 9. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds) shall, but only to the extent

indemnified to its satisfaction from any liability or expense, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order to, cause the District or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be considered an Event of Default under the Funding Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Notices. Any notices or communications may be given as follows:

To the District:

South Placer Municipal Utility District
P.O. Box 45
3671 Taylor Road
Loomis, CA 95650
Attention: Jerry Loscalzo, General Manager

with a copy to:

O'Brien & Brown
2339 Gold Meadow Way, Suite 230
Gold River, CA 95670
Attention: Adam Brown, District's General Counsel

To the Dissemination Agent:

BNY Western Trust Company
550 Kearny Street, Suite 600
San Francisco, CA 94111

The District or the Dissemination Agent may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: September 17, 2003.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

By: _____
General Manager

ATTEST:

By: _____
Secretary

APPROVED AS TO FORM:

By: _____
General Counsel

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: South Placer Wastewater Authority

Name of Bond Issue: South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series 2003 (Auction Rate)

Name of the Obligated Persons: South Placer Wastewater Authority, County of Placer, City of Roseville and South Placer Municipal Utility District

Date of Issuance: September 17, 2003

NOTICE IS HEREBY GIVEN that the South Placer Municipal Utility District has not provided an Annual Report with respect to the above-named Bond Issue as required by Section 13(o) of the Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2000, between each of the Obligated Persons listed above. The South Placer Municipal Utility District anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

cc: South Placer Wastewater Authority

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APPENDIX J

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Financial Guaranty Insurance
 Company, doing business in California
 as FGIC Insurance Company
 125 Park Avenue
 New York, NY 10017
 (212) 312-3000
 (800) 352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Richard M. Reif

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

[Signature]

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having complete jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

**Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent**

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

**Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent**

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APPENDIX K

DUTCH AUCTION PROCEDURES

With respect to the 2003 Bonds bearing Dutch Auction Rates, the capitalized terms not otherwise defined below shall have the meanings set forth in Appendix G of this Official Statement.

Dutch Auction Rate Periods; Dutch Auction Rate; Auction Period

(A) General.

1. During any Dutch Auction Rate Period, the 2003 Bonds shall bear interest at the Dutch Auction Rate determined as set forth in this subsection (A) and in subsections (B), (C), (D), (E) and (F) of the caption “Dutch Auction Rate Periods; Dutch Auction Rate; Auction Period” of this Appendix K. The Dutch Auction Rate for any initial Auction Period immediately after any Conversion to a Dutch Auction Rate Period shall be the rate of interest per annum determined and certified to the Trustee (with a copy to the Authority) by the Market Agent on a date not later than the effective date of such Conversion as the minimum rate of interest which, in the opinion of the Market Agent, would be necessary as of the date of such Conversion to market such 2003 Bonds under Prevailing Market Conditions in a secondary market transaction at a price equal to the principal amount thereof; provided that such interest rate shall not exceed the Maximum Dutch Auction Rate. Except as otherwise provided in the Indenture with respect to the initial Auction Period and in the caption “Dutch Auction Rate Periods; Dutch Auction Rate; Auction Period” of this Appendix K for any other Auction Period, the Dutch Auction Rate shall be the rate of interest per annum that results from implementation of the Dutch Auction Procedures; provided that such interest rate shall not exceed the Maximum Dutch Auction Rate. Except as provided below, if on any Auction Date for any reason an Auction is not held, the Dutch Auction Rate for the next succeeding Auction Period shall equal the Dutch Auction Rate in effect on the date preceding such Auction Date, on and as of such Auction Date. Determination of the Dutch Auction Rate pursuant to the Dutch Auction Procedures shall be suspended upon the occurrence of an Auction Rate Event of Default. Upon the occurrence of an Auction Rate Event of Default on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Dutch Auction Rate shall be equal to the Overdue Rate as determined on and as of the immediately preceding Auction Date for each Auction Period, commencing after the occurrence of such Auction Rate Event of Default and continuing to and including the Auction Period, if any, during which or commencing less than two Business Days after such Auction Rate Event of Default has been cured or waived.

The Dutch Auction Rate for any Auction Period commencing after certificates representing the 2003 Bonds have been distributed pursuant to the caption “DTC Required During Dutch Auction Rate Mode; Limitations on Transfer” of this Appendix K shall be equal to the Maximum Dutch Auction Rate on each Auction Date.

2. Auction Periods may be changed pursuant to the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K at any time unless an Auction Rate Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established pursuant to the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established pursuant to the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K.

3. The Market Agent shall from time to time increase any or all of the percentages set forth in the definition of “Applicable Percentage” or the percentage set forth in the definition of “Minimum Dutch Auction Rate” in order that such percentages take into account any amendment to the Tax Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date of the Indenture which (A) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (B) imposes or would impose or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest on a governmental obligation the interest on which is excludable from federal gross income under Section 103 of the Tax Code. The Market Agent shall give notice of any such increase by means of a written notice

delivered at least two Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Authority and DTC.

4. If the 2003 Bonds bear interest at the Maximum Dutch Auction Rate for the lesser of three consecutive Auction Periods or 35 days, then the Bond Insurer has the right to direct conversion to a different rate and the Authority agrees to take all actions required to implement such conversion upon written notice to do so by the Bond Insurer.

(B) Dutch Auction Rate Period: Change of Auction Period.

1. During a Dutch Auction Rate Period, the Authority may change the length of a single Auction Period or the Standard Auction Period by means of a written notice delivered at least 20 days but not more than 60 days prior to the Auction Date for such Auction Period to the Trustee, the Auction Agent, the Authority, the Broker-Dealer and DTC. Any Auction Period or Standard Auction Period established pursuant to the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K may not exceed 364 days in duration. The length of an Auction Period or the Standard Auction Period may not be changed pursuant to the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

2. The change in length of an Auction Period or the Standard Auction Period shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a Certificate of the Authority, by telecopy or similar means, authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such certificate, and confirming that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel, (b) the Trustee shall not have delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that an Event of Default has occurred and is continuing, (c) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period, and (d) the Trustee and the Auction Agent receive by 9:30 a.m. (New York City time) on the first day of such Auction Period, a Favorable Opinion of Bond Counsel. If the condition referred to in (a) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Dutch Auction Procedures and the next succeeding Auction Period shall be a Standard Auction Period. If any of the conditions referred to in (b), (c) or (d) above is not met, the Dutch Auction Rate for the next succeeding Auction Period shall equal the Maximum Dutch Auction Rate as determined as of the Auction Date for such Auction Period. The Dutch Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions of the caption “Dutch Auction Rate Periods; Dutch Auction Rate; Auction Period” of this Appendix K, and such Auction Periods shall have the same length as the Auction Period in effect prior to such attempted change in length until subsequently changed in accordance with the provisions of the caption “Dutch Auction Rate Period: Change of Auction Period” of this Appendix K.

(C) Dutch Auction Rate Period: Orders by Existing Owners and Potential Owners.

1. Subject to the provisions of the caption “General” of this Appendix K, Auctions shall be conducted on each Auction Date in the manner described in the caption “Dutch Auction Rate Period: Orders by Existing Owners and Potential Owners” of this Appendix K and in the captions “Dutch Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent,” “Dutch Auction Rate Period: Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate” and “Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds.” Prior to the Submission Deadline on each Auction Date during a Dutch Auction Rate Period:

(a) each Existing Owner may submit to the Broker-Dealer information as to:

(1) the principal amount of 2003 Bonds, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Dutch Auction Rate for the next succeeding Auction Period;

(2) the principal amount of 2003 Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell if the Dutch Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Owner; and

(3) the principal amount of 2003 Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Dutch Auction Rate for the next succeeding Auction Period;

(b) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of 2003 Bonds which each such Potential Owner offers to purchase if the Dutch Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (a)(1), (a)(2) or (a)(3) or clause (b) above is hereinafter referred to as an "Order" and each Existing Owner and Potential Owner placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information referred to in clause (a)(i) above is hereinafter referred to as a "Hold Order;" an Order containing the information referred to in clause (a)(ii) or clause (b) above is hereinafter referred to as a "Bid;" and an Order containing the information referred to in clause (a)(iii) above is hereinafter referred to as a "Sell Order."

2. (a) Subject to the provisions of the caption "Dutch Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent" of this Appendix K, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of 2003 Bonds specified in such Bid if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(2) such principal amount or a lesser principal amount of 2003 Bonds to be determined as set forth in subsection (1)(d) of the caption "Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds" of this Appendix K if the Dutch Auction Rate determined pursuant to the Dutch Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(3) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Dutch Auction Rate or such principal amount or a lesser principal amount of 2003 Bonds to be determined as set forth in subsection (2)(c) of the caption "Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds" of this Appendix K if such specified rate shall be higher than the Maximum Dutch Auction Rate and Sufficient Clearing Bids do not exist.

(b) Subject to the provisions of the caption "Dutch Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent" of this Appendix K, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(1) the principal amount of 2003 Bonds specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of 2003 Bonds as set forth in subsection (2)(c) of the caption "Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds" of this Appendix K if Sufficient Clearing Bids do not exist.

(c) Subject to the provisions of the caption “Dutch Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent” of this Appendix K, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(1) the principal amount of 2003 Bonds specified in such Bid if the Dutch Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(2) such principal amount or a lesser principal amount of 2003 Bonds as set forth in subsection (1)(e) of the caption “Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds” of this Appendix K if the Dutch Auction Rate determined on such Auction Date shall be equal to such specified rate.

(D) Dutch Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent.

1. During a Dutch Auction Rate Period each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(a) the name of the Bidder placing such Order;

(b) the aggregate principal amount of 2003 Bonds that are subject to such Order;

(c) to the extent that such Bidder is an Existing Owner:

(1) the principal amount of 2003 Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(2) the principal amount of 2003 Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(3) the principal amount of 2003 Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(d) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner’s Bid.

2. If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

3. If an Order or Orders covering all 2003 Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of 2003 Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent. The Authority, the Trustee and the Auction Agent shall not be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

4. If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of 2003 Bonds held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(a) all Hold Orders shall be considered valid, but only up to and including the principal amount of 2003 Bonds held by such Existing Owner, and, if the aggregate principal amount of 2003 Bonds subject to such Hold Orders exceeds the aggregate principal amount of 2003 Bonds held by such Existing

Owner, the aggregate principal amount of 2003 Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of 2003 Bonds held by such Existing Owner;

(b) (1) any Bid shall be considered valid up to and including the excess of the principal amount of 2003 Bonds held by such Existing Owner over the aggregate principal amount of 2003 Bonds subject to any Hold Orders referred to in paragraph (a) above;

(2) subject to clause (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of 2003 Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of 2003 Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of 2003 Bonds equal to such excess;

(3) subject to clauses (i) and (ii) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of 2003 Bonds, if any, subject to Bids not valid under this paragraph (b) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(c) all Sell Orders shall be considered valid up to and including the excess of the principal amount of 2003 Bonds held by such Existing Owner over the aggregate principal amount of 2003 Bonds subject to valid Hold Orders referred to in paragraph (a) and valid Bids referred to in paragraph (b) above.

5. If more than one Bid for 2003 Bonds is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid for 2003 Bonds with the rate and principal amount therein specified.

6. Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of 2003 Bonds not equal to \$25,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of 2003 Bonds not equal to \$25,000 or an integral multiple thereof shall be rejected.

7. Any Bid submitted by an Existing Owner or Potential Owner specifying a rate lower than the Minimum Dutch Auction Rate shall be treated as a Bid specifying the Minimum Dutch Auction Rate.

8. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

(E) Dutch Auction Rate Period: Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate.

1. Not earlier than the Submission Deadline on each Auction Date during the Dutch Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(a) the excess of the total principal amount of 2003 Bonds over the aggregate principal amount of 2003 Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction 2003 Bonds"); and

(b) from the Submitted Orders whether the aggregate principal amount of 2003 Bonds subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Dutch Auction Rate exceeds or is equal to the sum of:

(1) the aggregate principal amount of 2003 Bonds subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Dutch Auction Rate; and

(2) the aggregate principal amount of 2003 Bonds subject to Submitted Sell Orders, (in the event of such excess or such equality exists (other than because the sum of the principal amounts of 2003 Bonds in clauses (i) and (ii) above is zero because all of the 2003 Bonds are subject to Submitted Hold Orders), such Submitted Bids in clause (b) above are hereinafter reflected to collectively as “Sufficient Clearing Bids”); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the “Winning Bid Rate”) which if:

(1) (i) each Submitted Bid from Existing Owners specifying such lowest rate and (ii) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of 2003 Bonds subject to such Submitted Bids; and

(2) (i) each Submitted Bid from Potential Owners specifying such lowest rate and (ii) all other Submitted Bids from Potential Owners specifying lower rates were accepted, would result in such Existing Owners described in clause (i) above continuing to hold an aggregate principal amount of 2003 Bonds which, when added to the aggregate principal amount of 2003 Bonds to be purchased by such Potential Owners described in clause (ii) above, would be not less than the Available Auction 2003 Bonds.

2. Promptly after the Auction Agent has made the determinations pursuant to subsection (1) of the caption “Dutch Auction Rate Period: Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate” of this Appendix K, the Auction Agent by telecopy, confirmed in writing, shall advise the Authority and the Trustee of the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate and the components thereof on the Auction Date and, based on such determinations, the Dutch Auction Rate for the next succeeding Auction Period as follows:

(a) if Sufficient Clearing Bids exist, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(b) If Sufficient Clearing Bids do not exist (other than because all of the 2003 Bonds are the subject of Submitted Hold Orders), that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Dutch Auction Rate; and

(c) If all of the 2003 Bonds are subject to Submitted Hold Orders, that the Dutch Auction Rate for the next succeeding Auction Period therefor shall be equal to the Minimum Dutch Auction Rate.

(F) Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds. During a Dutch Auction Rate Period, Existing Owners shall continue to hold the principal amounts of 2003 Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to subsection (1) of the caption “Dutch Auction Rate Period: Determination of Sufficient Clearing Bids, Winning Bid Rate and Dutch Auction Rate” of this Appendix K, the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other actions as are set forth below:

1. If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraphs (4) and (5) of the caption “Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds” of this Appendix K,

Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of 2003 Bonds subject to such Submitted Bids;

(b) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of 2003 Bonds subject to such Submitted Bids;

(c) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the aggregate principal amount of 2003 Bonds subject to such Submitted Bids;

(d) each Existing Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of 2003 Bonds subject to such Submitted Bid, unless the aggregate principal amount of 2003 Bonds subject to all such Submitted Bids shall be greater than the principal amount of 2003 Bonds (the "remaining principal amount") equal to the excess of the Available Auction 2003 Bonds over the aggregate principal amount of the 2003 Bonds subject to Submitted Bids described in paragraphs (b) and (c) of this subsection (1), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of 2003 Bonds subject to such Submitted Bid, but only in an amount equal to the principal amount of 2003 Bonds obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of 2003 Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of 2003 Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(e) each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of 2003 Bonds obtained by multiplying the excess of the Available Auction 2003 Bonds over the aggregate principal amount of 2003 Bonds subject to Submitted Bids described in paragraphs (b), (c) and (d) of this subsection (1) by a fraction the numerator of which shall be the aggregate principal amount of 2003 Bonds subject to such Submitted Bid of such Potential Owner and the denominator of which shall be the sum of the principal amount of 2003 Bonds subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

2. If Sufficient Clearing Bids have not been made (other than because all of the 2003 Bonds are subject to Submitted Hold Orders), subject to the provisions of subsection (4) of the caption "Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds" of this Appendix K, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Owners, Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of 2003 Bonds subject to such Submitted Bids;

(b) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Dutch Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the aggregate principal amount of 2003 Bonds subject to such Submitted Bids; and

(c) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Dutch Auction Rate and the Submitted Sell Orders of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell

the 2003 Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of 2003 Bonds obtained by multiplying the aggregate principal amount of 2003 Bonds subject to Submitted Bids described in paragraph (b) of this subsection (2) by a fraction, the numerator of which shall be the aggregate principal amount of 2003 Bonds held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction 2003 Bonds subject to all such Submitted Bids and Submitted Sell Orders.

3. If all 2003 Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

4. If, as a result of the procedures described in subsection (i) or (ii) of the caption “Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds” of this Appendix K, any Existing Owner would be required to sell, or any Potential Owner would be required to purchase, a principal amount of 2003 Bonds that is not equal to \$25,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such 2003 Bonds to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount purchased or sold by each Existing Owner or Potential Owner shall be equal to \$25,000 or an integral multiple thereof.

5. If, as a result of the procedures described in subsection (1) of the caption “Dutch Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction 2003 Bonds” of this Appendix K, any Potential Owner would be required to purchase less than \$25,000 in aggregate principal amount of 2003 Bonds, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate 2003 Bonds for purchase among Potential Owners so that only 2003 Bonds in principal amounts of \$25,000 or an integral multiple thereof are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any 2003 Bonds.

6. Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of 2003 Bonds to be purchased and the aggregate principal amounts of 2003 Bonds to be sold by Potential Owners and Existing Owners on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of 2003 Bonds such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of Auction 2003 Bonds such Broker-Dealer shall receive, as the case may be, 2003 Bonds.

7. Neither the Authority nor any Affiliate thereof may submit an Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Authority may submit Orders in an Auction but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds 2003 Bonds for its own account, it must submit a Sell Order on the next Auction Date with respect to such 2003 Bonds. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

(G) DTC Required During Dutch Auction Rate Mode: Limitations on Transfer.

1. Except as otherwise provided in the caption “DTC Required During Dutch Auction Rate Mode; Limitations on Transfer” of this Appendix K, 2003 Bonds bearing interest at the Dutch Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the DTC Participants.

2. If at any time DTC notifies the Authority and the Trustee that it is unwilling or unable to continue as owner of 2003 Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to DTC is not appointed by the Authority within 90 days after the Authority and the Trustee receive notice or become aware of such condition, as the case may be, the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the 2003 Bonds. 2003 Bonds issued pursuant to the caption “DTC Required During Dutch Auction Rate Mode; Limitations on Transfer” of this Appendix K shall be registered in such names and authorized

denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee. The Trustee shall deliver the 2003 Bonds to the Persons in whose names such 2003 Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the 2003 Bonds is maintained in book-entry-only form by DTC, an Existing Owner may sell, transfer or otherwise dispose of 2003 Bonds only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

Calculation of Maximum Dutch Auction Rate, Minimum Dutch Auction Rate and Overdue Rate

The Auction Agent shall calculate the Maximum Dutch Auction Rate and the Minimum Dutch Auction Rate on each Auction Date. If the ownership of the 2003 Bonds is no longer maintained in book-entry-only form by DTC, the Auction Agent shall calculate the Maximum Dutch Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the 2003 Bonds pursuant to the caption "DTC Required During Dutch Auction Rate Mode; Limitations on Transfer" of this Appendix K. If an Auction Rate Event of Default shall have occurred, the Auction Agent, upon notice thereof; shall calculate the Overdue Rate on the first day of each Auction Period commencing after the occurrence of such Event of Default to and including the Auction Period, if any, commencing less than two Business Days after such Event of Default is cured.

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