SOUTH PLACER WASTEWATER AUTHORITY

CITY OF ROSEVILLE

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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SOUTH PLACER WASTEWATER AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

Page

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Statement of Net Assets 8

Statement of Activities 9

Statement of Cash Flows 10

Notes to Financial Statements 11

Supplementary Information:

Analysis of Rate Stabilization Restricted Net Assets 28

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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 basic financial statements of the South Placer Wastewater Authority, as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Authority'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. 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, 2011, and the change in operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the Unites States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary 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.

Maze & Associates

December 30, 2011

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SOUTH PLACER WASTEWATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

THE AUTHORITY

The Authority is a regional joint venture created by the City of Roseville, Placer County 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 for the construction of the Pleasant Grove Plant, which is estimated to cost $169 million, along with other improvements.

Members contribute Connection Fees they collect from developers as the properties to be served by the Authority 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 are 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 improvements when they are complete.

THE BASIC FINANCIAL STATEMENTS

The Authority's Basic Financial Statements include the Statement of Net Assets, Statement of Activities 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 Activities 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, and debt service payments.

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 2011 HIGHLIGHTS

Statement of Net Assets

The Authority's net assets decreased $4.3 million in 2011 as shown in Table 1 below, as the infrastructure has been transferred to the City of Roseville.

Table 1
Net Assets
As of June 30, 2011 and 2010
(In Millions)

	2011	2010
Assets		
Current Assets:		
Cash and investments	$103.1	$112.5
Other current assets	0.7	2.4
Noncurrent Assets	12.7	13.5
Total Assets	116.5	128.4
Liabilities		
Current Liabilities	3.7	3.9
Long-term liabilities	170.1	177.4
Total Liabilities	173.8	181.3
Net Assets		
Restricted	103.4	111.7
Unrestricted (deficit)	(160.7)	(164.7)
Total Net Assets	($57.3)	($53.0)

The Authority's Net Assets at June 30, 2011 are discussed below:

- Investments of member contributions totaled $103.1 million, all of which were invested in accordance with applicable Authority resolutions and bond indentures.
- Long-term debt decreased net $1.7 million due to 1) the refunding of the 2008 issue and 2) on-going debt service payments.
- Other assets and liabilities included normal business receivables and payables.
- Net assets restricted for rate stabilization totaled $94 million; these net assets are restricted by the Members for use in the funding of debt service payments required under the Authority's bond indentures and future capital expansion. 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 $9.4 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.

- The deficit unrestricted net assets totaling $160.7 million represents net capital construction costs incurred to date in constructing various regional wastewater improvements. The construction in progress has been transferred to the City of Roseville in this amount, as required by the Agreements.

Statement of Activities

The Authority's net assets decreased $4.3 million in fiscal 2011 as shown in Table 2 below.

Table 2
Changes in Net Assets
As of June 30, 2011 and 2010
(In Millions)

	2011	2010
Operating Costs		
Personnel services and administration	$0.3	$0.2
Debt service interest, variable bond interest expense and fiscal agent fees	4.9	4.6
Construction costs	7.6	14.7
Net cost of capital assets	12.8	19.5
Operating loss	(12.8)	(19.5)
Nonoperating Income (Expense)		
Connection fees contributed by members	5.9	7.4
Interest earned on connection fees	0.7	1.4
Interest earned on investments with fiscal agent	0.3	0.3
Net increase/(decrease) in the fair value of investments	(0.2)	(0.2)
Other non-program revenues	1.8	1.6
Total nonoperating income	8.5	10.5
Net Income	(4.3)	(9.0)
Net Assets at Beginning of Year	(53.0)	(44.0)
Net Assets at End of Year	($57.3)	($53.0)

Prior to the completion of the Pleasant Grove Plant, 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. Subsequent to the completion of the Plant, debt service costs are a program expense of the Authority, and not a component of capital costs.

Net capital costs were $12.8 million at June 30, 2011. The following is the breakdown of capital costs:

- Personnel services and administration expenditures of $260 thousand incurred in fiscal 2011 compared to $210 thousand in fiscal 2010.

- Debt service expenditures in this fiscal year were $5.7 million, including $0.8 million for principal repayment, $4.9 million in interest expense and fiscal agent fees.

- Actual construction payments to contractors in fiscal 2011 were $7.6 million, compared to $14.7 million in fiscal 2010, as work on various wastewater improvements is continuing to wind down for the current phase of the system.

The Authority received contributions of $5.9 million from Members in fiscal 2011, representing Connection Fees collected by them from developers of properties in the area to be served by the Authority. This was down from fiscal 2010, which continues to represent a slowdown of development in the area.

Analysis of Rate Stabilization Restricted Net Assets Schedule

The Schedule presented as supplementary information to the financial statements, shows that interest income of $0.7 million was added to Members' balances, a decline of $0.7 million due to low interest rates and a decreased cash balance.

DEBT ADMINISTRATION

At June 30, 2011, the Authority's debt is comprised of 2011 South Placer Wastewater Authority Variable Rate Demand Refunding Wastewater Revenue Bonds, Series A, and Series B, 2011 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series C, and the 2011 South Placer Wastewater Authority SIFMA Index Refunding Wastewater Revenue Bonds, Series D, which are discussed in detail in Note 4 to the financial statements. In addition, the Authority has a swap with Morgan Stanley to synthetically fix the Series A, B, and D bonds.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economic outlook is uncertain as development continues to be slow in the area. Even with the development slowdown, the City and the District are still generating connection revenues. Development in the County has been slower and it has a sizeable negative balance in the Rate Stabilization Fund. All three partners are meeting to resolve this issue. However, the Rate Stabilization Fund still has a healthy balance (19.0 times current debt service) and the mechanics of the funding agreement are working as intended.

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, 2011

ASSETS

Current Assets:	
Investments in City of Roseville Treasury (Note 2)	$11,550,430
Investments (Note 2)	81,975,845
Restricted investments with fiscal agent (Note 2)	9,588,157
Accrued interest receivable	224,869
Due from other governments	487,774
Noncurrent Assets:	
Deferred receivable	1,084,305
Deferred out-flow asset (Note 4)	10,493,981
Unamortized bond origination costs, net	1,092,442
Total Assets	116,497,803

LIABILITIES

Current Liabilities:	
Accounts payable and other liabilities	998,213
Long-term debt (Note 4)	
Due in one year	2,690,000
Long-term liabilities:	
Derivative at fair value (Note 4D)	10,493,981
Long-term debt (Note 4)	
Due in more than one year	159,588,382
Total Liabilities	173,770,576

NET ASSETS (Note 5)

Restricted for:	
Rate stabilization	94,037,938
Debt service	9,392,947
Unrestricted (deficit)	(160,703,658)
Total Net Assets (Deficit)	($57,272,773)

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

PROGRAM EXPENSES:	
Cost of capital assets contributed to City of Roseville (Note 3):	
Construction costs	$7,589,533
Personnel services and administration	260,205
Cost of capital assets contributed to City of Roseville	7,849,738
Debt service interest, variable bond interest and fiscal agent fees	4,945,016
Total program expenses	12,794,754
PROGRAM REVENUES:	
Connection fees contributed by members	5,948,105
Interest earned on connection fees	700,265
Interest earned on investments with fiscal agent	257,192
Net (decrease) in the fair value of investments	(228,144)
Other revenue	500
Total program revenues	6,677,918
Other non-program revenues	1,827,584
Change in net assets	(4,289,252)
Net Assets (Deficit) at beginning of year	(52,983,521)
Net Assets (Deficit) at end of year	($57,272,773)

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to contractors	($9,795,472)
Payments to City of Roseville for personnel services and administration	(260,205)
Interest paid on long-term debt	(5,212,404)
Net cash used by operating activities	(15,268,081)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from members	7,625,317
Principal payments on capital debt	(163,929,000)
Proceeds from issuance of debt	157,365,000
Bond premium	5,240,941
Cost of issuance paid on capital debt	(1,152,613)
Other receipts	500
Cash Flows from Capital and Related Financing Activities	5,150,145
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	747,363
Cash Flows from Investing Activities	747,363
Net decrease in cash and cash equivalents	(9,370,573)
Cash and investments at beginning of year	112,485,005
Cash and investments at end of year	$103,114,432
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	($12,794,754)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Amortization of bond issuance costs	60,171
Amortization of deferred bond premium	(327,559)
Change in assets and liabilities:	
Accounts payable and other liabilities	(2,205,939)
Net cash used by operating activities	($15,268,081)
NONCASH CAPITAL FINANCING ACTIVITIES	
Contribution of construction in progress to the City of Roseville (Note 3)	($7,849,738)
Amortization of bond issuance costs	$60,171
Amortization of deferred bond premium	($327,559)

See accompanying notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

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

The members of the Authority are the City of Roseville, 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

ENTERPRISE FUND

The Authority has only fund which 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 contributions.

E. Issuance Costs

Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as unamortized bond origination costs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

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

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

A. Classification

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

Investments in City of Roseville Treasury	$11,550,430
Investments	81,975,845
Restricted investments with fiscal agent	9,588,157
Total Investments	$103,114,432

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

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

C. Investments Authorized by Debt Agreements

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

(A) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the Agency, provided they are backed by the full faith and credit of the United States of America, as follows:

a. Certificates of beneficial ownership of the Farmers Home Administration
b. Federal Housing Administration debentures
c. Participations certificates of the General Services Administration
d. Guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association
e. Guaranteed Title XI financings of the U.S. Maritime Administration
f. Project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development

(B) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit of the U.S. government agencies:

a. Senior debt obligations of the Federal Home Loan Bank System
b. Participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation
c. Mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association
d. Senior debt obligations of the Student Loan Marketing Association
e. Obligations of the Resolution Funding Corporation
f. Consolidated system-wide bonds and notes of the Farm Credit System.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

	Remaining Maturity (in Months)			
	12 Months Or Less	13 to 24 Months	More Than 60 Months	Total
City of Roseville Investment Pool	$11,550,430			$11,550,430
U.S. Treasury Notes	14,967,791			14,967,791
Federal Agency Securities	7,513,452	$3,692,908	$5,581,182	16,787,542
Forward Delivery Agreements		4,603,895		4,603,895
Money Market Mutual Funds (U.S. Securities)	212,597			212,597
California Asset Management Pool	4,913,353			4,913,353
Local Agency Investment Fund	50,078,824			50,078,824
Total Investments	$89,236,447	$8,296,803	$5,581,182	$103,114,432

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011, these investments had an average maturity of 237 days.

Money market mutual funds were available for withdrawal on demand and at June 30, 2011, had an average maturity of 54 days for the Dreyfus U.S. Treasury Money Market Fund.

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2011, for each investment type as provided by Standard and Poor's investment rating system:

	AAA	AAAm	Total
Investments:			
Federal Agency Securities	$16,787,542		$16,787,542
Forward Delivery Agreements	4,603,895		4,603,895
California Asset Management Pool		$4,913,353	4,913,353
Money Market Mutual Funds (U.S. Securities)		212,597	212,597
Totals	$21,391,437	$5,125,950	26,517,387
Exempt from Credit Rating Disclosure:			
U.S. Treasury Notes			14,967,791
Not Rated:			
Local Agency Investment Fund			50,078,824
City of Roseville Investment Pool			11,550,430
Total Investments			$103,114,432

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the senior issue ratings on Fannie Mae (FNMA) and Freddie Mac (FHLMC) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. Finally, S&P affirmed the short-term issue ratings for these entities at A-1+. As of June 30, 2011, the Authority's investments in these agencies that were subject to the downgrade were as follows: FHLB $2,192,337, FHLMC $5,321,116 and FNMA $9,274,089.

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

The California Government Code stipulates certain percentage limitations on the amount that can be invested in any one issuer as noted on the table at Section B above. The Authority's Investment Policy does not place any further restrictions on the maximum investment in any one issuer. Investments in any one issuer, other than U. S. Treasury securities, money market mutual funds, and the California Local Agency Investment Fund, that represent 5% or more of total Authority investments are as follows at June 30, 2011:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	$5,321,116
Federal National Mortgage Association	Federal Agency Securities	9,274,089

NOTE 3 - CAPITAL ASSETS CONTRIBUTED TO THE CITY OF ROSEVILLE

Capital construction costs incurred by the Authority are transferred annually, in the form of construction in progress, to the City of Roseville, which owns and operates the Regional Wastewater Facilities. Capital construction costs of the Authority, as defined by the Funding Agreement, include personnel services and administration, debt service, and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds. Since the Regional Wastewater Facilities construction project was accepted as complete at the end of fiscal year 2004-2005, the debt service and interest income on unexpended bond proceeds were not a component of the capital construction costs of the Authority during fiscal year 2010-2011.

Costs incurred by the Authority in fiscal year 2010-2011 totaling $7,849,738 were transferred as construction in progress to the City of Roseville as of June 30, 2011.

NOTE 4 - LONG-TERM DEBT

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Current Portion
Revenue Bonds						
2008 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series A variable rate, due 11/1/35	$72,504,000	$72,504,000		$72,504,000		
2008 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series B variable rate, due 11/1/27	92,850,000	91,425,000		91,425,000		
2011 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series A variable rate, due 11/1/35	30,165,000		$30,165,000		$30,165,000	
2011 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series B variable rate, due 11/1/35	30,160,000		30,160,000		30,160,000	
2011 Refunding Wastewater Revenue Bonds, Series C 1.00-5.25%, due 11/1/25	67,040,000		67,040,000		67,040,000	$2,690,000
Add: deferred bond premium cost	5,240,941		5,240,941	327,559	4,913,382	
2011 Refunding Wastewater Revenue Bonds, Series D variable rate (SIFMA rate plus 0.83%), due 11/1/14	30,000,000		30,000,000		30,000,000	
TOTAL		$163,929,000	$162,605,941	$164,256,559	$162,278,382	$2,690,000

B. 2008 South Placer Wastewater Authority Wastewater Refunding Revenue Bonds

On April 3, 2008, the Authority issued Variable Rate Demand Refunding Wastewater Revenue Bonds Series 2008A and 2008B in the original principal amounts of $72,504,000 and $92,850,000 respectively.

The Series 2008A Bonds were issued to refund the remaining outstanding balance of the 2000 Variable Rate Demand Wastewater Revenue Bonds, Series B.

The Series 2008B Bonds were issued to refund the remaining outstanding balance of the 2003 Wastewater Refunding Revenue Bonds. A portion of the proceeds from the Series 2008B Bonds were also used to advance refund the remaining outstanding balance of the 2000 Wastewater Revenue Bonds, Series A by purchasing certain noncallable direct obligations of the United States of America which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Series A Bonds (Refunded Bonds). As a result, the Refunded Bonds are considered to be defeased and the liability for those obligations was removed along with the trust assets from the Authority financial statements.

As of June 30, 2011, the 2008 Bonds were refinanced by 2011 South Placer Wastewater Authority Refunding Revenue Bonds, as discussed in Note 4 C below.

NOTE 4 - LONG-TERM DEBT (Continued)

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

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

The Series 2011ABCD Bonds were issued to refund the remaining outstanding balance of the 2008 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds Series A and Series B, discussed above in Note 4B.

As of June 30, 2011, the total principal and interest remaining to be paid on the Series A, Series B, Series C, and Series D Bonds was $218,469,751. As disclosed in the official statement, net revenues of the respective systems of the members are expected to provide coverage over debt service of 110% over the lives of the Bonds, however the Funding Agreement established a Rate Stabilization Account to be used for the payment of debt service on the Bonds and other costs of the Authority. As discussed in Note 1A, the members' monthly contributions of regional connection fees are deposited into the Rate Stabilization Account, and the Authority pays the debt service and other costs from the Account, based on each member's proportionate share. For fiscal year 2011, $5,791,207 in debt service was paid from the Rate Stabilization Account.

Interest rates on the 2011 Series A and Series B Bonds are reset periodically, using the "put" mechanism described below. The Bonds are periodically subject to repurchase at a purchase price equal to the principal amount thereof plus accrued interest, referred to as a "put". Once a put occurs, a remarketing agent resells Bonds at par by setting new interest rates and repurchase dates. The interest rate at June 30, 2011 was 0.04%. The Authority has obtained Letters of Credit in the amounts of $30,165,000 and $30,000,000 to be used in the event the remarketing agent is unable to resell any 2011A or 2011B Bonds and to ensure the City will not be required to repurchase the 2011A or 2011B Bonds before they mature. The Letters of Credit expire April 7, 2013. The Authority paid $189,951 in fees for the Letters of Credit during the year ended June 30, 2011.

The interest rate of the 2011 Bonds cannot exceed 12% per year and may be converted by the City into commercial paper rate, daily rate, auction rate, or long-term rate, subject to certain conditions defined in the indenture agreements. The Bonds may be prepaid, at a purchase price equal to the principal amount thereof plus accrued interest, at any time provided the interest rate mode are either the weekly rate or daily rate. The Bonds are subject to mandatory prepayment, once the interest rate has been converted to a commercial paper rate, auction rate, or long-term rate, subject to certain conditions defined in the indenture.

NOTE 4 - LONG-TERM DEBT (Continued)

Interest rates on the Series 2011D Bonds will be a per annum rate equal to the Adjusted SIFMA Rate (the sum of the SIFMA Index Rate and an additional interest rate of 0.832%), applied on the basis of the actual number of days in the applicable Interest Period divided by 365 or 366, as applicable. "SIFMA Index" is defined under the Indenture to mean the SIFMA Municipal Swap Index (formerly The Bond Market Association Municipal Swap Index), a seven–day high–grade market index composed of selected tax–exempt variable–rate demand obligations meeting specific criteria. The SIFMA Index is calculated weekly and released each Wednesday afternoon. If at any time the SIFMA Index is not available, there will be used in its place such index as the Trustee, following consultation with the Authority and the Calculation Agent, as applicable for the applicable Interest Rate Period, from time to time determines most closely approximates the SIFMA Index. The interest rate at June 30, 2011 was 0.09%.

The Authority originally entered into a 19 year interest rate swap agreement for the entire amount of the 2008 B Bonds, and as part of the issuance of the 2011 ABCD Bonds, the swap agreement was amended and remains in effect, but the notional amount of the swap is based on the notional amount of the 2008 B Bonds. The payments under the swap are on parity with the 2011 Bonds. The combination of the variable rate bonds and the floating rate swap creates a synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the A and B Bonds at June 30, 2011 was 3.33% and the rate for the D Bonds was 0.92%.

D. Interest Rate Swap Agreement

The Authority entered into an interest swap agreement in connection with the 2008 Refunding Wastewater Revenue Bonds, Series B. The Authority amended the swap with the issuance of the 2011 ABCD Bonds, but the swap continues to be based on the notional amount of the 2008 B Bonds.

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

Terms. The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2011, is included below. The Authority's swap agreement contains scheduled reductions to the outstanding notional amount, which is based on the notional amount of the 2008 Refunding Wastewater Revenue Bonds, Series B.

Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Maturity/ Termination Date
$90,675,000	9/17/2003, amended 4/10/2008	Morgan Stanley Capital Services Inc.	A	3.665%	62% of 1m LIBOR plus 26 bps	11/1/2027

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

NOTE 4 - LONG-TERM DEBT (Continued)

Fair value. Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The Authority has accounted for the change in fair value of the swap as a deferred outflow. As of June 30, 2011, the fair value of the swap was not in favor of the Authority as follows:

	Fair Value	
Related Bond Issue	2011	2010
2011 Refunding Wastewater Revenue Bonds, series A, B, C and D (based on notional amount of 2008 Refunding Wastewater Revenue Bonds, Series B)	($10,493,981)	($12,380,575)

Credit risk. The Authority would be exposed to credit risk on the outstanding swap if the swaps had positive fair values. These amounts may increase if interest rates increase in the future. However, if interest rates decline and fair values of the swaps were to become negative, the Authority would no longer be exposed to credit risk. The Authority will be exposed to interest rate risk only if the counterparty to a swap defaults or if the swap is terminated.

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

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

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

NOTE 4 - LONG-TERM DEBT (Continued)

Rollover Risk. Rollover risk is the risk that the swap associated with a debt issue matures or may be terminated prior to the maturity of the associated debt. When the swap terminates or a termination option is exercised by the counterparty, the Authority will be re-exposed to the risks being hedged by the swap. The swap based on the 2008 Refunding Wastewater Revenue Bonds, Series B, associated with the 2011 A and B Variable Rate Demand Refunding Wastewater Revenue Bonds and 2011 C and D Refunding Wastewater Revenue Bonds, exposes the Authority to rollover risk because the swap terminates on November 1, 2027 while the 2011 A and B mature on November 1, 2035, the 2011 C Bonds mature on November 1, 2025 and the 2011 D Bonds mature on November 1, 2014.

Swap payments and associated debt. Using rates as of June 30, 2011, debt service requirements of the Bonds and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the Year Ending	Variable-Rate and Fixed-Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2012	$2,690,000	$3,689,080	$2,896,562	$9,275,642
2013	3,040,000	3,417,380	2,763,866	9,221,246
2014	3,225,000	3,307,280	2,626,509	9,158,789
2015	3,460,000	3,156,280	2,483,668	9,099,948
2016	3,710,000	2,985,580	2,335,619	9,031,199
2017 - 2021	23,060,000	11,786,901	9,263,241	44,110,142
2022 - 2026	32,590,000	4,853,808	4,661,643	42,105,451
2027 - 2031	40,695,000	453,669	381,090	41,529,759
2032 - 2036	44,895,000	42,575	-	44,937,575
Totals	$157,365,000	$33,692,553	$27,412,198	$218,469,751

NOTE 4 - LONG-TERM DEBT (Continued)

D. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Principal	Interest
2012	$2,690,000	$6,585,642
2013	3,040,000	6,181,246
2014	3,225,000	5,933,789
2015	3,460,000	5,639,948
2016	3,710,000	5,321,199
2017 - 2021	23,060,000	21,050,142
2022 - 2026	32,590,000	9,515,451
2027 - 2031	40,695,000	834,759
2032 - 2036	44,895,000	42,575
Total	157,365,000	$61,104,751
Reconciliation of long-term debt		
Add deferred bond premium costs	4,913,382	
Net long-term debt	$162,278,382	

E. Defeased Bonds

The refunded portion of the 2000 Wastewater Revenue Bonds, Series A were called in November 2010.

NOTE 5 – 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.

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, 2011, 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 6 - RISK MANAGEMENT

The Authority has purchased commercial insurance for general, property and public officials liability. During the fiscal year ended June 30, 2011, the Authority paid $10,862 for current year coverage.

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

Type of Coverage	Coverage Limit	Deductible
Bodily Injury	$1,000,000	$2,500
Property	1,000,000	2,500
Personal Injury	1,000,000	2,500
Automobile Liability	1,000,000	2,500
Public Official Bond	1,000,000	2,500
Crime Bond	10,000,000	2,500
Fire	1,000,000	2,500
Employment Practices Liability	5,000,000	10,000

The Authority has not had any claims as of June 30, 2011.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority 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, 2010	$83,040,697	$35,346,548	($17,357,232)	$101,030,013
Additions July 1, 2010 to June 30, 2011				
Regional Connection fees	3,134,356	2,617,301	196,448	5,948,105
Reimbursement of Attorney fees -- others	271	125	104	500
Interest allocation	589,347	248,705	(137,787)	700,265
Capital construction costs	(4,111,249)	(1,897,384)	(1,580,900)	(7,589,533)
Debt service	(3,137,096)	(1,447,803)	(1,206,308)	(5,791,207)
Administrative costs	(140,952)	(65,052)	(54,201)	(260,205)
Total	(3,665,323)	(544,108)	(2,782,644)	(6,992,075)
Balance at June 30, 2011	$79,375,374	$34,802,440	($20,139,876)	$94,037,938

	Net Assets of	
	Bond Proceeds	Member Contributions
Investments in City of Roseville Treasury		$11,550,430
Investments		81,975,845
Restricted investments with fiscal agent	$9,588,157	
Unallocated gain on investments	314,497	(314,497)
Accrued interest receivable		224,869
Due from other governments		487,774
Deferred receivable		1,084,305
Deferred out-flow asset	10,493,981	
Unamortized bond origination costs	1,092,442	
Accounts payable and other liabilities	(27,425)	(970,788)
Derivative at fair value	(10,493,981)	
Long-term debt:		
Due in one year	(2,690,000)	
Due in more than one year	(159,588,382)	
Net Assets (Deficit)	($151,310,711)	$94,037,938