

SOUTH PLACER WASTEWATER AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the financial statements of the South Placer Wastewater Authority, as of and for the year ended June 30, 2006, 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, 2006, and the change in operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United 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 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.

Maze and Associates

November 22, 2006

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SOUTH PLACER WASTEWATER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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. Construction costs incurred to date as of June 30, 2006, including costs incurred prior to the formation of the Authority that were reimbursed from bond proceeds, were \$ 164.6 million; the Plant was completed for the most part at the end of fiscal 2005.

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 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 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 2006 HIGHLIGHTS

Statement of Net Assets

The Authority's net assets increased \$3.1 million in 2006 as shown in Table 1 below.

Table 1
Net Assets
As of June 30, 2006 and 2005
(In Millions)

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets:		
Cash and investments	\$170.5	\$170.6
Other current assets	<u>2.5</u>	<u>2.2</u>
Total Assets	<u>173.0</u>	<u>172.8</u>
Liabilities		
Current Liabilities	0.6	1.0
Long-term liabilities	<u>168.0</u>	<u>170.5</u>
Total Liabilities	<u>168.6</u>	<u>171.5</u>
Net Assets		
Restricted	158.6	153.3
Unrestricted (deficit)	<u>(154.2)</u>	<u>(152.0)</u>
Total Net Assets	<u><u>\$4.4</u></u>	<u><u>\$1.3</u></u>

The Authority's Net Assets at June 30, 2006 are discussed below:

- Investments of unexpended bond proceeds and member contributions totaled \$170.6 million, all of which were invested in accordance with applicable Authority resolutions and bond indentures.
- Long-term debt declined a net \$2.5 million as principal payments were made timely.
- Other assets and liabilities included normal business receivables and payables.
- Net assets restricted for rate stabilization totaled \$147.0 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 \$11.7 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 \$154.2 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 Activities

The Authority's net assets increased \$3.1 million in fiscal 2006 as shown in Table 2 below.

Table 2
Statement of Activities
As of June 30, 2006 and 2005
(In Millions)

	<u>2006</u>	<u>2005</u>
Program Expenses		
Cost of capital assets contributed to City of Roseville:		
Personnel services and administration	\$0.2	\$0.1
Debt service interest, variable bond interest expense and fiscal agent fees		6.4
Construction costs	4.1	7.5
Interest revenue on bond proceeds		(0.8)
Other revenue		<u>(0.1)</u>
Net cost of capital assets	4.3	13.1
Debt service interest, variable bond interest expense and fiscal agent fees	<u>7.0</u>	
Total program expenses	<u>11.3</u>	<u>13.1</u>
Program Revenues		
Connection fees contributed by members	9.3	10.3
Interest earned on connection fees	4.5	2.8
Interest earned on bond proceeds	0.9	
Net increase (decrease) in the fair value of investments	(0.3)	0.1
Other revenue	<u>0.0</u>	
Total program revenues	<u>14.4</u>	<u>13.2</u>
Change in Net Assets	3.1	0.1
Net Assets at Beginning of Year	<u>1.3</u>	<u>1.2</u>
Net Assets at End of Year	<u><u>\$4.4</u></u>	<u><u>\$1.3</u></u>

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 \$4.3 million at June 30, 2006. The following is the breakdown of capital costs:

- Personnel services and administration expenditures of \$183 thousand incurred in fiscal 2006 compared to \$142 thousand in fiscal 2005.

- Debt service expenditures in the prior year were \$9.4 million, including \$3.0 million for principal repayment, \$6.4 million in interest expense and \$1 thousand in fiscal agent fees. 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. With the completion of the Pleasant Grove Plant at the beginning of the fiscal year, the inclusion of debt service expenditures and construction period interest in capital costs has ceased.
- Actual construction payments to contractors in fiscal 2006 were \$4.1 million, compared to \$7.5 million in fiscal 2005, as work on the Pleasant Grove Plant and other improvements were nearing completion.

With the transfer of \$4.3 million in fiscal 2006, the total amount of capital costs incurred and transferred, in the form of construction in progress, to the City of Roseville to date is \$164.6 million, which is reflected in the financial statements as the deficit balance in unrestricted net assets.

The Authority received contributions of \$9.3 million from Members in fiscal 2006, representing Connection Fees collected by them from developers of properties in the area to be served by the Authority. While slightly lower than the \$10.3 million received in fiscal 2005 due to a leveling of construction, it still shows a high growth rate 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 \$4.5 million was added to Members' balances along with their fiscal 2006 contributions of \$9.3 million, plus \$5.0 million was credited to the Members' balances in the form of reimbursements from Bond Proceeds to fund capital construction and other associated costs.

DEBT ADMINISTRATION

At June 30, 2006, the Authority's debt is comprised of the remaining 2000 South Placer Wastewater Authority Wastewater Revenue Bonds, Series A, the 2000 South Placer Wastewater Authority Variable Rate Demand Wastewater Revenue Bonds, Series B, and the 2003 South Placer Wastewater Authority Refunding Auction Rate-Synthetic Fixed Revenue Bonds, 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, 2006

ASSETS

Current Assets:	
Investments in City of Roseville Treasury (Note 2)	\$21,282,595
Investments (Note 2)	122,900,459
Restricted investments with fiscal agent (Note 2)	26,281,641
Accrued interest receivable	684,162
Due from other governments	<u>1,840,858</u>
 Total Assets	 <u>172,989,715</u>

LIABILITIES

Current Liabilities:	
Accounts payable and other liabilities	630,551
Long term liabilities:	
Long-term debt (Note 4)	
Due in one year	3,225,000
Due in more than one year	<u>164,723,962</u>
 Total Liabilities	 <u>168,579,513</u>

NET ASSETS

Restricted for rate stabilization	146,964,810
Restricted for debt service	11,675,675
Unrestricted (deficit)	<u>(154,230,283)</u>
 Total Net Assets	 <u>\$4,410,202</u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM EXPENSES:

Cost of capital assets contributed to City of Roseville (Note 3):	
Personnel services and administration	\$183,430
Construction costs	<u>4,073,161</u>
Cost of capital assets contributed to City of Roseville	4,256,591
Debt service interest, variable bond interest, and fiscal agent fees expense	<u>6,955,982</u>
Total program expenses	<u>11,212,573</u>

PROGRAM REVENUES:

Connection fees contributed by members (Note 1)	9,279,114
Interest earned on connection fees	4,508,855
Interest earned on investments with fiscal agent	893,945
Net decrease in the fair value of investments	(297,540)
Other revenue	<u>145</u>
Total program revenues	<u>14,384,519</u>
Change in net assets	3,171,946
Net Assets at beginning of year	<u>1,238,256</u>
Net Assets at end of year	<u><u>\$4,410,202</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to contractors	(\$4,436,186)
Payments to City of Roseville for personnel services and administration	(183,430)
Interest paid on debt	<u>(6,468,789)</u>
Net cash used by operating activities	<u>(11,088,405)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from members	8,548,598
Principal payments on debt	(3,095,000)
Other receipts	<u>145</u>
Cash Flows from Capital and Related Financing Activities	<u>5,453,743</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>5,506,952</u>
Cash Flows from Investing Activities	<u>5,506,952</u>
Net decrease in cash and cash equivalents	(127,710)
Cash and investments at beginning of year	<u>170,592,405</u>
Cash and investments at end of year	<u><u>\$170,464,695</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(\$11,212,573)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization	487,193
Change in assets and liabilities:	
Accounts payable and other liabilities	<u>(363,025)</u>
Net cash used by operating activities	<u><u>(\$11,088,405)</u></u>
NONCASH CAPITAL FINANCING ACTIVITIES	
Contribution of construction in progress to the City of Roseville	<u><u>(\$4,256,591)</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.

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

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

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

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 contributions.

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.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

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	\$21,282,595
Investments	122,900,459
Restricted investments with fiscal agent	<u>26,281,641</u>
Total Investments	<u>\$170,464,695</u>

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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years		No Limit	No Limit
U.S. Agency Securities	5 Years		No Limit	No Limit
Mortgage Pass-Through Securities	5 Years		20%	No Limit
Forward Delivery Agreements	N/A	A	No Limit	No Limit
Local Agency Bonds	5 Years		No Limit	No Limit
Repurchase Agreements	30 days		No Limit	No Limit
Banker's Acceptances	180 days		40%	30%
Commercial Paper	270 days	A-1	25%	10%
Medium-Term Notes	5 Years	AA	30%	No Limit
Collateralized Time Deposits	5 Years		No Limit	No Limit
Negotiable Certificates of Deposit	5 Years	AA	30%	No Limit
Local Agency Investment Fund (LAIF)	N/A		No Limit	No Limit
Insured Saving Accounts	N/A		No Limit	No Limit
Money Market Mutual Funds	N/A		20%	10%
Shares in a California Common Law Trust	N/A		No Limit	No Limit
Interest Rate Swaps	N/A		No Limit	No Limit

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by Debt Agreements

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

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	N/A	None AAAm-G, AAAm or Aam	None	None
Money Market Funds	N/A	A-1+	None	None
Certificates of Deposit	360 days	None	None	None
Savings Accounts, Deposit Accounts	N/A	AAA	None	None
Senior Debt Obligations	N/A	AAA	None	None
Deposit Accounts, Federal Funds, and Banker's Acceptances	360 days	A-1, A-1+	None	None
Commercial Paper	270 days, (A)	A-1+	None	None
Money Market Funds	N/A	AAAm-G Highest rating category	None	None
Pre-refunded Municipal Obligations	N/A	A2/A	None	None
General Obligations	N/A	None	None	None
Investment Agreements	N/A	One of two highest rating categories	None	None
State or Municipality Bonds/Notes	N/A	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None
California Asset Management Pool	N/A	None	None	None
Other Permitted Investments	N/A	None	None	None

(A) The 2003 South Placer Wastewater Revenue Bonds commercial paper investments do not have a maximum maturity limitation.

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.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

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)				Total
	12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months	
City of Roseville Investment Pool	\$21,282,595				\$21,282,595
U.S. Treasury Notes	3,005,800	\$10,586,744			13,592,544
Federal Agency Securities	28,062,544	3,279,453	\$8,734,100		40,076,097
Corporate Notes			1,510,596		1,510,596
Forward Delivery Agreements			56,450,906	\$7,110,162	63,561,068
Commercial Paper	4,983,986				4,983,986
Mutual Funds and Money					7,283,786
Market Funds (U.S. Securities)	7,283,786				7,283,786
Local Agency Investment Fund	18,174,023				18,174,023
Total Investments	\$82,792,734	\$13,866,197	\$66,695,602	\$7,110,162	\$170,464,695

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, and at June 30, 2006 was \$30,030 less than the Authority's cost. 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, 2006, these investments have an average maturity of 152 days.

Money market funds are available for withdrawal on demand and at June 30, 2006, have an average maturity of 10 days for the Federated Treasury Obligation Money Market Fund.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2006 for each investment type as provided by Standard and Poor's investment rating system:

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

	AAA	AA-	A+	A-1+	A-1	Total
<i>Investments:</i>						
Federal Agency Securities	\$40,076,097					\$40,076,097
Corporate Notes		\$1,510,596				1,510,596
Forward Delivery Agreements		56,450,906	\$7,110,162			63,561,068
Commercial Paper				\$2,483,056	\$2,500,930	4,983,986
Mutual Funds and Money						
Market Funds (U.S. Securities)	7,283,786					7,283,786
Totals	<u>\$47,359,883</u>	<u>\$57,961,502</u>	<u>\$7,110,162</u>	<u>\$2,483,056</u>	<u>\$2,500,930</u>	117,415,533
<i>Exempt from Credit Rating Disclosure:</i>						
U.S. Treasury Notes						13,592,544
<i>Not Rated:</i>						
Local Agency Investment Fund						18,174,023
City of Roseville Investment Pool						<u>21,282,595</u>
Total Investments						<u>\$170,464,695</u>

F. Concentration of Credit Risk

The California Government Code stipulates certain percentage limitations on the amount that can be invested in any one issuer as noted on the table at Section B above. The Authority's Investment Policy does not place any further restrictions on the maximum investment in any one issuer. Investments in any one issuer, other than U. S. Treasury securities, mutual funds, and the California Local Agency Investment Fund, that represent 5% or more of total Authority investments are as follows at June 30, 2006:

Issuer	Investment Type	Amount
J.P. Morgan	Forward Delivery Agreement	\$56,450,906
Federal Home Loan Mortgage Corporation	Federal agency securities	15,150,610
Federal Home Loan Bank	Federal agency securities	13,328,167
Federal National Mortgage Association	Federal agency securities	11,597,323

G. Basis Swap Agreement

The Authority entered into a 3-year interest-rate swap agreement in the amount of \$56,000,000. The Agreement is used to hedge against the Authority's Forward Delivery Agreement in the same principal amount as identified above. The combination of the Swap Agreement and the Forward Delivery Agreement effectively changes the interest earned on the Forward Delivery Agreement to synthetic fixed rate of 4.93%. The terms, fair value and credit risk of the swap agreement are disclosed below.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Terms. The terms, including the counterparty credit ratings of the outstanding swap, as of June 30, 2006, are included below.

Notional Amount	Effective Date	Counterparty	Credit Rating	Variable Rate Paid	Variable Rate Received	Maturity/ Termination Date
\$56,000,000	11/1/2005	Morgan Stanley Capital Services Inc.	A+	LIBOR minus 22.5 basis point	BMA plus 96 basis point	10/31/2008

Based on the swap agreement, the Authority owes interest calculated at variable rate to the counterparty of the swap that matches the rate received from Forward Delivery Agreement. In return, the counterparty owes the Authority interest based on the variable rate. The notional principal amount of \$56,000,000 is not exchanged; it is only the basis on which the interest payments are calculated.

Fair value. The 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. The 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 or BMA 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 due on the date of each future net settlement on the swap. At June 30, 2006, the fair value of the swap was \$628,354 in favor of the counterparty.

Credit risk. As of June 30, 2006, the Authority was exposed to credit risk on its outstanding swap because the swap had a positive fair value. The Authority is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and the fair value of the swap 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 the 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 on the Forward Delivery Agreement temporarily differs from the variable swap rate received from the counterparty. The Authority does not bear basis risk on its swap. The Authority pays a percentage of LIBOR equal to the actual interest the Authority receives on its underlying Forward Delivery Agreement.

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 positive fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

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 2005, the debt service and interest income on unexpended bond proceeds are not a component of the capital construction costs of the Authority during fiscal year 2006.

Costs incurred by the Authority in fiscal 2006 totaling \$4,256,591 were transferred as construction in progress to the City of Roseville as of June 30, 2006.

NOTE 4 - LONG-TERM DEBT

A. Current Year Transactions and Balances

	Balance June 30, 2005	Retirements	Balance June 30, 2006	Current Portion
Revenue Bonds				
2000 Wastewater Revenue Bonds, Series A, 3.8%-5.5%, due 11/1/10	\$16,475,000	\$2,470,000	\$14,005,000	\$2,575,000
2000 Variable Rate Demand Wastewater Revenue Bonds, Series B, variable rate, due 11/1/35	70,000,000		70,000,000	
2003 Refunding Wastewater Revenue Bonds, variable rate, due 11/1/27	94,800,000	625,000	94,175,000	650,000
Less deferred amount on refunding	(10,718,231)	(487,193)	(10,231,038)	
TOTAL	<u>\$170,556,769</u>	<u>\$2,607,807</u>	<u>\$167,948,962</u>	<u>\$3,225,000</u>

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 rates. On September 17, 2003, \$84,525,000 of the *Series A Bonds* were defeased by the 2003 Wastewater Refunding Revenue Bonds as discussed in Note C below. Remaining principal payments are payable annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2010.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 4 - LONG-TERM DEBT (Continued)

Annual debt service requirements for Series A are shown below:

Year Ending June 30	Principal Repayment	Interest	Total
2007	\$2,575,000	\$551,093	\$3,126,093
2008	2,680,000	440,068	3,120,068
2009	2,795,000	323,725	3,118,725
2010	2,915,000	200,566	3,115,566
2011	3,040,000	68,400	3,108,400
	<u>\$14,005,000</u>	<u>\$1,583,852</u>	<u>\$15,588,852</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 2006 was \$172,905 and the interest rate as of June 30, 2006 for the Bonds was 3.98%. 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
2007		\$2,786,000	\$2,786,000
2008		2,786,000	2,786,000
2009		2,786,000	2,786,000
2010		2,786,000	2,786,000
2011		2,786,000	2,786,000
2012-2016		13,930,000	13,930,000
2017-2021		13,930,000	13,930,000
2022-2026		13,930,000	13,930,000
2027-2031	\$23,710,000	12,381,913	36,091,913
2032-2036	46,290,000	4,443,073	50,733,073
	<u>\$70,000,000</u>	<u>\$72,544,986</u>	<u>\$142,544,986</u>

C. 2003 South Placer Wastewater Authority Wastewater Refunding Revenue Bonds

On September 17, 2003 the Authority issued \$97,000,000 of Wastewater Refunding Revenue Bonds to defease a portion of the 2000A Wastewater Revenue Bonds as discussed above. Revenue bonds are repayable solely from the South Placer Wastewater Authority's revenues. These proceeds were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded Bonds. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1, through November 1, 2027.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 4 - LONG-TERM DEBT (Continued)

The 2003 Wastewater Refunding Revenue Bonds were issued as variable rate bonds. The rate fluctuates according to the market conditions, but is capped at 12%. However, the Authority entered into a 24-year interest rate swap agreement for the entire amount of its 2003 Refunding Revenue bonds. The combination of variable rate bonds and a floating swap effectively changes the Authority's variable interest rate on the bonds to synthetic rate of 3.55%, 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 ratings of the outstanding swap, as of June 30, 2006, are included below. The Authority's swap agreement contains scheduled reductions to outstanding notional amount that are expected to follow scheduled reductions in the associated Bonds.

Notional Amount	Effective Date	Counterparty	Credit Rating	Fixed Rate Paid	Variable Rate Received	Maturity/ Termination Date
\$94,175,000	9/17/2003	Morgan Stanley Capital Services Inc.	A+	3.433%	Lesser of Bond Rate or 62% of 30-day LIBOR	11/1/2027

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

Fair value. Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. At June 30, 2006, the fair value of the swap was \$946,704 in favor of the Authority.

Credit risk. As of June 30, 2006, the Authority was exposed to credit risk on the outstanding swap because the swap had positive fair value. This amount may increase if interest rates increase in the future. However, if interest rates decline and fair value of the swap was 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.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 4 - LONG-TERM DEBT (Continued)

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

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

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

Swap payments and associated debt. Using rates as of June 30, 2006, debt service requirements of the 2003 Bonds and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest	Interest	
2007	\$650,000	\$3,187,217	\$136,527	\$3,973,744
2008	675,000	3,164,550	135,556	3,975,106
2009	700,000	3,141,033	134,549	3,975,582
2010	725,000	3,116,667	133,505	3,975,172
2011	750,000	3,091,450	132,425	3,973,875
2012-2016	21,200,000	13,544,467	580,191	35,324,658
2017-2021	25,375,000	9,572,984	410,067	35,358,051
2022-2026	30,350,000	4,817,517	206,362	35,373,879
2027-2028	13,750,000	393,833	16,870	14,160,703
Totals	<u>\$94,175,000</u>	<u>\$44,029,718</u>	<u>\$1,886,052</u>	<u>\$140,090,770</u>

D. Defeased Bonds

As of June 30, 2006 the outstanding balance for the refunded portion of the 2000 Wastewater Revenue Bonds was \$84,525,000.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

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, 2006, 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, 2006, the Authority paid \$28,869 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	1,000,000	10,000

The Authority has not had any claims as of June 30, 2006.

SOUTH PLACER WASTEWATER AUTHORITY
Notes to the Financial Statements

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The Authority has outstanding contracts related to the construction of the Pleasant Grove Wastewater Treatment Plant and other regional projects totaling \$19,105,000 at June 30, 2006 as follows:

<u>Projects</u>	<u>Amounts</u>
DCWWTP Chlorine to UV	\$667,711
DCWWTP Shop Building	3,844,757
PGWWTP Process Improvements	2,832,215
PGWWTP Expansion	10,725,542
PGWWTP Indirect Portable Reuse	505,221
Master Plan Update	529,865
	<u>\$19,105,311</u>

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, 2005	<u>\$93,813,969</u>	<u>\$42,396,213</u>	<u>\$5,372,381</u>	<u>\$141,582,563</u>
Additions July 1, 2005 to June 30, 2006				
Regional Connection fees	5,245,119	3,176,846	857,149	9,279,114
Reimbursement of construction costs from bond proceeds and other revenue	2,725,512	1,257,851	1,048,041	5,031,404
Interest allocation	2,997,800	1,364,504	146,551	4,508,855
Capital construction costs	(2,206,430)	(1,018,292)	(848,439)	(4,073,161)
Debt service	(4,973,097)	(2,295,135)	(1,912,303)	(9,180,535)
Administrative costs	(99,359)	(45,860)	(38,211)	(183,430)
Total	<u>3,689,545</u>	<u>2,439,914</u>	<u>(747,212)</u>	<u>5,382,247</u>
Balance June 30, 2006	<u>\$97,503,514</u>	<u>\$44,836,127</u>	<u>\$4,625,169</u>	<u>\$146,964,810</u>

	Net Assets of	
	Bond Proceeds	Member Contributions
Investments in City of Roseville Treasury Investments		\$21,282,595
Restricted investments with fiscal agent	\$26,281,641	122,900,459
Unallocated loss on investments	(661,587)	661,587
Accrued interest receivable		684,162
Due from other governments		1,840,858
Accounts payable and other liabilities	(225,700)	(404,851)
Long-term debt:		
Due in one year	(3,225,000)	
Due in more than one year	(164,723,962)	
Net Assets (Deficit)	<u>(\$142,554,608)</u>	<u>\$146,964,810</u>