

**SACRAMENTO COUNTY SANITATION
DISTRICTS FINANCING AUTHORITY**
(A Component Unit of the Sacramento
Regional County Sanitation District)

Independent Auditors' Reports,
Basic Financial Statements,
and Required Supplementary Information

For the Fiscal Year Ended June 30, 2012

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**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sacramento County Sanitation Districts Financing Authority
Sacramento, California

We have audited the accompanying financial statements of the Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (SRCSD), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sacramento County Sanitation Districts Financing Authority, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2014, on our consideration of the Groundwater Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

May 12, 2014

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

This section of the Sacramento County Sanitation Districts Financing Authority (the Authority) presents a discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- In August 2011, the Authority refunded approximately \$85,420,000 of the Series 2001 Bonds by issuing \$77,180,000 Series 2011A Tax Exempt Revenue Bonds. Proceeds of the Series 2011A Bonds were used for the partial refunding of the Series 2001 Bonds. The refunding will result in interest savings of approximately \$14.4 million, with a net present value of \$9.8 million, over the next 17 years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: the basic financial statements and notes to the basic financial statements.

Basic Financial Statements (page 7) are designed to provide readers with a broad overview of the Authority's finances.

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges).

The *Statement of Cash Flows* presents information about the cash receipts and cash payments of the Authority during the year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Authority's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

Notes to the basic Financial Statements (page 11) provide additional information that is essential to a full understanding of the data provided in the Authority's basic financial statements. The notes are included immediately following the basic financial statements within this report.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS

As previously noted, net position may serve over time as a useful indicator of the Authority's financial position. As of June 30, 2012, total assets and deferred outflows exceeded total liabilities by \$32 million. During the fiscal year ended June 30, 2012, net position decreased by \$2 Million.

The following table summarizes the changes between assets, deferred outflows, liabilities, and net position as of June 30, 2012, and 2011:

Condensed Statements of Net Position

(Amounts Expressed in Thousands)

	<u>2012</u>	<u>% Change</u>	<u>2011</u>
Assets:			
Current Assets	\$ 36,173	-0.9%	\$ 36,497
Noncurrent Assets	<u>1,638,441</u>	-1.5%	<u>1,662,664</u>
Total assets	<u>1,674,614</u>	-1.4%	<u>1,699,161</u>
Deferred Outflows	<u>31,994</u>	-5.9%	<u>34,016</u>
Liabilities:			
Current liabilities	36,173	-0.9%	36,497
Noncurrent liabilities	<u>1,638,441</u>	-1.5%	<u>1,662,664</u>
Total liabilities	<u>1,674,614</u>	-1.4%	<u>1,699,161</u>
Total restricted net position	<u>\$ 31,994</u>	-5.9%	<u>\$ 34,016</u>

In fiscal year ended 2012, the total assets decreased by \$24.5 million mainly due to reductions in long term receivables as a result of the scheduled debt service payments. Deferred outflows decreased by \$2 million due to the amortization of deferred charges. Total liabilities decreased by \$24.5 million due to reduction in long term obligations.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The following table summarizes the changes in net position for the fiscal years ended June 30, 2012, and 2011:

Condensed Changes in Net Position

(Amounts Expressed in Thousands)

	<u>2012</u>	% <u>Change</u>	<u>2011</u>
Operating revenues	\$ 60,068	2.9%	\$ 58,365
Operating expenses	<u>(1,216)</u>	-36.0%	<u>(1,900)</u>
Operating income	58,852		56,465
Nonoperating revenues (expenses):			
Interest expense	<u>(60,874)</u>	4.3%	<u>(58,365)</u>
Total revenues (expenses)	<u>(60,874)</u>	4.3%	<u>(58,365)</u>
Income before capital contributions	(2,022)	-6.4%	(1,900)
Change in net position	(2,022)	-6.4%	(1,900)
Net position, beginning of year	<u>34,016</u>		<u>35,916</u>
Net position, end of year	<u>\$ 31,994</u>		<u>\$ 34,016</u>

Total operating income increased by \$365 thousand and total non-operating revenues and expenses increased by approximately \$487 thousand in year ending June 30, 2012.

LONG-TERM DEBT ACTIVITY

Long-term obligations totaled \$1,663 and \$1,687 million at June 30, 2012 and 2011, respectively. These amounts were comprised mainly of revenue bonds issued on behalf of SASD and SRCSD. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2012, and 2011.

**Outstanding Long-term Obligations
(Amounts Expressed in Thousands)**

	<u>2012</u>	<u>2011</u>
SASD Revenue Bonds, Net	\$ 277,403	\$ 282,102
SRCSD Revenue Bonds, Net	1,385,921	1,404,397
Total Long-term obligations	<u>\$ 1,663,324</u>	<u>\$ 1,686,499</u>

Revenue bonds related to SRCSD have decreased by \$18 million and revenue bonds related to SASD have decreased by \$4.7 million during the 2011-12 fiscal year. These changes were the result of scheduled debt service payments.

Additional information on the Authority's long-term debt obligations can be found in Note 5 of the notes to the basic financial statements.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Joseph T. Maestretti, Chief Financial Officer; Sacramento Regional County Sanitation District, 10060 Goethe Road, Sacramento California 95827, or phone (916) 876-6116.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY
(A Component Unit of the Sacramento Regional County Sanitation District)

STATEMENT OF NET POSITION

JUNE 30, 2012

ASSETS:

CURRENT ASSETS:

Loans receivable from SRCSD	\$	20,009,283
Accrued interest receivable from SRCSD		5,119,138
Estimated arbitrage tax due from SRCSD		90,394
Loans receivable from SASD		4,873,989
Accrued interest receivable from SASD		6,080,350
TOTAL CURRENT ASSETS		36,173,154

NONCURRENT ASSETS:

Long-term loans receivable from SRCSD		1,365,911,779
Long-term loans receivable from SASD		272,529,261
TOTAL NONCURRENT ASSETS		1,638,441,040

TOTAL ASSETS

1,674,614,194

DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts on refunding - SRCSD		28,250,296
Deferred amounts on refunding - SASD		3,744,221
TOTAL DEFERRED OUTFLOWS OF RESOURCES		31,994,517

LIABILITIES:

CURRENT LIABILITIES:

Bond interest payable - SRCSD		5,119,138
Current portion of long-term obligations - SRCSD		20,009,283
Estimated arbitrage tax rebate - SRCSD		90,394
Bond interest payable - SASD		6,080,350
Current portion of long-term obligations - SASD		4,873,989
TOTAL CURRENT LIABILITIES		36,173,154

NONCURRENT LIABILITIES:

Long-term bond obligations - SRCSD		1,365,911,779
Long-term bond obligations - SASD		272,529,261
TOTAL NONCURRENT LIABILITIES		1,638,441,040

TOTAL LIABILITIES

1,674,614,194

NET POSITION:

Restricted for SRCSD debt service		28,250,296
Restricted for SASD debt service		3,744,221
TOTAL NET POSITION	\$	31,994,517

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY
(A Component Unit of the Sacramento Regional County Sanitation District)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

OPERATING REVENUES:

Base payment from SRCSD	\$	45,877,664
Base payment from SASD		14,190,666
Total operating revenues		60,068,330

OPERATING EXPENSES:

Bond Issuance Costs - SRCSD		1,216,556
Total operating expenses		1,216,556

Operating income		58,851,774
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NONOPERATING REVENUES (EXPENSES):

Interest expense - SRCSD		(47,702,527)
Contribution from - SRCSD		1,216,556
Interest expense - SASD		(14,387,730)
Total nonoperating revenues (expenses)		(60,873,701)

Income (loss)		(2,021,927)
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Change in net position		(2,021,927)
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Net position, beginning of year		34,016,444
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Net position, end of year	\$	31,994,517
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SACRAMENTO COUNTY SANITATION DISTRICTS
FINANCING AUTHORITY
(A Component Unit of the Sacramento Regional County Sanitation District)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from SRCSD, principal portion	\$ 18,085,000
Cash received from SRCSD, interest portion	45,446,396
Issuance costs - SRCSD	(1,216,556)
Cash received from SASD, principal portion	4,285,000
Cash received from SASD, interest portion	14,663,728
Net cash provided by operating activities	<u>81,263,568</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

SRCSD Principal payments on long-term debt	(18,085,000)
SRCSD Interest payments on long-term debt	(45,446,396)
SRCSD Proceeds from issuance of long-term obligations	77,180,000
SRCSD Premium from long-term obligations	9,456,556
SRCSD Payment to escrow agent for refunded debt	(85,420,000)
SASD Principal payments on long-term debt	(4,285,000)
SASD Interest payments on long-term debt	(14,663,728)
Net cash used by non-capital financing activities	<u>(81,263,568)</u>

Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>-</u></u>

RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING INCOME:

Operating income	\$ 58,851,774
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Interest receivable from SRCSD	(431,267)
Loans receivable from SRCSD	18,085,000
Interest receivable from SASD	59,072
Loans receivable from SASD	4,698,989
Net cash provided by operating activities	<u><u>\$ 81,263,568</u></u>

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

1. REPORTING ENTITY

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (SRCSD), was created pursuant to a Joint Exercise of Powers Agreement with the SRCSD and the Sacramento Area Sewer District (SASD), in October 1993 for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for SRCSD and SASD. This is the first year that the Authority is preparing financial statements in accordance with general accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The fiscal agent, as trustee for the bondholders, is required to maintain separate funds for specified activities. The accompanying basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

The Authority uses the accounting principles applicable to enterprise funds. The Authority uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's operations. The principal operating revenues of the Authority are loan payments from SRCSD and SASD.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Statement of Cash Flow

For purposes of the statement of cash flow, the Authority considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources until that time. Deferred amounts on refunding were \$28,250,295 and \$3,744,221 for SRCSD and SASD, respectively. Amortization of deferred amounts on refunding is computed using the straight-line method over the life of the related obligation.

New Accounting Pronouncements

GASB Statement No. 60 – In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is to improve financial reporting by addressing issues related to service concession arrangements. This Statement is not effective until the fiscal year ending June 30, 2013. The Authority has early implemented this statement as of July 1, 2011.

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The objective of this Statement is to improve financial reporting for governmental financial reporting entities. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for report component units as if they were part of the primary government in certain circumstances. This Statement is not effective until the fiscal year ending June 30, 2013. The Authority has early implemented this statement as of July 1, 2011.

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This Statement is not effective until the fiscal year ending June 30, 2013. The Authority has early implemented this statement as of July 1, 2011.

Governmental Accounting Standard No. 63

In June 2011, the GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The objective of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2011. This Authority early implemented this statement as of July 1, 2011.

Governmental Accounting Standard No. 65

In March 2012, the GASB issued Statement No. 65, *Item Previously Reported as Assets and Liabilities*. This Statement sets forth criteria to properly classify previously reported assets and liabilities as deferred outflows or inflows or resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This statement is for periods beginning after December 15, 2012. The Authority has early implemented this statement as of July 1, 2011.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

3. LOAN TO PARTICIPATING AGENCIES

As stated in note #1 the Authority was created pursuant to a Joint Exercise of Powers Agreement (JPA) with SRCSD and SASD, in October 1993 for the purpose of facilitating the financing of acquisition and /or constructing of real and personal property in and for SRCSD and SASD.

In return, SRCSD and SASD and the JPA have entered into master installment agreements to repay these funds and interest, as well as repay the Authority for any costs incurred such as bond issuance and discounts costs. Such repayments, net of any interest earned by the Authority, are required to be sufficient to cover the Authority's debt service requirements on the bonds. As such, the set repayment schedules are consistent with the long-term liabilities repayment schedule. The balance of the loans as of June 30, 2012, is \$1,391,040,200 and \$283,483,600 for SRCSD and SASD respectively.

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
Loan receivable - SRCSD	\$ 1,404,397,313	\$ 86,240,119	\$ (104,716,370)	\$ 1,385,921,062
Interest accrual - SRCSD	5,176,903	5,119,138	(5,176,903)	5,119,138
Subtotal - SRCSD	<u>1,409,574,216</u>	<u>91,359,257</u>	<u>(109,893,273)</u>	<u>1,391,040,200</u>
Loan receivable - SASD	282,102,239		(4,698,989)	277,403,250
Interest accrual - SASD	6,139,423	6,080,350	(6,139,423)	6,080,350
Subtotal - SASD	<u>288,241,662</u>	<u>6,080,350</u>	<u>(10,838,412)</u>	<u>283,483,600</u>
Total	<u>\$ 1,697,815,878</u>	<u>\$ 97,439,607</u>	<u>\$ (120,731,685)</u>	<u>\$ 1,674,523,800</u>

4. NET POSITION

The net position as reported on the Authority's financial reports consists of \$28,250,296 and \$3,744,221 for SRCSD and SASD respectively, and is restricted for debt service.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT

Long-term debt at June 30, 2012 consisted of the following:

	<u>2012</u>
SRCS D Revenue Bonds:	
2011 Series Refunding Bonds	\$ 85,707,171
2010 Series Refunding Bonds	90,193,070
2008 Series Subordinate Refunding Bonds	250,000,000
2007 Series Refunding Bonds	452,711,525
2006 Series Revenue Bonds	303,790,423
2005 Series Refunding Bonds	61,387,024
2004 Series A Revenue Bonds	5,010,759
2001 Series Refunding Bonds	37,121,090
2000 Series C Subordinate Lien Revenue Bonds	100,000,000
	<hr/>
Total long-term debt -SRCS D	1,385,921,062
Less current portion - SRCS D	(20,009,283)
Long-term portion - SRCS D	<hr/> 1,365,911,779 <hr/>
SAS D Revenue Bonds:	
2005 Series Revenue Bonds	150,507,302
2010A/B Series Revenue Bonds	126,895,948
	<hr/>
Total long-term debt - SAS D	277,403,250
Less current portion - SAS D	(4,873,989)
Long-term portion - SAS D	<hr/> 272,529,261 <hr/>
Total Long-term portion - Authority	<hr/> <u>\$ 1,638,441,040</u> <hr/>

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

SRCS D - Letter of Credit

The Series 2000 C Subordinate Lien Variable Rate Revenue Bonds is secured by an irrevocable direct pay Letter of Credit (LC). The current LC provider for this issue is Bank of America. The LC is drawn down by the amount necessary to pay the Bondholders the principal and interest at each interest payment date. The funds received from the Authority are used to reimburse Bank of America for the LC draw for the amount of principal and interest plus the draw fee of \$250.00 per draw. The line of credit maintains a constant balance of \$100,000,000. The letter of credit is valued at \$100,000,000 through March 25, 2015.

The Series 2008 A and E Variable Rate Revenue Bonds is secured by an irrevocable direct pay LC. The current LC provider for this issue is J.P. Morgan Chase. The LC is drawn down by the amount necessary to pay the Bondholders the principal and interest at each interest payment date. The funds received from the Authority are used to reimburse J.P. Morgan Chase for the LC draw for the amount of principal and interest plus the draw fee of \$300.00 per draw. The line of credit maintains a constant balance of \$100,440,000. The letter of credit is valued at \$100,440,000 through June 20, 2013.

The Series 2008 C Variable Rate Revenue Bonds is secured by an irrevocable direct pay LC. The current LC provider for this issue is Bank of America. The LC is drawn down by the amount necessary to pay the Bondholders the principal and interest at each interest payment date. The funds received from the Authority are used to reimburse Bank of America for the LC draw for the amount of principal and interest plus the draw fee of \$250.00 per draw. The line of credit maintains a constant balance of \$50,000,000. The letter of credit is valued at \$50,000,000 through July 20, 2012. The Authority receives a 30 day extension through July 20, 2012 from the current LC provider, Bank of America, see subsequent event footnote.

The Series 2008 B and D Variable Rate Revenue Bonds is secured by an irrevocable direct pay LC. The current LC provider for this issue is Morgan Stanley Bank. The LC is drawn down by the amount necessary to pay the Bondholders the principal and interest at each interest payment date. The funds received from the Authority are used to reimburse Morgan Stanley Bank for the LC draw for the amount of principal and interest plus the draw fee of \$0.00 per draw. The line of credit maintains a constant balance of \$100,000,000. The letter of credit is valued at \$100,000,000 thru June 20, 2014.

SRCS D - 2011A Series Refunding Bonds

In August 2011, the Authority refunded approximately \$85,420,000 of the 2001 Bonds by issuing \$77,180,000 Series 2011 A Refunding Bonds. The Series 2011 A Refunding Bonds carry a fixed interest rate ranging from 4.000% to 5.000% and mature serially commencing in fiscal year 2022 through 2027. Proceeds of these bonds were used to partially refund the Series 2001 Refunding Bonds. The Authority completed current refunding to reduce its future total debt service payments by approximately \$14.4 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$9.9 million. Unamortized premium was \$8,527,171 and deferred amount on refunding was \$3,004,376 at June 30, 2012.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

SRCS D - 2010A and 2010B Series Revenue Bonds

In October 2010, the Authority issued Series 2010 A Tax Exempt Revenue Bonds in the amount of \$49,450,000 and Series 2010 B Taxable Revenue Bonds in the amount of \$50,495,000. The Series 2010 A Tax Exempt Revenue Bonds carry a fixed interest rate ranging from 0.400% to 5.000% and Series 2010 B Taxable Revenue Bonds carry a fixed interest rate ranging from 1.030% to 3.389%. The Series 2010 A bonds mature serially commencing in fiscal year 2011 through 2015 and the Series 2010 B Bonds mature serially commencing in fiscal year 2011 through 2017. Proceeds of these bonds were used to refund the remaining balance of the Series 2000 A Bonds. The related swap was not terminated. The current refunding of the 2000 A Bonds refunding certificates resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,799,733. This difference, reported in the accompanying financial statements as a deduction from certificates of participation payable, is being charged to operations through the year 2018 using the effective interest method. The Authority completed the current refunding to reduce its total debt service payments by approximately \$11.1 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$10.8 million. Unamortized premium was \$3,413,070 and deferred amount on refunding was \$2,849,799 at June 30, 2012.

SRCS D - 2009 Defeasance

During the year ending June 30, 2010 the Authority authorized a cash defeasance of debt service in the amount of \$22,660,000 to the 2004A, 2005 and 2006 Bonds, decreasing debt service over the next five years. SRCS D purchased State and Local Government Securities (SLGS) and deposited the funds in three separate escrow funds held by Union Bank of California as trustee that will be used to pay the principal payments as they become due. As a result of the refunding portions of the 2004A, 2005 and 2006 Bonds are considered legally defeased and the liability for the defeased portion of the bonds along with the escrow account assets have been removed from the Statements of Net Position according to the schedule. The outstanding balance at June 30, 2012 is \$14,130, to be applied to the 2006 Bonds.

SRCS D - 2008 Series Refunding Bonds

In June 2008, the Authority issued Series 2008 A (refunded by 2013 B Bonds Series Refunding Bonds) Refunding Bonds in the amount of \$51,305,000, Series 2008 B Refunding Bonds in the amount of \$50,000,000, Series 2008 C (refunded by 2012 A Series Refunding Bonds) Refunding Bonds in the amount of \$50,000,000, Series 2008 D Refunding Bonds in the amount of \$50,000,000, and Series 2008 E (refunded by 2013 A Series Refunding Bonds) Refunding Bonds in the amount of \$50,000,000. Bond proceeds were used to refund \$250,000,000 million principal amount of the Authority's outstanding Subordinate Lien Variable Rate Revenue Bonds, Series 2004 B 1 to 5, to fund a reserve fund for the Series 2008 Bonds and to pay costs of issuance incidental to the issuance of the Series 2008 Bonds.

Net proceeds of the Series 2008 Bonds amounting to \$250,607,153 were deposited to the escrow fund held by Union Bank of California and used to defease all prior Series 2004 B bonds. As a result, the refunded Series 2004 B Bonds are considered defeased and the liability for the defeased bonds along with the escrow account assets have been removed from the statement of net position. The outstanding defeased balance on the 2004 B Bonds at June 30, 2012 is zero.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

The Series 2008 A thru E Refunding Bonds bear interest at a variable interest rate which is established daily for the Series 2008 A thru D and weekly for the Series 2008 E bonds. The refunded bonds are considered defeased and have been removed from the Authority's financial statements. The Authority effectively increased its aggregate debt service payments over the next 33 years by \$76,778,994 and received an economic loss (difference between the present values of the old and new debt service payments) of \$42,053,486. The Authority refunded its 2004B bonds as the auction rate security market was no longer viable and the Authority determined that it should no longer hold this type of debt. Unamortized deferred amount on refunding was \$2,045,410 at June 30, 2012.

SRCS D - 2007A and 2007B Series Refunding Bonds

In February 2007, the Authority issued Series 2007 A Refunding Bonds in the amount of \$89,915,000 and Series 2007 B Refunding Bonds in the amount of \$353,450,000. The Series 2007 A Refunding Bonds carry fixed interest rates ranging from 4.00% to 5.25%. The Series 2007 B Refunding Bonds bear interest at a variable interest rate which is established at each quarterly interest payment date based on 67% of the Three-Month LIBOR Rate plus a per annum spread of 0.53%, providing the resulting interest rate never exceed 12%. The variable rate at June 30, 2013 was 0.714%. Concurrently with the issuance of the bonds, SRCS D entered into an interest rate swap in the notional amount of the Series 2007 B Refunding Bonds whereby SRCS D pays the swap counterparty the fixed rate of 4.152% and receives a floating amount equal to the debt service requirements. The Series 2007 A Refunding Bonds mature serially commencing in fiscal year 2016 through 2036. The 2007 B Series Refunding Bonds mature serially commencing in fiscal year 2025 through 2036. Proceeds of the Series 2007 A and B Refunding Bonds were used to: i) advance refund \$456,865,000 of the outstanding principal of Series 2004 A Revenue Bonds (the refunded bonds); ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds.

The bonds were issued at a premium and \$485,933,906 of the proceeds, including reserve fund and available debt service monies related to the refunded bonds, was deposited in an irrevocable trust to retire the refunded bonds as they come due in fiscal year 2016 through 2036; \$456,865,000 of such defeased bonds are outstanding as of June 30, 2012. . Unamortized premium related to the Series 2007 A and B Refunding Bonds was \$9,346,525 at June 30, 2012; unamortized deferred amount on refunding was \$15,164,198 at June 30, 2012.

SRCS D - 2006 Series Revenue Bonds

In July 2006, the Authority issued Series 2006 Revenue Bonds in the amount of \$338,960,000. Interest rates range from 4.00% to 5.00%. The bonds mature serially from December 2007 through December 2031. Proceeds of these bonds were to be used to: i) finance improvements to the wastewater conveyance, treatment and disposal system; ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds. The bonds were issued at a premium. Unamortized premium was \$8,140,423 at June 30, 2012.

During the year ending June 30, 2010 the Authority authorized a cash defeasance of debt service on the 2006 Bonds in the amount of \$20,910,000. The Authority purchased State and Local Government Securities (SLGS) and deposited the funds in an escrow fund held by Union Bank of California to be applied to the principal payments as they become due through December 1, 2014.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

SRCS D - 2005 Series Refunding Bonds

In September 2005, the Authority issued Series 2005 Refunding Bonds in the amount of \$61,220,000. Interest rates range from 3.00% to 5.00%. The bonds mature serially through 2024. Proceeds of these bonds were to be used to: i) advance refund \$56,470,000 of the outstanding principal of Series 2000A Revenue Bonds as they come due in fiscal year 2019 through 2024; (ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds. Unamortized premium was \$2,022,024 and unamortized deferred amount on refunding was \$4,994,541 at June 30, 2012.

SRCS D - 2004A Series Revenue Bonds

In November 2004, the Authority issued Series 2004 A Revenue bonds for \$470,160,000 to fund its 200 4 Projects. Interest rates for Series 2004 A Revenue bonds range from 2.0% to 5.0%. Series 2004 A Revenue Bonds mature serially commencing in 2006 through 2015. Proceeds from this these debt issues were used to; i) pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements of SRCS D's sanitation system; ii) pay for the costs of issuance of the bonds, and iii) fund the reserve requirements for the bonds. Unamortized premium was \$155,759 at June 30, 2012. \$456,865,000 of the Series 2004 A Revenue Bonds were advance refunded the Series 2007 A and B Refunding Bonds. Proceeds of the Series 2007 A and B Refunding Bonds were used to: i) advance refund \$456,865,000 of the outstanding principal of Series 2004 A Revenue Bonds (the refunded bonds); ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds.

SRCS D - 2001 Series Refunding Revenue Bonds

In June 2001, the Authority issued the Series 2001 Refunding Revenue bonds. These bonds funded an escrow sufficient to solely provide for the payment of interest on these newly issued Series 2001 Refunding Bonds as it became due on and prior to December 1, 2005 (also known as the "Crossover Date") and a portion of the principal of the Series 2000 A Revenue Bonds. Principal payments are due serially commencing on December 1, 2006 through 2027 with interest rates ranging from 4.00% to 5.50%. On the Crossover Date, the escrow deposit of \$121,953,020 was used to refund \$120,145,000 of Series 2000 A Revenue Bonds.

In August 2011, the Authority refunded approximately \$85,420,000 of the 2001 bonds by issuing \$77,180,000 Series 2011A Tax Exempt Revenue Bonds. Proceeds were used for a current refunding, as a result a portion of the 2001 bonds are considered to be refunded and the liability for those bonds has been removed from the Authority's financial statements. Unamortized discount was \$163,910 and unamortized deferred amount on refunding was \$368,699 at June 30, 2012.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

SRCS D - 2000 Series Revenue Bonds

In June 2000, the Authority issued the Series 2000 A Revenue Bonds in the amount of \$390,563,095, Series 2000 B Refunding bonds in the amount of \$12,973,543 and Series 2000 C Subordinate Lien Variable Rate Revenue Bonds in the amount of \$100,000,000. Interest rates for the Series 2000 A Revenue bonds range from 4.60% to 6.00% and Series 2000 C rates are set by Bank of America Securities LLC on a weekly basis according to market trends, 0.060% and 0.022% at June 30, 2013 and 2012, respectively. Final payment on the Series 2000 B Revenue bonds was made in December of 2003. Proceeds from these debt issues were used to; i) advance refund all of the outstanding amounts of the Series 1993 and Series 1995 Revenue Bonds; and ii) finance the acquisition and construction of new facilities. The Series 2000 A Revenue Bonds are payable and secured by a pledge of and lien on the net revenues of SRCSD. The Series 2000 C Variable Rate Revenue Bonds are secured by a pledge of and lien on the net revenues of SRCSD subordinate to the claims of the bondholders of the Series 2000 A Revenue Bonds and any additional parity revenue bonds subsequently issued by the Authority.

The portion of the proceeds of the Series 2000 A and Series 2000 B Revenue Bonds used to refund the Series 1993 and Series 1995 Revenue Bonds was irrevocably deposited with an escrow agent and applied to purchase certain investments permitted by the escrow agreement, the principal and interest on which will be sufficient to pay principal, interest and redemption premium, if any, when due with respect to the Series 1993 and Series 1995 Revenue Bonds. As a result, the Series 1993 and Series 1995 Revenue Bonds are considered to be in-substance defeased and the liability for those bonds has been removed from the Authority's financial statements. On June 30, 2012, \$117,475,000 and \$47,505,000 of the Series 1993 and Series 1995 defeased Revenue Bonds, respectively, were outstanding.

SRCS D - Maturity Schedule

Future debt service requirements on the SRCSD revenue bonds at June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal years ending June 30:			
2013	\$ 17,960,000	\$ 56,724,889	\$ 74,684,889
2014	22,600,000	56,128,496	78,728,496
2015	23,425,000	55,296,993	78,721,993
2016	29,310,000	54,277,263	83,587,263
2017	30,580,000	53,009,838	83,589,838
2018-2022	177,380,000	240,583,125	417,963,125
2023-2027	236,955,000	188,641,279	425,596,279
2028-2032	315,215,000	129,068,889	444,283,889
2033-2037	301,055,000	58,101,291	359,156,291
2038-2041	200,000,000	11,410,300	211,410,300
	<hr/>	<hr/>	<hr/>
	1,354,480,000	903,242,362	2,257,722,362
Plus net unamortized discounts and premiums	31,441,062	-	31,441,062
	<hr/>	<hr/>	<hr/>
	\$ 1,385,921,062	\$ 903,242,362	\$ 2,289,163,424
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SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

The interest requirements, for the purpose of the maturity schedule above, for the SRCSD's Variable rate debt, related to the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds are based on the estimated rate of 3.800%, the Series 2007 B Variable Rate Refunding Bonds are based on a rate of 4.152%, and the Series 2008 A thru E Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 2.996% for the 2008A and C, 2.987% for the 2008 B and D , 2.917% for the 2008 E.

SASD - 2010 Series Revenue Bonds

In August 2010, the Authority issued \$110,690,000 Revenue Bonds, Series 2010A Federally Taxable Direct Subsidy Build America Bonds and \$15,930,000 Revenue Bonds, Series 2010B. The bond proceeds were then loaned to SASD. The bonds mature serially from August 2011 through August 2040. Interest rates for the Series A Bonds range from 6.125% to 6.325%, principal payments ranging from \$1,440,000 to \$16,175,000 with the first payment starting in 2026 and ending in 2040. Interest rates for the Series B Bonds range from 2.5% to 5.0%, principal payments ranging from \$820,000 to \$1,180,000 with the first payment starting in 2011 and ending in 2021. The proceeds were used to finance improvements to the collection system to reduce or eliminate potential sewer overflows, serve new growth, and to purchase capital improvements completed by the Authority.

SASD - 2005 Series Revenue Bonds

In June 2005, the Authority issued the 2005 Series Revenue Bonds in the amount of \$165,620,000 with interest rates ranging from 2.65% to 4.25%, principal payments ranging from \$2,855,000 to \$8,750,000 with the first payment starting in 2006 and ending in 2036, net of premium of \$11,266,047. Proceeds from this debt issue were used to advance refund all outstanding 2000 Revenue Bonds and the remaining amounts were loaned to SASD to finance the acquisition and construction of new facilities. On June 30, 2012, \$42,760,000 of the 2000 defeased Revenue Bonds was outstanding.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

SASD - Maturity Schedule

Future debt service requirements on Financing Authority bonds as of June 30, 2012 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,460,000	\$ 14,491,841	\$ 18,951,841
2014	4,635,000	14,316,609	18,951,609
2015	4,820,000	14,130,778	18,950,778
2016	5,050,000	13,902,128	18,952,128
2017	5,295,000	13,657,453	18,952,453
2018-2022	30,715,000	64,037,840	94,752,840
2023-2027	39,155,000	55,583,428	94,738,428
2028-2032	49,815,000	44,326,439	94,141,439
2033-2037	62,840,000	28,839,923	91,679,923
2039-2041	60,885,000	7,900,083	68,785,083
	<u>267,670,000</u>	<u>271,186,522</u>	<u>538,856,522</u>
Plus net unamortized gain, discounts, and premiums,	9,733,250	-	9,733,250
	<u>\$ 277,403,250</u>	<u>\$ 271,186,522</u>	<u>\$ 548,589,772</u>

Bond Covenants

Pursuant to various agreements and resolutions entered into by the SASD, SRCSD and the Authority related to its Revenue Bonds, SASD and SRCSD are required to abide the following provisions:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the Revenue Bonds will be used by the SASD and SRCSD to pay the costs of financing or refinancing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees, and charges will be fixed and collected at an amount sufficient to yield adjusted annual net revenues, as defined, equal to at least the amount required by the coverage requirement, as defined by the Master Installment Purchase Contract, for the fiscal year.

For the year ended June 30, 2012 the SASD and SRCSD were in compliance with the preceding covenants.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

5. LONG-TERM DEBT (Continued)

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. The estimated amount payable to the U.S. Treasury for excess investment income related to SRCSD's long-term obligations through June 30, 2012 and 2011 is \$90,394 and \$903,940, respectively. The ultimate liability to be paid to the U.S. Treasury will fluctuate based upon the timing of construction draw-downs and changing investment yields.

Changes in Long-Term Bond Obligations

Changes in long-term bond obligations for the fiscal years ended June 30, 2012 were as follows:

Premium and discount, which are recorded as part of long term bond obligation, are amortized over the remaining life of the old debt or over the life of the new debt, whichever is shorter, using the straight line method.

	<u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>	<u>Due Within One year</u>
SASD - Revenue Bonds	\$ 271,955,000	\$ -	\$ (4,285,000)	\$ 267,670,000	\$ 4,460,000
Plus premium	10,147,239	-	(413,989)	9,733,250	413,989
Total - SASD	<u>282,102,239</u>	<u>-</u>	<u>(4,698,989)</u>	<u>277,403,250</u>	<u>4,873,989</u>
SRCSD Revenue Bonds	1,380,805,000	77,180,000	(103,505,000)	1,354,480,000	17,960,000
Plus (less):					
Premium (discounts)	23,592,313	9,060,119	(1,211,370)	31,441,062	2,049,283
Total - SRCSD	<u>1,404,397,313</u>	<u>86,240,119</u>	<u>(104,716,370)</u>	<u>1,385,921,062</u>	<u>20,009,283</u>
Total	<u>\$ 1,686,499,552</u>	<u>\$ 86,240,119</u>	<u>\$ (109,415,359)</u>	<u>\$ 1,663,324,312</u>	<u>\$ 24,883,272</u>

6. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Authority's financial reporting process. Future standards which may impact the Authority include the following:

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – and amendment of GASB Statements No. 10 and 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is not effective until the fiscal year ending June 30, 2014. The Authority has not determined the effect of this Statement.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by State and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. This Statement is not effective until the fiscal year ending June 30, 2014. The Authority has not determined the effect of this Statement.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until the fiscal year ending June 30, 2015. The Authority has not determined the effect of this Statement.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is not effective until the fiscal year ending June 30, 2015. The Authority has not determined the effect of this Statement.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by State and local governments that extend and receive nonexchange financial guarantees. The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is not effective until the fiscal year ending June 30, 2014. The Authority has not determined the effect of this Statement.

GASB Statement No. 71 - In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for financial statements for periods beginning after June 15, 2014. This statement's objective is to address an issue regarding application of the transition provisions of *Statement No. 68, Accounting and Financial Reporting for Pensions*, and to improve financial reporting by state and local governmental pension plans. The Authority has not determined its effect on the financial statements

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

7. SUBSEQUENT EVENTS

On July 12, 2012, the Authority refunded approximately \$50,000,000 of the SRCSD Subordinate Lien Variable Rate 2008 C Bonds by issuing \$50,000,000 Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. Interest on the bond is a variable rate at 70% of one month LIBOR plus 60 basis points, the bonds mature on December 1, 2038. The refunding does not affect the underlying interest rate swap agreement.

The Series 2008 C Variable Rate Revenue Bonds were secured by an irrevocable direct pay Letter of Credit (LC). The current LC was replaced with a Direct Purchase by Wells Fargo and will be held for three years resulting in a saving of approximately \$870,000 over the three year period.

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OTHER REPORTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Sacramento County Sanitation Districts Financing Authority
Sacramento, California

We have audited the financial statements of the Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (SRCSD), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 12, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Groundwater Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Groundwater Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
May 12, 2014