

**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 Year Ended June 30, 2016

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016, and the changes in its financial position and thereof cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 15, 2016

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (formerly known as the District) (Regional San), was created pursuant to a Joint Exercise of Powers Agreement with the District 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 the Regional San and SASD. This section presents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2016. Please read it in conjunction with the Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- On January 6, 2016, the Authority completed a second early escrow liquidation of the Series 1993 defeased Revenue Bonds in the amount of \$23,670,000, saving approximately \$3.9 million.
- In May 2016, the \$50,000,000 Series 2013A Bonds was redeemed early. The original maturity of the bonds was December 1, 2040.
- In April 2015, the State Water Resources Control Board approved a financing program for the Authority's EchoWater Project in the amount of approximately \$1.6 billion for eight component projects. Interest rates on the component projects ranges from 1.6 to 2.3 percent. Start dates from March 2015 to January 2018 with completion dates from August 2016 to March 2022. Repayment for each component project to begin one year after completion of construction. As of June 30, 2016, the Authority's outstanding loan balance is \$57,031,340.

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 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 deteriorating.

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 10) 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, 2016

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, 2016, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$37.0 million. During the fiscal year ended June 30, 2016, net position decreased by \$4.5 million.

The following table summarizes the changes between assets, deferred outflows, liabilities, and net position as of June 30, 2016, and 2015:

Condensed Statements of Net Position

(Amounts Expressed in Thousands)

	<u>2016</u>	<u>% Change</u>	<u>2015</u>
Assets:			
Current Assets	\$ 45,025	4.4%	\$ 43,129
Noncurrent Assets	<u>1,596,056</u>	-1.8%	<u>1,624,598</u>
Total assets	<u>1,641,081</u>	-1.6%	<u>1,667,727</u>
Deferred Outflows	<u>38,530</u>	-7.1%	<u>41,485</u>
Liabilities:			
Current liabilities	45,025	4.4%	43,129
Noncurrent liabilities	<u>1,596,056</u>	-1.8%	<u>1,624,598</u>
Total liabilities	<u>1,641,081</u>	-1.6%	<u>1,667,727</u>
Deferred Inflows	<u>1,553</u>	100.0%	<u>-</u>
Net position:			
Restricted net position	<u>36,977</u>	-10.9%	<u>41,485</u>
Total net position	<u>\$ 36,977</u>	-10.9%	<u>\$ 41,485</u>

In fiscal year ended 2016, the total assets decreased by \$26.6 million mainly due to the net change in long term receivables. Long term receivables decreased due to \$50 million in bonds being paid off early, \$30.1 million in scheduled debt payments and offset by \$57.9 million increase in the Authority's loan balance from the State Revolving Loan. Deferred outflows decreased by \$3.1 million due to the amortization of deferred charges. Deferred inflows increased by 1.6 million due the issuance of the SASD 2015 bonds offset by \$77 thousand due to the amortization of deferred credits. Total liabilities decreased by \$26.6 million due to a net decrease in long term obligations.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The following table summarizes the changes in net position for the fiscal years ended June 30, 2016, and 2015:

Authority's Changes in Net Position

(Amounts Expressed in Thousands)

	<u>2016</u>	<u>% Change</u>	<u>2015</u>
Operating revenues	\$ 39,195	-50.3%	\$ 78,870
Operating expenses	<u>-</u>	100.0%	<u>(3,350)</u>
Operating income	39,195		75,520
Nonoperating revenues (expenses):			
Interest expense	<u>(43,703)</u>	-170.5%	<u>61,986</u>
Total revenues (expenses)	<u>(43,703)</u>	-170.5%	<u>61,986</u>
Change in net position	(4,508)	133.3%	13,534
Net position, beginning of year	<u>41,485</u>		<u>27,951</u>
Net position, end of year	<u>\$ 36,977</u>		<u>\$ 41,485</u>

Total operating income decreased by approximately \$36.3 million. \$19.5 million of the decrease was due to loss of refunding from the Series 2014A and 2015B bonds in the 2015 year. The remaining decrease is attributable to smaller interest payments for the 2016 year due to early payoff of bonds and refundings of bonds. Total non-operating revenues and expenses decreased by approximately \$18.3 million in the year ending June 30, 2016.

LONG-TERM DEBT ACTIVITY

Long-term obligations totaled \$1,632 and \$1,659 million at June 30, 2016 and 2015, respectively. These amounts were comprised of SASD and the Regional San's revenue bonds and the State Revolving Loan. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2016, and 2015.

Authority's Outstanding Long-term Obligations

(Amounts Expressed in Thousands)

	<u>2016</u>	<u>2015</u>
SASD Revenue Bonds, Net	\$ 174,791	\$ 176,056
Regional San Revenue Bonds and Loans, Net	1,457,675	1,483,190
Total Long-term obligations	<u>\$ 1,632,466</u>	<u>\$ 1,659,246</u>

Revenue bonds and loans related to the Regional San have decreased by approximately \$26.8 million. The decrease was a result of \$50 million in bonds being paid off early, \$30.1 million in scheduled debt payments and an offset of \$57.9 million increase in the Authority's loan balance from the State Revolving Loan. Revenue bonds related to SASD have decreased by approximately \$1.3 million during the 2015-16 fiscal year. These changes were the result of scheduled debt service payments of \$920 thousand and bond premium amortization of \$345 thousand.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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 Regional San, 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, 2016

ASSETS:	
CURRENT ASSETS:	
Loans receivable from Regional San	\$ 35,115,335
Accrued interest receivable from Regional San	4,643,372
Loans receivable from SASD	1,295,155
Accrued interest receivable from SASD	3,971,524
TOTAL CURRENT ASSETS	45,025,386
NONCURRENT ASSETS:	
Long-term loans receivable from Regional San	1,422,559,970
Long-term loans receivable from SASD	173,495,990
TOTAL NONCURRENT ASSETS	1,596,055,960
TOTAL ASSETS	1,641,081,346
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts on refunding - Regional San	38,529,726
TOTAL DEFERRED OUTFLOWS OF RESOURCES	38,529,726
LIABILITIES:	
CURRENT LIABILITIES:	
Bond interest payable - Regional San	4,643,372
Current portion of long-term obligations - Regional San	35,115,335
Bond interest payable - SASD	3,971,524
Current portion of long-term obligations - SASD	1,295,155
TOTAL CURRENT LIABILITIES	45,025,386
NONCURRENT LIABILITIES:	
Long-term bond obligations - Regional San	1,422,559,970
Long-term bond obligations - SASD	173,495,990
TOTAL NONCURRENT LIABILITIES	1,596,055,960
TOTAL LIABILITIES	1,641,081,346
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows on loan refunding - SASD	1,552,583
NET POSITION:	
Restricted for debt service - Regional San	38,529,726
Restricted for SASD debt service	(1,552,583)
TOTAL NET POSITION	\$ 36,977,143

See accompanying notes to the basic financial statements.

**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, 2016

OPERATING REVENUES:	
Base payment from Regional San	\$ 31,646,163
Base payment from SASD	7,549,413
Total operating revenues	<u>39,195,576</u>
Operating income	<u>39,195,576</u>
NONOPERATING REVENUES (EXPENSES):	
Interest expense - Regional San	(34,601,261)
Interest expense - SASD	(9,101,996)
Total nonoperating revenues (expenses)	<u>(43,703,257)</u>
Change in net position	(4,507,681)
Net position, beginning of year	<u>41,484,824</u>
Net position, end of year	<u>\$ 36,977,143</u>

See accompanying notes to the basic financial statements.

**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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from Regional San, principal portion	\$ 30,065,000
Cash received from Regional San, interest portion	35,268,548
Cash paid to the Regional San for bond issuance	(57,868,521)
Cash received from Regional San for refunded debt	50,000,000
Cash received from SASD, principal portion	920,000
Cash received from SASD, interest portion	7,471,783
Net cash provided by operating activities	65,856,810
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Regional San Principal payments on long-term debt	(30,065,000)
Regional San Interest payments on long-term debt	(35,268,548)
Regional San Proceeds from issuance of long-term obligations	57,868,521
Regional San Payment to escrow agent for refunded debt	(50,000,000)
SASD Principal payments on long-term debt	(920,000)
SASD Interest payments on long-term debt	(7,471,783)
Net cash used by non-capital financing activities	(65,856,810)
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	-
 RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING INCOME:	
Operating income	\$ 39,195,576
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization from SASD	(77,629)
Change in assets and liabilities:	
Interest receivable from Regional San	(1,732,182)
Loans receivable from Regional San	27,551,045
Loans receivable from SASD	920,000
Net cash provided by operating activities	\$ 65,856,810

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. REPORTING ENTITY

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (formerly known as the District) (Regional San), was created pursuant to a Joint Exercise of Powers Agreement with the Regional San 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 the Regional San and SASD.

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 base payments from Regional San 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 accompany notes. Actual results could differ from those estimates.

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 \$38,529,726 and \$0 for Regional San and SASD, respectively. Amortization of deferred amounts on refunding is computed using the straight-line method over the life of the related obligation.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and thus, will not be recognized as an inflow of resources until that time. Deferred amounts on refunding were \$0 and \$1,552,583 for Regional San and SASD, respectively. Amortization of deferred amounts on refunding is computed using the straight-line method over the life of the related obligation.

3. LOAN TO PARTICIPATING AGENCIES

As stated in note #1 the Authority was created pursuant to a Joint Exercise of Powers Agreement (JPA) with Regional San 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 Regional San and SASD.

In return, Regional San 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, 2016, is \$1,462,318,677 and \$178,762,668 for Regional San and SASD respectively.

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016
Loan receivable - Regional San	\$ 1,483,189,938	\$ 57,868,521	\$ (83,383,154)	\$ 1,457,675,305
Interest accrual - Regional San	4,947,603	4,643,372	(4,947,603)	4,643,372
Subtotal - Regional San	<u>1,488,137,541</u>	<u>62,511,893</u>	<u>(88,330,757)</u>	<u>1,462,318,677</u>
Loan receivable - SASD	176,056,299	-	(1,265,154)	174,791,145
Interest accrual - SASD	3,533,080	3,971,524	(3,533,080)	3,971,524
Subtotal - SASD	<u>179,589,379</u>	<u>3,971,524</u>	<u>(4,798,234)</u>	<u>178,762,669</u>
Total	<u><u>\$ 1,667,726,920</u></u>	<u><u>\$ 66,483,417</u></u>	<u><u>\$ (93,128,991)</u></u>	<u><u>\$ 1,641,081,346</u></u>

4. NET POSITION

The net position as reported on the Authority's financial reports consists of \$38,529,726 and \$(1,552,583) for Regional San 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, 2016

5. LONG-TERM DEBT

The Authority's long-term debt at June 30, 2016 consisted of the following:

	<u>2016</u>
Regional San Revenue Long-Term Debt:	
2014 B Series Taxable Refunding Bonds	\$ 60,790,000
2014A Series Refunding Bonds	430,690,181
2013D Series Subordinate Refunding Bonds	50,000,000
2013C Series Subordinate Refunding Bonds	50,000,000
2013B Series Subordinate Refunding Bonds	50,000,000
2012A Series Subordinate Refunding Bonds	50,000,000
2011 Series Refunding Bonds	83,575,378
2010 Series Refunding Bonds	17,427,690
2007 Series Refunding Bonds	449,490,627
2006 Series Revenue Bonds	21,750,840
2001 Series Refunding Bonds	36,082,067
2000 Series C Subordinate Lien Revenue Bonds	100,000,000
Clean Water State Revolving Fund	57,868,522
	<hr/>
Total long-term debt - Regional San	1,457,675,305
Less current portion - Regional San	(35,115,335)
Long-term portion - Regional San	<hr/> <u>1,422,559,970</u>
SASD Revenue Bonds:	
2010A/B Series Revenue Bonds	123,222,131
2015 Series Revenue Bonds	51,569,014
	<hr/>
Total long-term debt - SASD	174,791,145
Less current portion	(1,295,155)
Long-term portion - SASD	<hr/> <u>173,495,990</u>
Total Long-term portion	<hr/> <u>\$ 1,596,055,960</u>

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

**State Water Resources Control Board
Division of Financial Assistance**

On April 7, 2015 at the State Water Resources Control Board (State Water Board) meeting the State Water Board approved the Deputy Director of the Division of Financial Assistance to provide Clean Water State Revolving Fund (CWSRF) program financing to the Sacramento County Sanitation Districts Financing Authority (Authority) for the Echo Water Project. The EchoWater Project is estimated to be in eight construction phases and is estimated to take place over the next several years, starting in March 2015 and ending in February 2022. The total cost of the project is estimated at approximately \$1.6 billion. Pursuant to CWSRF Policy, the interest rate for a construction financing agreement is established by the earlier of the date that the Division of Financial Assistance (Division) initiates preparation of the financing agreement or the date the financing is approved by the State Water Board.

Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction. The combined financing agreements of approximately \$1.6 billion with thirty year terms and rates estimated to be from 1.6 percent to 2.3 percent not to exceed 2.3 percent. The interest rate for the associated financing agreements for each component would be the rate otherwise in effect at the time that each financing agreement is prepared. These component projects vary in their start dates from March 2015 to January 2018 and completion dates from August 2016 to March 2022.

The amount of existing debt will be on parity with the CWSRF debt and the Master Installment Purchase Contract because it provides adequate security for financing. It allows parity debt if the net revenues equal at least 1.2 times the total debt service.

A separate reserve fund shall be maintained for the full term of the financing agreements equal to one year's debt service on all associated financing agreements by completion of construction. The State Water Board reserves the right to add new or modify existing conditions to the commitment in the future, as required by state or federal law or agreements.

Seven of the eight components of the EchoWater Project have been approved at an interest rate of ranging from 1.6% to 1.7% over a 30 year life. As of June 30, 2016, there was \$57,868,621 in draws that have been processed related to any component of the EchoWater Project.

The table below shows the estimated costs related to each of the eight EchoWater Projects components.

EchoWater Project Component	CWSRF Number	Estimated Cost/Maximum Loan Amount	Loan balance at 6/30/2016	Interest rate	Construction Start Date	Estimated Construction Completion Date
Site Preparation	C-06-8025-110	\$ 43,949,856	\$ 28,414,441	1.6%	Mar-15	Aug-16
Flow Equalization	C-06-8025-120	138,672,372	25,150,033	1.6%	Mar-15	Feb-18
Main Electrical Substation Expansion	C-06-0825-130	3,439,831	242,274	1.6%	Aug-15	May-16
Disinfection Chemical Storage	C-06-8025-140	21,465,759	3,257,984	1.6%	Sep-15	Aug-16
Nitrifying Sidestream Treatment	C-06-8025-150	53,490,845	803,790	1.6%	Jan-16	Jan-19
Biological Nutrient Removal Facility	C-06-8025-160	534,869,431	-	1.7%	Apr-16	Dec-20
RAS Pumping Station	C-06-8025-170	35,187,701	-	1.7%	Jul-16	Mar-19
Tertiary Treatment Facility	C-06-8025-180	533,142,603	-	1.7%	Jun-18	Mar-22
Total EchoWater CWSRF Loan		\$1,364,218,398	\$57,868,522			

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

Regional San - Letter of Credit

The Series 2000 C Subordinate Lien Variable Rate Revenue Bonds (the Series 2000C Bonds”) are secured by an irrevocable direct pay Letter of Credit (LOC). The current LOC provider for the Series 2000C Bonds is Bank of America, N.A. The LOC is drawn down by the amount necessary to pay the bondholders the principal and interest due on each interest and principal payment date. The funds received by the Trustee from the Regional San are used to reimburse Bank of America for the amount of the LOC draw plus the draw fee of \$250.00 per draw. The LOC maintains a constant balance of \$100,000,000. The LOC current value committed remains constant at \$100,000,000 through March 25, 2018.

Regional San - Direct Purchase Arrangements

The \$50 million Series 2013 C and \$50 million Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds (the “Series 2013 C and D Bonds”) refunded the Series 2008 B and D Variable Rate Revenue Bonds on November 13, 2013. The Series 2008 B and D Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 C and D Bonds were purchased directly by Bank of America Preferred Funding Corporation (BofA). Pursuant to its direct purchase of the Series 2013 C and D Bonds, BofA will hold the Bonds for three years through November 13, 2016. BofA cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. The Series 2013 C and D Bonds will bear interest at a floating rate equal to SIFMA plus 52.5 bps per annum for the duration of the three year direct purchase arrangement. On or before November 13, 2016 Regional San and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2013 C and D Bonds. The Authority estimates that the direct purchase arrangement with BofA will result in a savings to Regional San of approximately \$1,140,000 over the three year period, compared with the cost of the LOC that supported the 2008 B and D Bonds.

The \$50 million Series 2012 A Subordinate Lien Variable Rate Refunding Revenue Bonds (the “Series 2012 A Bonds”) refunded the Series 2008 C Variable Rate Revenue Bonds in July 2012. The 2008 C Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2012 A Bonds were purchased directly by Wells Fargo Bank (WFB). Pursuant to its direct purchase of the Series 2012 A Bonds, WFB will hold the Bonds for three years through July 2018. WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. The Series 2012 A Bonds will bear interest at a floating rate equal to SIFMA times 70% plus 45 bps per annum for the duration of the three year direct purchase arrangement. On or before July 2018 Regional San and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2012 A Bonds. Regional San estimates that the direct purchase arrangement with WFB will result in a savings to Regional San of approximately \$870,000 over the three year period, compared with the cost of the LOC that supported the 2008 C Bonds.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

The \$50 million Series 2013 B Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 B Bonds") refunded the 2008 A Variable Rate Revenue Bonds on May 30, 2013. The Series 2008 A Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 B Bonds were purchased directly by Wells Fargo Bank (WFB). Pursuant to its direct purchase of the Series 2013 B Bonds, WFB will hold the Bonds for three years through May 30, 2016. On May 1, 2016, the direct purchase agreement was amended to extend the agreement for an additional three years through May 27, 2019. WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement.

For the original agreement, the Series 2013 B Bonds will bear interest at a floating rate equal to SIFMA times 70% plus 50 bps per annum for the duration of the three year direct purchase arrangement. The amended agreement, effective May 25, 2016, will bear interest at a floating rate equal to SIFMA times 70% plus 45 bps per annum for the duration of the three year direct purchase arrangement. Regional San estimates that the amended direct purchase arrangement with WFB will result in a savings to Regional San of approximately \$75,000 over the three year period, compared with the cost of the original agreement that supported the 2008 A Bonds.

The \$50 million Series 2013 A Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 A Bonds") refunded the 2008 E Variable Rate Revenue Bonds on May 30, 2013. The 2008 E Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 A Bonds were purchased by RBC Capital Markets, LLC which sold them pursuant to a Limited Offering Transaction to Royal Bank of Canada (RBC). Pursuant to its direct purchase of the Series 2013 A Bonds, RBC held the Bonds for three years through May 30, 2016. During the term of the agreement, RBC could not put the bonds back to the Authority or Regional San during the term of the agreement. This eliminated the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. The Series 2013 A Bonds will bear interest at a floating rate equal to SIFMA plus 50 bps per annum for the duration of the three year direct purchase arrangement. On May 31, 2016, the Series 2013A Bond was redeemed which eliminated the need for the direct purchase arrangement to be renewed.

Regional San – 2014B Series Refunding Bonds

In November 2014, the Sacramento County Sanitation Districts Financing Authority (Authority) issued the 2014 B Series Taxable Refunding Bonds senior lien bonds in the amount of \$61,895,000 with interest rates ranging from 0.5% to 3.2%, principal payments ranging from \$1,105,000 to \$10,830,000 with the first payment starting in 2015 and ending in 2023. Proceeds from this debt issue were used to advance refund \$58,730,000 of the tax-exempt Series 2005 Revenue Bonds. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$4.3 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.8 million. Unamortized deferred amount on refunding was \$5,316,517 at June 30, 2016.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

Regional San – 2014A Series Revenue Bonds

In July 2014, Regional San (through the Authority) issued the 2014 A Series Revenue Bonds in the amount of \$378,510,000 with interest rates ranging from 3.0% to 5.0%, principal payments ranging from \$7,400,000 to \$36,250,000 with the first payment starting in 2016 and ending in 2044, net of premium of \$55,778,814. Proceeds from this debt issue were used to advance refund \$260,600,000 of the Series 2006 Revenue Bonds and to pay certain costs of preliminary planning design, construction and related activities in connection with the implementation of facilities and upgrades to the Sanitation System. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$29.9 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$21.6 million. Unamortized premium was \$52,180,181 and deferred amount on refunding was \$15,872,329 at June 30, 2016.

Regional San - 2013D Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 D Bonds by issuing \$50,000,000 Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of the weekly SIFMA rate plus 52.5 basis points. Unamortized deferred amount on refunding was \$352,657 at June 30, 2016. Proceeds on the Series 2013 D Bonds were used for the refunding of the 2008 A Series Bonds.

Regional San - 2013C Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 B Bonds by issuing \$50,000,000 Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of the weekly SIFMA rate plus 52.5 basis points. Unamortized deferred amount on refunding was \$352,657 at June 30, 2016. Proceeds on the Series 2013 C Bonds were used for the refunding of the 2008 B Series Bonds.

Regional San - 2013B Series Refunding Bonds

In May 2013, the Authority refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 A Bonds by issuing \$50,000,000 Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 1 month LIBOR times 70% plus 50 basis points. Unamortized deferred amount on refunding was \$352,657 at June 30, 2016. Proceeds on the Series 2013 B Bonds were used for the refunding of the 2008 A Series Bonds.

Regional San - 2013A Series Refunding Bonds

In May 2013, the Authority refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 E Bonds by issuing \$50,000,000 Series 2013 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of the weekly SIFMA rate plus 50 basis points. Unamortized deferred amount on refunding was \$0 at June 30, 2016. Proceeds on the Series 2013 A Bonds were used for the refunding of the 2008 E Series Bonds. In May 2016, the bond was redeemed early and the outstanding balance at June 30, 2016 was \$0.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

Regional San - 2012A Series Refunding Bonds

In July 2012, the Authority refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 C Bonds by issuing \$50,000,000 Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 1 month LIBOR times 70% plus 45 basis points. Unamortized deferred amount on refunding was \$352,657 at June 30, 2016. Proceeds on the Series 2012 A Bonds were used for the refunding of the 2008 C Series Bonds.

Regional San - 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. Unamortized premium was \$6,395,378 and deferred amount on refunding was \$2,120,736 at June 30, 2016.

Regional San - 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 terminated February 2013. Unamortized premium was \$1,137,690 and the deferred amount on refunding was \$949,933 at June 30, 2016.

Regional San - 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, 2015 was 0.720%. Concurrently with the issuance of the bonds, Regional San entered into an interest rate swap in the notional amount of the Series 2007 B Refunding Bonds whereby Regional San pays the swap counterparty the fixed rate of 4.152% and receives a floating amount equal to the debt service requirements (see Note 3). 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.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

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 Series 2004 A refunded bonds as they come due in fiscal year 2016 through 2036; \$454,765,000 of such defeased bonds were outstanding as of June 30, 2016. Unamortized premium related to the Series 2007 A and B Refunding Bonds was \$7,755,627 at June 30, 2016; unamortized deferred amount on refunding was \$12,583,058 at June 30, 2016.

Regional San - 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 \$620,840 at June 30, 2016.

During the year ended June 30, 2015, \$260,600,000 of the Series 2006 Revenue Bonds were advanced refunded by the escrow deposit funded by the 2014 A Series Revenue Bonds. The principal balance after the advanced refunding was \$30,830,000. The escrow is sufficient to provide for the payment of principal and interest on the advanced refunded portion of the Series 2006 Revenue Bonds. The portion of the bond that was advanced refunded was called for redemption on June 1, 2016. As a result, a portion of the Series 2006 Revenue Bonds has been removed from the Authority's financial statements.

Regional San - 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 the 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 \$122,933 and unamortized deferred amount on refunding was \$276,524 at June 30, 2016.

Regional San - 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, 0.400% at June 30, 2016. Final payment on the Series 2000 B Revenue bonds was made in December of 2003.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

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 Regional San. The Series 2000 C Variable Rate Revenue Bonds are secured by a pledge of and lien on the net revenues of Regional San 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, 2016, \$54,935,000 and \$0 of the Series 1993 and Series 1995 defeased Revenue Bonds, respectively.

In November 2014, the Authority executed an escrow liquidation of the Series 1993 defeased Revenue Bonds. The amount of the early liquidation was \$8,375,000 saving approximately \$4.8 million. There was a second early escrow liquidation of the Series 1993 defeased Revenue Bonds on January 6, 2016 in the amount of \$23,670,000, saving approximately \$3.9 million.

Regional San - Maturity Schedule

Future debt service requirements on the Authority's revenue bonds at June 30, 2016 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	31,797,181	57,744,948	89,542,128
2018	33,145,576	56,394,376	89,539,953
2019	35,368,917	55,370,057	90,738,974
2020	36,878,300	53,853,740	90,732,040
2021	38,504,157	52,239,800	90,743,957
2022-2026	231,591,647	232,898,056	464,489,703
2027-2031	304,582,329	178,058,125	482,640,454
2032-2036	297,660,062	109,424,651	407,084,713
2037-2041	231,739,560	48,407,964	280,147,524
2042-2046	146,235,924	14,601,397	160,837,321
2047-2051	2,204,868	55,178	2,260,046
	<u>1,389,708,521</u>	<u>859,048,292</u>	<u>2,248,756,813</u>
Plus net unamortized discounts and premiums	67,966,785	-	67,966,785
	<u>\$ 1,457,675,305</u>	<u>\$ 859,048,291</u>	<u>\$ 2,316,723,597</u>

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

The interest requirements, for the purpose of the maturity schedule above, for the Authority's Variable rate debt, related to the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds are based on the estimated rate of 3.687%, the Series 2007 B Variable Rate Refunding Bonds are based on a rate of 4.152%, the Series 2013 C Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 3.444%, the Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 3.439%, and the Series 2012A, 2013A and 2013B Subordinate Lien Variable Rate Refunding Bonds are based on the estimated rate of 3.290%, 3.414% and 3.340%, respectively and are included in the maturity schedule.

SASD 2015 Series Revenue Bonds

In May 2015, the Authority issued \$45,435,000 2015 Series Revenue Bonds. The bonds proceeds were placed in an irrevocable trust. The bonds mature serially from August 2025 through August 2035. Interest rates for the Series 2015 range from 3.000% to 5.000%, principal payments range from \$3,260,000 to \$5,115,000 with the first payment starting in August 2025 and ending in August 2035. SASD paid \$70.3 million toward the refunding. The refunding resulted in an economic gain of \$6.2 million.

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.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

SASD - Maturity Schedule

Future debt service requirements on Authority's SASD revenue bonds as of June 30, 2016 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	950,000	9,512,659	10,462,659
2018	990,000	9,473,859	10,463,859
2019	1,030,000	9,428,309	10,458,309
2020	1,085,000	9,380,859	10,465,859
2021	1,130,000	9,330,910	10,460,910
2022-2026	9,665,000	45,815,359	55,480,359
2027-2031	26,610,000	41,181,107	67,791,107
2032-2036	51,650,000	31,073,278	82,723,278
2037-2041	74,605,000	12,184,954	86,789,954
	<u>167,715,000</u>	<u>177,381,294</u>	<u>345,096,294</u>
Plus net unamortized discounts, and premiums,	7,076,145	-	7,076,145
	<u>\$ 174,791,145</u>	<u>\$ 177,381,294</u>	<u>\$ 352,172,439</u>

Bond Covenants

Pursuant to various agreements and resolutions entered into by SASD, Regional San and the Authority related to its Revenue Bonds, SASD and Regional San are required to abide by 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 Regional San 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, 2016 SASD and the Regional San were in compliance with the preceding covenants.

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 SASD and Regional San's long-term obligations through June 30, 2015 was \$0. 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.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM DEBT (Continued)

Changes in Long-Term Obligations

Changes in long-term obligations for the fiscal years ended June 30, 2016 were as follows:

	<u>June 30, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2016</u>	<u>Due Within One year</u>
SASD - Revenue Bonds	\$ 168,635,000	\$ -	\$ (920,000)	\$ 167,715,000	\$ 950,000
Plus premium	7,421,300	-	(345,155)	7,076,145	345,155
Total - SASD	<u>176,056,300</u>	<u>-</u>	<u>(1,265,155)</u>	<u>174,791,145</u>	<u>1,295,155</u>
Regional San's - Long-Term Debt	1,411,905,000	57,868,521	(80,065,000)	1,389,708,521	31,797,181
Plus (less):					
Premium (discounts)	71,284,938	-	(3,318,154)	67,966,784	3,318,154
Total - Regional San's	<u>1,483,189,938</u>	<u>57,868,521</u>	<u>(83,383,154)</u>	<u>1,457,675,305</u>	<u>35,115,335</u>
Total	<u>\$ 1,659,246,238</u>	<u>\$ 57,868,521</u>	<u>\$ (84,648,309)</u>	<u>\$ 1,632,466,450</u>	<u>\$ 36,410,490</u>

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.

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. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. This standard is not expected to have any impact on the Authority's financial statements.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. This standard is not expected to have any impact on the Authority's financial statements.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. This standard is not expected to have any impact on the Authority's financial statements.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. This standard is not expected to have any impact on the Authority's financial statements.

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The Authority has adopted these standards in the financial statements for the year ending June 30, 2016.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Management is currently evaluating the effect of this standard on the Authority's financial statements.

SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

7. SUBSEQUENT EVENTS

On October 13, 2016, the eighth and final loan component of the EchoWater Project for the Tertiary Treatment Facility was approved by the State Water Resources Control Board. The agreement allows for a maximum loan amount of \$533,142,603 with an annual interest rate of 1.7%. The District expects this component of the project to be completed in May of 2021 and payments on the loan to commence on May of 2022 and end in May 2051. See Note 5 for additional information regarding the Clean Water State Revolving Fund Loan.

OTHER REPORTS



**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**

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

We have audited, in accordance with the 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, the financial statements of the Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 15, 2016