

**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, 2014

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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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, 2014, and the related notes to the 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, 2014, and the changes in its financial position and its 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 1, 2014, 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* and should be considered in assessing the results of our audit.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
December 1, 2014

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (the District), 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 District and SASD. This section of the Authority presents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2014. Please read it in conjunction with the Authority's basic financial statements following this section.

#### FINANCIAL HIGHLIGHTS

- On November 13, 2013, the Sacramento County Sanitation Districts Financing 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. Interest on the bond is a variable rate at one week SIFMA plus 52.5 basis points, and the bonds mature on December 1, 2037. The refunding does not affect the underlying interest rate swap agreement and resulted in no change in future debt service.
- On November 13, 2013, the Sacramento County Sanitation Districts Financing 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. Interest on the bond is a variable rate at one week SIFMA plus 52.5 basis points, and the bonds mature on December 1, 2039. The refunding does not affect the underlying interest rate swap agreement and resulted in no change in future debt service.

#### 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 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.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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.

**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, 2014, total assets and deferred outflows exceeded total liabilities by \$27.9 million. During the fiscal year ended June 30, 2014, net position decreased by \$2 million.

The following table summarizes the changes between assets, deferred outflows, liabilities, and net position as of June 30, 2014, and 2013:

**Condensed Statements of Net Position  
(Amounts Expressed in Thousands)**

	<u>2014</u>	<u>% Change</u>	<u>2013</u>
Assets:			
Current Assets	\$ 41,271	2.1%	\$ 40,406
Noncurrent Assets	1,578,034	-1.9%	1,608,743
Total assets	<u>1,619,305</u>	-1.8%	<u>1,649,149</u>
Deferred Outflows	<u>27,951</u>	-6.7%	<u>29,973</u>
Liabilities:			
Current liabilities	41,271	2.1%	40,406
Noncurrent liabilities	1,578,034	-1.9%	1,608,743
Total liabilities	<u>1,619,305</u>	-1.8%	<u>1,649,149</u>
Net position:			
Restricted net position	<u>27,951</u>	-6.7%	<u>29,973</u>
Total net position	<u>\$ 27,951</u>	-6.7%	<u>\$ 29,973</u>

In fiscal year ended 2014, the total assets decreased by \$30 million mainly due to reductions in long term receivables. Deferred outflows decreased by \$2 million due to the amortization of deferred charges. Total liabilities decreased by \$30 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, 2014

The following table summarizes the changes in net position for the fiscal years ended June 30, 2014, and 2013:

<b>Authority's Changes in Net Position</b>			
<b>(Amounts Expressed in Thousands)</b>			
	<u>2014</u>	%	<u>2013</u>
		<u>Change</u>	
Operating revenues	\$ 60,636	-1.1%	\$ 61,290
Operating income	<u>60,636</u>		<u>61,290</u>
Nonoperating revenues (expenses):			
Interest expense	<u>(62,658)</u>	-1.2%	<u>(63,402)</u>
Total revenues (expenses)	<u>(62,658)</u>	-1.0%	<u>(63,312)</u>
Change in net position	(2,022)	0.0%	(2,022)
Net position, beginning of year	<u>29,973</u>		<u>31,995</u>
Net position, end of year	<u>\$ 27,951</u>		<u>\$ 29,973</u>

Total operating income decreased by approximately \$6 hundred thousand and total non-operating revenues and expenses decreased by approximately \$6 hundred thousand in the year ending June 30, 2014.

**LONG-TERM DEBT ACTIVITY**

*Long-term obligations* totaled \$1,608 and \$1,638 million at June 30, 2014 and 2013, respectively. These amounts were comprised of SASD and the District's revenue bonds. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2014, and 2013.

<b>Authority's Outstanding Long-term Obligations</b>		
<b>(Amounts Expressed in Thousands)</b>		
	<u>2014</u>	<u>2013</u>
SASD Revenue Bonds, Net	\$ 267,480	\$ 272,529
District Revenue Bonds, Net	1,341,262	1,365,912
Total Long-term obligations	<u>\$ 1,608,742</u>	<u>\$ 1,638,441</u>

Revenue bonds related to the District have decreased by \$24.6 million and revenue bonds related to SASD have decreased by \$5 million during the 2013-14 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, 2014

**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, 2014

ASSETS:

CURRENT ASSETS:

Loans receivable from District	\$ 25,474,283
Accrued interest receivable from District	4,628,696
Loans receivable from SASD	5,233,989
Accrued interest receivable from SASD	5,934,324
TOTAL CURRENT ASSETS	41,271,292

NONCURRENT ASSETS:

Long-term loans receivable from District	1,315,788,212
Long-term loans receivable from SASD	262,246,283
TOTAL NONCURRENT ASSETS	1,578,034,495

TOTAL ASSETS	1,619,305,787
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts on refunding - District	24,600,570
Deferred amounts on refunding - SASD	3,350,093
TOTAL DEFERRED OUTFLOWS OF RESOURCES	27,950,663

LIABILITIES:

CURRENT LIABILITIES:

Bond interest payable - District	4,628,696
Current portion of long-term obligations - District	25,474,283
Bond interest payable - SASD	5,934,324
Current portion of long-term obligations - SASD	5,233,989
TOTAL CURRENT LIABILITIES	41,271,292

NONCURRENT LIABILITIES:

Long-term bond obligations - District	1,315,788,212
Long-term bond obligations - SASD	262,246,283

TOTAL NONCURRENT LIABILITIES	1,578,034,495
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TOTAL LIABILITIES	1,619,305,787
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NET POSITION:

Restricted for District debt service	24,600,570
Restricted for SASD debt service	3,350,093
TOTAL NET POSITION	\$ 27,950,663

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, 2014

<b>OPERATING REVENUES:</b>	
Base payment from District	\$ 46,381,424
Base payment from SASD	14,254,750
Total operating revenues	<u>60,636,174</u>
Operating income	<u>60,636,174</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest expense - District	(48,206,287)
Interest expense - SASD	(14,451,814)
Total nonoperating revenues (expenses)	<u>(62,658,101)</u>
Change in net position	(2,021,927)
Net position, beginning of year	<u>29,972,590</u>
Net position, end of year	<u><u>\$ 27,950,663</u></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, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from District, principal portion	\$ 22,600,000
Cash received from District, interest portion	48,513,440
Cash received from SASD, principal portion	4,635,000
Cash received from SASD, interest portion	14,730,597
Net cash provided by operating activities	90,479,037

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:**

District Principal payments on long-term debt	(22,600,000)
District Interest payments on long-term debt	(48,513,440)
District Proceeds from issuance of long-term obligations	100,000,000
District Payment to escrow agent for refunded debt	(100,000,000)
SASD Principal payments on long-term debt	(4,635,000)
SASD Interest payments on long-term debt	(14,730,597)
Net cash used by non-capital financing activities	(90,479,037)

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	\$ 60,636,173
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Interest receivable from District	(825,000)
Loans receivable from District	25,557,016
Interest receivable from SASD	61,859
Loans receivable from SASD	5,048,989
Net cash provided by operating activities	\$ 90,479,037

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, 2014**

### **1. REPORTING ENTITY**

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (the District), 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 District 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 the District 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 statement 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.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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 \$24,600,570 and \$3,350,093 for the District 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 the District 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 the District and SASD.

In return, the District 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, 2014, is \$1,345,891,191 and \$273,414,596 for the District and SASD respectively.

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014
Loan receivable - District	\$ 1,365,911,779	\$ 100,000,000	\$ (124,649,284)	\$ 1,341,262,495
Interest accrual - District	4,711,428	4,628,696	(4,711,428)	4,628,696
Subtotal - District	<u>1,370,623,207</u>	<u>104,628,696</u>	<u>(129,360,712)</u>	<u>1,345,891,191</u>
Loan receivable - SASD	272,529,261		(5,048,989)	267,480,272
Interest accrual - SASD	5,996,183	5,934,324	(5,996,183)	5,934,324
Subtotal - SASD	<u>278,525,444</u>	<u>5,934,324</u>	<u>(11,045,172)</u>	<u>273,414,596</u>
Total	<u>\$ 1,649,148,651</u>	<u>\$ 110,563,020</u>	<u>\$ (140,405,884)</u>	<u>\$ 1,619,305,787</u>

**4. NET POSITION**

The net position as reported on the Authority's financial reports consists of \$24,600,570 and \$3,350,093 for the District 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, 2014

**5. LONG-TERM DEBT**

The Authority's long-term debt at June 30, 2014 consisted of the following:

	<u><b>2014</b></u>
<b>District Revenue Bonds:</b>	
2013D Series Subordinate Refunding Bonds	\$ 50,000,000
2013C Series Subordinate Refunding Bonds	50,000,000
2013B Series Subordinate Refunding Bonds	50,000,000
2013A Series Subordinate Refunding Bonds	50,000,000
2012A Series Subordinate Refunding Bonds	50,000,000
2011 Series Refunding Bonds	84,641,275
2010 Series Refunding Bonds	57,035,380
2007 Series Refunding Bonds	451,916,076
2006 Series Revenue Bonds	298,905,899
2005 Series Refunding Bonds	60,400,368
2004 Series A Revenue Bonds	1,736,920
2001 Series Refunding Bonds	36,626,578
2000 Series C Subordinate Lien Revenue Bonds	100,000,000
Total long-term debt - District	<u>1,341,262,496</u>
Less current portion - District	(25,474,284)
Long-term portion - District	<u>1,315,788,212</u>
<b>SASD Revenue Bonds:</b>	
2005 Series Revenue Bonds	142,371,232
2010A/B Series Revenue Bonds	125,109,040
Total long-term debt - SASD	<u>267,480,272</u>
Less current portion	(5,233,989)
Long-term portion - SASD	<u>262,246,283</u>
Total Long-term portion	<u><u>\$ 1,578,034,495</u></u>

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 District 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, 2015.

#### District - 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 on November 13, 2013, the Series 2008 B and D Variable Rate Revenue Bonds that 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 the District 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 the District and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2013 C and D Bonds. The District estimates that the direct purchase arrangement with BofA will result in a savings to the District 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 on July 12, 2012, the 2008 C Variable Rate Revenue Bonds that 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 18, 2015. WFB cannot put the bonds back to the Authority or the District 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 plus 50 bps per annum] for the duration of the three year direct purchase arrangement. On or before July 12, 2015 the District and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2012 A Bonds. The District estimates that the direct purchase arrangement with WFB will result in a savings to the District 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, 2014

### 5. LONG-TERM DEBT (Continued)

The \$50 million Series 2013 B Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 B Bonds") refunded on May 30, 2013, the 2008 A Variable Rate Revenue Bonds that 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 2012 A Bonds, WFB will hold the Bonds for three years through May 30, 2016. WFB cannot put the bonds back to the Authority or the District 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 B 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 or before May 30, 2016, the District and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2013 B Bonds. The District estimates that the direct purchase arrangement with WFB will result in a savings to the District of approximately \$862,500 over the three year period, compared with the cost of the LOC that supported the 2008 A Bonds.

#### District - Limited Offering Transaction

The \$50 million Series 2013 A Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 A Bonds") refunded on May 30, 2013, the 2008 E Variable Rate Revenue Bonds that 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 will hold the Bonds for three years through May 30, 2016. RBC cannot put the bonds back to the Authority or the District 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 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 or before May 30, 2016, the District and Authority intends to renegotiate another direct purchase arrangement, obtain an LOC or otherwise refinance the Series 2013 A Bonds. The District estimates that the direct purchase arrangement with RBC will result in a savings to the District of approximately \$862,500 over the three year period, compared with the cost of the LOC that supported the 2008 E Bonds.

#### District - 2013D Series Refunding Bonds

In November 2013, 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 \$380,869 at June 30, 2014. Proceeds on the Series 2013 D Bonds were used for the refunding of the 2008 A Series Bonds. The economic loss on refunding was \$394,976. The refunding resulted in no change in future debt service.

#### District - 2013C Series Refunding Bonds

In November 2013, 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 \$380,869 at June 30, 2014. Proceeds on the Series 2013 C Bonds were used for the refunding of the 2008 B Series Bonds. The economic loss on refunding was \$394,976. The refunding resulted in no change in future debt service.



# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 \$380,869 at June 30, 2014. Proceeds on the Series 2013 B Bonds were used for the refunding of the 2008 A Series Bonds. The economic loss on refunding was \$409,082. The refunding resulted in no change in future debt service.

#### District - 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 \$380,869 at June 30, 2014. Proceeds on the Series 2013 A Bonds were used for the refunding of the 2008 E Series Bonds. The economic loss on refunding was \$409,082. The refunding resulted in no change in future debt service.

#### District - 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 \$380,869 at June 30, 2014. Proceeds on the Series 2013 B Bonds were used for the refunding of the 2008 A Series Bonds. The economic loss on refunding was \$409,082. The refunding resulted in no change in future debt service.

#### District - 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 60 basis points. Unamortized deferred amount on refunding was \$380,870 at June 30, 2014. Proceeds on the Series 2012 A Bonds were used for the refunding of the 2008 C Series Bonds. The economic loss on refunding was \$409,082. The refunding resulted in no change in future debt service.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 District completed the 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 \$7,461,275 and deferred amount on refunding was \$2,474,192 at June 30, 2014.

#### District - 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 \$2,275,380 and deferred amount on refunding was \$1,899,866 at June 30, 2014.

#### District - 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. The District 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, 2014 is \$4,900,000 to be applied to the 2006 Bonds.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 (refunded by 2013 C Series Refunding Bonds) 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 (refunded by 2013 D Series Refunding Bonds) 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.

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 District'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 decreased by \$789,952 due to the refunding of the Series 2008 B and D. Unamortized deferred amount on refunding was \$0 at June 30, 2014.

#### District - 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, the District entered into an interest rate swap in the notional amount of the Series 2007 B Refunding Bonds whereby the District 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, 2013 and 2012, respectively. Unamortized premium related to the Series 2007 A and B Refunding Bonds was \$8,551,076 at June 30, 2014; unamortized deferred amount on refunding was \$13,873,628 at June 30, 2014.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 \$7,475,899 at June 30, 2014.

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.

#### District - 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 \$1,670,368 and unamortized deferred amount on refunding was \$4,125,925 at June 30, 2014.

#### District - 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 the District'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 \$103,839 and \$155,759 at June 30, 2013 and 2012, respectively; \$456,865,000 of the Series 2004 A Revenue Bonds 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.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 5. LONG-TERM DEBT (Continued)

#### District - 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 District's financial statements. Unamortized discount was \$143,422 and unamortized deferred amount on refunding was \$322,611 at June 30, 2014.

#### District - 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 the District. The Series 2000 C Variable Rate Revenue Bonds are secured by a pledge of and lien on the net revenues of the District's 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, 2014, \$102,370,000 and \$24,960,000 of the Series 1993 and Series 1995 defeased Revenue Bonds, respectively, were outstanding.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**5. LONG-TERM DEBT (Continued)**

**District - Maturity Schedule**

Future debt service requirements on the Authority's District's revenue bonds at June 30, 2014 are as follows:

Fiscal years ending June 30:	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 23,425,000	\$ 55,910,993	\$ 79,335,993
2016	29,310,000	54,891,263	84,201,263
2017	30,580,000	53,623,838	84,203,838
2018	32,000,000	52,207,170	84,207,170
2019	33,600,000	50,607,869	84,207,869
2020-2024	207,655,000	224,839,423	432,494,423
2025-2029	246,325,000	170,769,922	417,094,922
2030-2034	346,775,000	109,130,160	455,905,160
2035-2039	264,250,000	40,153,278	304,403,278
2040-2042	100,000,000	3,139,292	103,139,292
	<u>1,313,920,000</u>	<u>815,273,208</u>	<u>2,129,193,208</u>
Plus net unamortized discounts and premiums	27,342,495	-	27,342,495
	<u>\$ 1,341,262,495</u>	<u>\$ 815,273,208</u>	<u>\$ 2,156,535,703</u>

The interest requirements, for the purpose of the maturity schedule above, for the District's Variable rate debt, related to the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds are based on the estimated rate of 3.702%, the Series 2007 B Variable Rate Refunding Bonds are based on a rate of 4.152%, and the Series 2013 C and D Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 3.444%, the Series 2012A, 2013A and 2013B Subordinate Lien Variable Rate Refunding Bonds are based on the estimated rate of 5.528%, 3.419% and 5.428%, respectively.

**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, 2014

**5. LONG-TERM DEBT (Continued)**

**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, 2014, \$38,675,000 and of the 2000 defeased Revenue Bonds were outstanding.

**SASD - Maturity Schedule**

Future debt service requirements on Authority's SASD revenue bonds as of June 30, 2014 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,555,000	13,395,903	18,950,903
2019	5,835,000	13,116,103	18,951,103
2020-2024	33,865,000	60,885,665	94,750,665
2025-2029	43,115,000	51,499,549	94,614,549
2030-2034	54,750,000	38,708,276	93,458,276
2035-2039	68,595,000	21,056,794	89,651,794
2040-2041	31,695,000	2,025,423	33,720,423
	<u>258,575,000</u>	<u>242,378,072</u>	<u>500,953,072</u>
Plus net unamortized discounts, and premiums,	8,905,272	-	8,905,272
	<u>\$ 267,480,272</u>	<u>\$ 242,378,072</u>	<u>\$ 509,858,344</u>

**Bond Covenants**

Pursuant to various agreements and resolutions entered into by SASD, the District and the Authority related to its Revenue Bonds, SASD and the District 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 the District 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, 2013 SASD and the District 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, 2014

**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 the District's long-term obligations through June 30, 2014 and 2013 is \$0 and \$0, 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, 2014 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, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2014</u>	<u>Due Within One year</u>
SASD - Revenue Bonds	\$ 263,210,000	\$ -	\$ (4,635,000)	\$ 258,575,000	\$ 4,820,000
Plus premium	9,319,261	-	(413,989)	8,905,272	413,989
Total - Financing Authority	<u>272,529,261</u>	<u>-</u>	<u>(5,048,989)</u>	<u>267,480,272</u>	<u>5,233,989</u>
District Revenue bonds	1,336,520,000	100,000,000	(122,600,000)	1,313,920,000	23,425,000
Plus (less):					
Premium (discounts)	29,391,779	-	(2,049,284)	27,342,495	2,049,283
Total - District	<u>1,365,911,779</u>	<u>100,000,000</u>	<u>(124,649,284)</u>	<u>1,341,262,495</u>	<u>25,474,283</u>
Total	<u>\$ 1,638,441,040</u>	<u>\$ 100,000,000</u>	<u>\$ (129,698,273)</u>	<u>\$ 1,608,742,767</u>	<u>\$ 30,708,272</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. 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.



# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

### 6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

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. 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.

### 7. SUBSEQUENT EVENTS

In July 2014, the Authority issued the 2014A 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.

In November 2014, the Sacramento County Sanitation Districts Financing Authority issued the 2014B Series Revenue Bonds taxable senior lien bonds in the amount of \$61,895,000 with interest 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 and to pay certain costs of preliminary planning design, construction and related activities in the connection with implementation of facilities and upgrades to the Sanitation System.

## **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, 2014, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated December 1, 2014.

**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 1, 2014