

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

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*LARRY BAIN, CPA,*  
AN ACCOUNTING CORPORATION  
2148 Frascati Drive  
El Dorado Hills, CA 95762

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
South Placer Municipal Utility District  
Rocklin, CA

We have audited the accompanying financial statements of the South Placer Municipal Utility District as of and for the fiscal year ended June 30, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 District'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 District'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 financial statement presentation.

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 business-type activities of the South Placer Municipal Utility District as of June 30, 2013, and the changes in financial position and the results of 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 3-6 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 Information**

The Combining Statement of Net Position, Combining Statement of Revenues, Expenses, and Changes in Net Position and Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.



Larry Bain, CPA  
An Accounting Corporation  
December 9, 2013

**South Placer Municipal Utility District  
Management's Discussion and Analysis  
June 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS**

The Management's Discussion and Analysis (MDA) purpose is to provide a fact-based summary of the District's financial status from management's perspective. This report will provide an indication of how well South Placer Municipal Utility District (SPMUD or District) is doing financially for fiscal year beginning on July 1, 2012 and ending June 30, 2013 (FY13) and should be reviewed in conjunction with the audited financial statements, which follow the MDA.

**FINANCIAL HIGHLIGHTS FOR FY13**

SPMUD has about 20,500 sanitary sewer connections in southern Placer County serving an estimated population of 73,000 (based on 30,535 Equivalent Dwelling Units (EDU) x 2.4 people / EDU) with approximately 20% of the EDU being non-residential. The District service area boundaries encompasses 31 square miles which includes the City of Rocklin, Town of Loomis, portions of Placer County that include the unincorporated communities of Penryn and Newcastle (north of Loomis), and Rogersdale (in the Granite Bay area).

The most significant financial changes in the District from previous year audit were the retirement of all of the admin/finance staff: the Office Manager, Customer Service Rep and Accounting Supervisor (resulting in the loss of almost 75 combined years of District finance experience). The current four employees in the Administrative Services Department have less than two years of combined experience with the current database. The District began implementing a new financial database program in FY13.

Table 1 below compares and highlights important statistics for the last three years:

**TABLE 1: DISTRICT CHANGES**

DESCRIPTION	UNITS	AS OF JUNE 30			CHANGE
		2011	2012	2013	%
EDU	EACH	29,893	30,382	30,535	0.5
ACCOUNTS	EACH	20,138	20,500	20,500	0.4
MAIN PIPELINE	MILES	246.32	252.79	253.0	0.1
SERVICE FEE/ EDU	MONTHLY	\$ 24.00	\$26.00	\$28.00	7.1
UNRESTRICTED NET POSITION	MILLION	\$ 46.14	\$46.12	\$49.13	0.0
TOTAL REVENUES	MILLION	\$ 10.17	\$11.17	\$12.30	10.8
TOTAL EXPENSES	MILLION	\$11.38	\$9.78	\$10.70	8.6

The District customer base increased less than ½% in FY13. The monthly service charge increased 7%, with our revenue up 10.8% from the \$2/month/EDU service fee increase, and expenses are up 8.6% for treatment costs from Roseville.

**FINANCIAL ANALYSIS OF THE DISTRICT**

My analysis of the auditor's statement of the District's Financial Statements for Assets and Liabilities is summarized in *Table 2*. SPMUD Total Liabilities and Net Assets increased by \$5.46M or (5.7%) over last year from \$95.41M to \$100.87; with our net assets increasing by 4.5 %. This decrease was due to an over-estimate by the District for past over-payments of O&M charges to Roseville and was corrected in FY13 as a "prior year adjustment". Liabilities vary based on the amount of accounts still payable at the end of the fiscal year.

South Placer Municipal Utility District  
Management's Discussion and Analysis  
June 30, 2013

ASSETS AND LIABILITIES

**TABLE 2- TOTAL NET POSITION & LIABILITIES (IN \$ MILLION)**

ITEM	FY11	FY12	FY13
TOTAL NET POSITION	\$ 94.95	\$ 94.49	\$98.78
TOTAL LIABILITIES	\$ 3.29	\$ 0.92	\$2.08
TOTAL LIABILITIES & NET POSITION	\$ 98.24	\$ 95.41	\$100.87

REVENUES AND EXPENSES

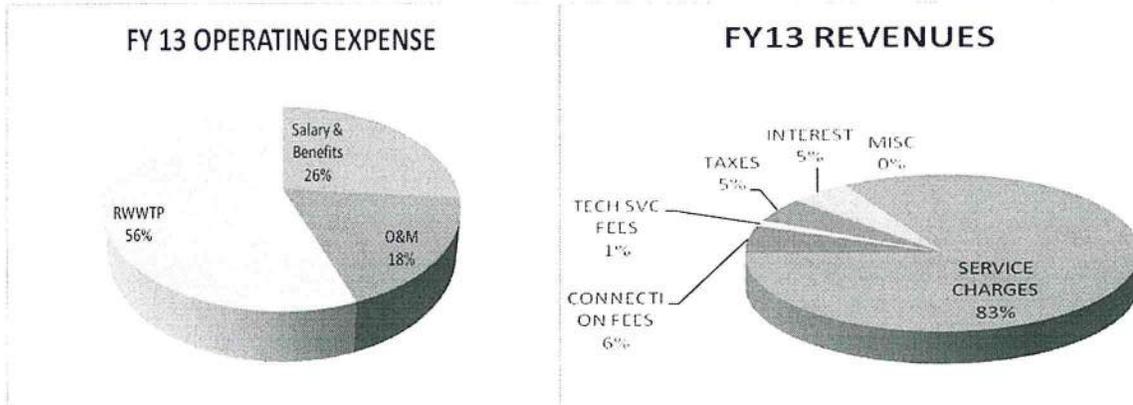
Table 3 shows a comparison of this year's revenues and expenses to the prior two years from past audit reports.

**TABLE 3- REVENUE & EXPENSE FOR PAST THREE YEARS**

REVENUE AND EXPENSE	FY 11	FY 12	FY 13
<b>OPERATING REVENUE</b>			
SEWER SERVICE CHARGES	\$ 8,599,106	\$ 9,489,453	\$ 10,260,093
LOCAL CONNECTION FEES	\$ 267,268	\$ 411,250	\$ 680,755
PERMITS, PLAN CHECK, INSPEC. FEES	\$ 51,049	\$ 44,720	\$ 132,774
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 8,917,423</b>	<b>\$ 9,945,423</b>	<b>\$ 11,073,622</b>
<b>OPERATING EXPENSES</b>			
COLLECTION & TREATMENT	\$ 8,665,187	\$ 7,060,338	\$ 6,080,773
ADMIN & TECHNICAL SERVICES	\$ 1,665,187	\$ 998,869	\$ 1,743,232
DEPRECIATION	\$ 1,067,596	\$ 1,052,093	\$ 1,022,054
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 11,382,900</b>	<b>\$ 9,778,500</b>	<b>\$ 8,846,059</b>
<b>OPERATING INCOME(LOSS)</b>	<b>\$ (2,465,477)</b>	<b>\$ 133,923</b>	<b>\$ 2,227,563</b>
<b>NONOPERATING REVENUES</b>			
PROPERTY TAXES	\$ 607,420	\$ 575,130	\$ 610,400
INTEREST	\$ 619,371	\$ 643,017	\$ 595,320
OTHER REVENUES	\$ 23,258	\$ 10,863	\$ 16,310
<b>NONOPERATING TOTALS</b>	<b>\$ 1,250,049</b>	<b>\$ 1,229,010</b>	<b>\$ 1,222,030</b>
NET BEFORE CAPITAL CONTRIBUTIONS	\$ (1,215,428)	\$ 1,395,933	\$ 3,449,593
CAPITAL CONTRIBUTIONS	\$ 10,000	\$ 342,900	\$ 330,760
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ (1,205,428)</b>	<b>\$ 1,738,833</b>	<b>\$ 3,780,353</b>
NET POSITION START OF FY	\$ 91,734,163	\$ 94,947,491	\$ 94,491,070
PRIOR PERIOD ADJUSTMENTS	\$ 4,418,756	\$ (2,195,254)	\$ 510,874
<b>NET POSITION END OF FY</b>	<b>\$ 94,947,491</b>	<b>\$ 94,491,070</b>	<b>\$ 98,782,297</b>

**South Placer Municipal Utility District  
Management's Discussion and Analysis  
June 30, 2013**

**CHART 1 - REVENUES AND EXPENSES**



In accordance with our five-year financing plan, our monthly service charge for FY 13 increased by \$2.00 (\$26.00 to \$28.00) per EDU, and our local connection fee remains at \$2,500 per EDU. Our connection fees revenues increased by \$269,500 (65%), going from \$411,250 to \$680,750. The Capital Contributions (developer constructed infrastructure) decreased by \$12,000 to \$330,800. These contributions added 1/2 mile of sewer main pipe, several hundred new connections and other sewer system appurtenances. This is still below our past 30 year average of around 800 EDUs/year and even with the increase over the last FY, continues the downward trend of connections.

**BUDGETARY HIGHLIGHTS**

I compared our FY12 audited fund balances with the estimated FY13 fund balances and projected the balances for FY14; Table 4 shows this comparison:

<b>TABLE 4- GENERAL FUND BUDGET ANALYSIS (\$)</b>			
	<b>ACTUAL AS OF 6/30/13</b>	<b>ESTIMATED FOR FYE 6/30/14</b>	<b>PROJECTED FOR FYE 6/30/15</b>
<i><b>OPERATING REVENUES</b></i>	9,945,400	10,621,400	10,910,000
<i><b>OPERATING EXPENSES</b></i>	9,778,500	9,913,900	10,704,300
<i><b>NON-OPERATING REVENUES</b></i>	1,229,000	1,093,000	1,111,000
<i><b>TOTALS</b></i>	1,395,900	1,800,500	1,316,700

Operating revenues and expenses are both increasing at about \$500,000/yr while non-operating revenues are remaining at a little over one-million per year. Because of this, the Board of Directors was able to defer a previously approved \$2/mo (going from \$28 to \$30) service fee increase for FY14.

**CAPITAL ASSET ACTIVITY**

The Districts capital assets, net of accumulated depreciation, totaled \$49.65M. The largest projects programmed for FY13 were the RWWTP Rehabilitation (\$1.07M) and the Upper Antelope Creek- East Sewer Trunk Project (\$1.55M). The remaining capital outlay activity was for office and field equipment replacement and repair of existing District facilities. The District spent \$2.53M leaving a total of \$33.82M in the Capital Maintenance Fund.

**South Placer Municipal Utility District  
Management's Discussion and Analysis  
June 30, 2013**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Our FY14 General Fund revenues are projected to be 1.7% greater than this FY13 audit year; while projected expenses (not including fund transfers between the Capital and General funds) will be 8% greater. The FY14 Operations & Maintenance Budget is 14% more than this audit year and the Salary & Benefits is 6.5% greater. Regional treatment costs are projected to increase by 6%. We have programmed \$3.44M in capital outlays in FY14, not including fund transfers. Our total fund balances are projected to increase \$4.26M (\$46.43M - \$42.17M). The District began direct billing the NSD customers in FY13 for their monthly service charges. The customers in the NSD service area will begin paying the \$54/EDU/mo in Project Related Service Charge (PRSC) to repay the loan for the NSD Project.

SPMUD has 30 approved personnel positions plus 6 temporary labors. The District growth will be slow over the next FY but increase in the following years. The MOU's for employees and management will be negotiated in FY14.

Table 5 summarizes our FY14 Budget outlook.

**TABLE 5**

<b>FY 14 BUDGET REVIEW</b>				
<b>PROJECTED REVENUES</b>				
<b>OPERATING</b>	<b>NON-OPERATING</b>	<b>CAPITAL FUND</b>		<b>TOTAL</b>
\$10,910,000	\$1,111,000	\$700,000		\$12,721,000
<b>PROJECTED EXPENSES</b>				
<b>SALARIES</b>	<b>BENEFITS</b>	<b>O &amp; M</b>	<b>RWWTP</b>	<b>TOTAL</b>
\$1,547,000	\$1,239,000	\$2,068,300	\$5,850,000	\$10,704,000
14.45%	11.58%	19.32%	54.65%	100%
<b>PAST AND PROJECTED YEAR-END TOTAL "CURRENT" ASSETS</b>				
	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	
	46,120,000	46,671,000	47,047,000	

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This Financial Report is designed to provide the District's customers and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability. Questions about this report should be addressed to the General Manager, in writing to: SPMUD, 5807 Springview Drive, Rocklin, CA 95677, or by telephone at (916) 786-8555, or e-mail at [cclark@spmud.ca.gov](mailto:cclark@spmud.ca.gov).

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

Assets

Current Assets	\$ 42,912,947
Cash and investments	3,334,892
Accounts receivable	4,060
Interest receivable	182,170
Prepaid expense	<u>46,434,069</u>
Total current assets	
Noncurrent Assets	
Loan Receivable	<u>4,779,110</u>
Capital assets	
Nondepreciable capital assets	
Land	435,860
Construction in progress	<u>2,163,183</u>
Depreciable capital assets	
Buildings	2,895,246
Sewer system	58,000,742
Equipment	658,609
Office furniture and equipment	204,346
Vehicles	1,234,955
Less accumulated depreciation	<u>(15,939,009)</u>
Total depreciable capital assets	<u>47,054,889</u>
Total capital assets (net of accumulated depreciation)	<u>49,653,932</u>
Total noncurrent assets	<u>54,433,042</u>
Total assets	<u><u>\$ 100,867,111</u></u>

Liabilities and Net Position

Current Liabilities	\$ 1,684,489
Accounts payable	41,564
Accrued expense	76,612
Accrued payroll	83,534
Customer deposits	62,964
OPEB liability	<u>1,949,163</u>
Total current liabilities	
Long-Term Liabilities	
Due within one year	45,831
Due in more than one year	<u>89,820</u>
Total long-term liabilities	<u>135,651</u>
Total liabilities	<u>2,084,814</u>
Net Position	
Net investment in capital assets	49,653,932
Unrestricted	<u>49,128,365</u>
Total net position	<u>98,782,297</u>
Total liabilities and net position	<u><u>\$ 100,867,111</u></u>

The notes to the financial statements are an integral part of this statement

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Operating revenue	
Sewer service charges	\$ 10,260,093
Connection fees	680,755
Permits, plan check fees and inspections	<u>132,774</u>
Total operating revenues	<u>11,073,622</u>
Operating expenses	
Collection and treatment	6,080,773
Administration and general	1,054,767
Technical services	688,465
Depreciation	<u>1,022,054</u>
Total operating expenses	<u>8,846,059</u>
Operating income (loss)	<u>2,227,563</u>
Nonoperating revenue (expenses)	
Property taxes	610,400
Interest income	595,320
Gain on sale of fixed assets	4,039
Other revenues	<u>12,271</u>
Nonoperating revenues (expenses)	<u>1,222,030</u>
Net income before capital contributions	3,449,593
Capital contributions	<u>330,760</u>
Increase (Decrease) in net position	3,780,353
Net position, July 1	94,491,070
Prior period adjustment	<u>510,874</u>
Net position, June 30	<u><u>\$ 98,782,297</u></u>

The notes to the financial statements are an integral part of this statement

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Total
Cash flows from operating activities:	
Cash receipts from customers and users	\$ 11,084,052
Cash payments to suppliers for goods and services	(3,938,675)
Cash payments to employees for services	(2,785,848)
Net cash provided by (used in) operating activities	4,359,529
Cash flows from noncapital financing activities:	
Property taxes received	610,400
Other non operating revenue received	12,271
Loans receivable	88,056
Operating transfers in	(1,532,987)
Operating transfers out	1,532,987
Net cash provided by (used in) noncapital financing activities	710,727
Cash flows from capital and related financing activities:	
Gain and loss on sale of capital assets	4,039
Additions to capital assets	(1,974,158)
Net cash provided by (used in) capital financing activities	(1,970,119)
Cash flows from investing activities:	
Interest received on investments	628,909
Net increase in cash and cash equivalents	3,729,046
Cash and cash equivalents, beginning of year	39,183,901
Cash and cash equivalents, end of year	\$ 42,912,947
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>	
<b>Cash and cash equivalents, June 30</b>	<b>\$ 42,912,947</b>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ 2,227,563
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,022,054
Changes in assets and liabilities:	
Accounts receivable	(128,916)
Prop 1A receivable	55,812
Prepaid expenses	19,574
Accounts payables	1,108,519
Accrued expenses	41,564
Accrued payroll	(18,970)
OPEB liability	(773)
Customer deposits	83,534
Compensated absences	(50,432)
Net Cash Provided By (Used In) Operating Activities	\$ 4,359,529

The notes to the financial statements are an integral part of this statement

# SOUTH PLACER MUNICIPAL UTILITY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

### Note 1: Summary of Significant Accounting Policies

The South Placer Municipal Utility District operates under the Municipal Utility District Act. The Act permits formation of multipurpose government agencies to provide public services on a regional basis. In accordance with the Act, voters approved creating the South Placer Municipal Utility District to provide sewage disposal facilities. The District's governing body is a Board of Directors comprised of 5 members with 4 year staggered terms.

#### A. Reporting Entity

The District has defined its reporting entity in accordance with generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with GASB.

#### B. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund – An Enterprise fund is used to account for the District's sewage disposal operations that is financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The accompanying financial statements have been prepared on the full accrual basis of accounting. This is a basis of accounting that conforms to accounting principles generally accepted in the United States of America.

Generally accepted accounting principles require all proprietary funds to use the accrual basis of accounting. The revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the related fund liability is incurred.

D. Prepaid Expenses

Accounts for prepaid health insurance and prepaid liability insurance.

E. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes bank accounts, cash with Placer County and deposits with the State of California Local Agency Investment Fund (LAIF).

F. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

G. Use of Estimates in the Preparation of Financial Statements:

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

H. Capital Contributions:

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers estimated cost, which approximates fair value at the time of the District's acquisition, and is recorded as capital contributions when received.

## SOUTH PLACER MUNICIPAL UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

I. Risk Management:

The District maintains an insurance policy with American Alternative Insurance that provides limits of liability for general liability, auto and an additional umbrella policy. The District also maintains workers compensation insurance through SDRMA, with the employer's liability limit of \$1,000,000 per occurrence.

J. Net Position:

Net position comprises the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets*-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted*-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position*-This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

K. Compensated Absences

Compensated absences represent the vested portion of accumulated vacation leave. In accordance with GASB 16, the liability for accumulated leave includes all salary - related payments that are directly and incrementally connected with leave payments to employees.

L. Property Taxes

The District receives property taxes from Placer County, which has been assigned the responsibility for assessment, collections, and apportionment of property taxes for all taxing jurisdictions within the County. Secured property taxes are levied on January 1 for the following fiscal year and on which date it becomes a lien on real property.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 1: Summary of Significant Accounting Policies (Continued)

L. Property Taxes (Continued)

Secured property taxes are due in two installments on November 1 and February 1 and are delinquent after December 10 and April 10, respectively, for the secured roll. Based on a policy by the County called the Teeter Plan, 100% of the allocated taxes are transmitted by the County to the District, eliminating the need for an allowance for uncollectible taxes. The County, in return, receives all penalties and interest. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31. Property tax revenues are recognized in the fiscal year they are received.

M. Capital Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available. Capital assets include land, buildings, sewer system, equipment, office furniture and vehicles. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Buildings	15-25 years
Sewer system	75 years
General equipment	10-20 years
Office furniture and vehicles	5-15 years

Note 2: Cash and Investments

Cash and investments are reported on the balance sheet as follows:

Cash and investments	<u>\$42,912,947</u>
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Cash and investments at June 30, 2013, consisted of the following:

General checking	\$ 956,008
Petty cash	200
Investments	<u>41,956,739</u>
Total cash and investments	<u><u>\$ 42,912,947</u></u>

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 2: Cash and Investments (Continued)

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for the South Placer Municipal Utility District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk, credit risk and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-36 Months</u>	<u>37-48 Months</u>
State Investment Pool*	\$ 7,576,738	\$ 7,576,738	\$ -	\$ -	\$ -
Placer County Pooled Cash*	34,380,001	34,380,001	-	-	-
Totals	<u>\$ 41,956,739</u>	<u>\$ 41,956,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\*Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

## SOUTH PLACER MUNICIPAL UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Note 2: Cash and Investments (Continued)

#### D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2013, the District's deposits balance was \$1,147,085 and the carrying amount was \$956,008. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by California Local Agency Deposit pledged collateral held in the pledging bank's trust department in the District's name.

#### E. Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Retirements and adjustments	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 435,860	\$ -	\$ -	\$ 435,860
Construction in progress	248,820	1,914,363	-	2,163,183
Capital assets, being depreciated:				
Buildings	2,881,187	14,059	-	2,895,246
Sewage system	57,669,983	330,759	-	58,000,742
Equipment	658,609	-	-	658,609
Office furniture	205,826	(1,480)	-	204,346
Vehicles	1,226,224	8,731	-	1,234,955
Total capital assets being depreciated:	62,641,829	352,069	-	62,993,898
Less accumulated depreciation:	(14,955,441)	(983,568)	-	(15,939,009)
Total capital assets being depreciated, net	47,686,388	1,335,637	-	47,054,889
Total capital assets, net	\$ 48,371,068	\$ 3,250,000	\$ -	\$ 49,653,932

Note 4: Loan Receivable

Accounts for funds loaned to Newcastle Sanitary District (NSD) for the purpose of covering the cost of several preconstruction tasks required in connection with NSD facilities upgrades and regulatory compliance issues. The total outstanding loan amount as of June 30, 2013 was \$4,779,110. Interest on the principal amount accrues at an annual rate of 2.5%. The principal and interest charges are billed quarterly to NSD customers at \$54 per month over a 40 year payback period.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 5: Long-Term Liabilities

District employees accumulate earned but unused vacation leave which can be converted to cash at termination of employment. The amount of these vested benefits at June 30, 2013 is \$135,377. The change in compensated absences was as follows:

	Balance July 1, 2012	Additions	Retirements	Adjustments	Balance June 30, 2013
Compensated absences	\$ 186,083	\$ 123,949	\$ (135,282)	(39,373)	\$ 135,377

Note 6: Defined Benefit Pension Plan

A. Plan Description

The District's defined benefit pension plan, the California Public Employees' Retirement System, provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The California Public Employees' Retirement System is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the state of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Active plan members in the 2.7% @ 55 tier I plan are required to contribute 8% of all earnings in excess of \$133.33 per month. As a benefit to the District employees the District contributes the employee required contribution. For those employees hired on or after April 20, 2012 the District has implemented a 2% @ 55 tier 2 plan, which reduces the amount of employee contribution paid by the District to 7%. The district is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. For new employees hired after January 1, 2013 the District benefit formula changed to a 2% @ 62 tier III where the employee contributes the full employee contribution of 6.25% of all earnings in excess of \$133.33 per month. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2012-13 was 15.178% for tier I, 9.716% for tier II and 6.25% for tier III. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

C. Annual Pension Cost

For fiscal year 2012-13, the district's annual pension cost was \$214,456 and the district actually contributed \$214,456 (net of employer paid member contributions). The required contribution for fiscal year 2012-13 was determined as part of the June 30, 2010 actuarial valuation using entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% depending on age, service and type of employment and (c) .25% merit adjustment. Both (a) and (b) include an

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 6: Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period (smoothed market value). The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 21 years.

<u>Three – Year Trend Information for the District</u>			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/11	304,033	100%	-
06/30/12	315,981	100%	-
06/30/13	214,456	100%	-

Note 7: Deferred Compensation Plan

Employees of South Placer Municipal Utility District may elect to participate in a deferred compensation plan, as defined in the Internal Revenue Code Section 457. The contributions to the plan are voluntary. All amounts of compensation deferred under the plans, all property and rights purchased with these amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employees or beneficiaries) solely the property and rights of the employees and their beneficiaries. No part of the principal or income of the trust shall revert to the employer or be used for or diverted for purposes other than for the exclusive benefit of participants and their beneficiaries. The district has selected CALPERS and Hartford Life & Annuity Insurance Company as the third party administrators of the plan assets. Due to the fact that the District does not administer this plan, the plan activities are not included in the District financial statements. The District matches up to a maximum per pay period based on the most current contract with the General Manager and the most current M.O.U. with all other employees'.

Note 8: Post Retirement Health Care Benefits

*Plan Description.* South Placer Public Utility District's Post-Retirement Healthcare Plan is a single employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits and life insurance benefits to eligible retirees and their eligible dependents. The District approved post retirement health insurance benefits for all of its employees effective July 1, 2007 under the Public Employees' Medical and Hospital Care Act (PEMHCA). Retirement eligibility is determined based on a minimum of reaching age 50 with at least 5 years of employment with the District. For an employee retiring with 5 or more years of service with SPMUD, the District will contribute the health benefit cost for the retiree and family members up to 100% of the greater of the CalPERS family rate for PERS Choice or the CalPERS family rate for the highest cost HMO. A retiree with less than 5 complete years of service with the District receives no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law. The retiree is on the same medical plan as the District's active employees, however monthly rates for coverage of covered active and retired employees are computed separately. The District also provides a life insurance benefit for each former employee with ten or more years of service who retires from the District. The amount of the life insurance benefit is \$15,000 (\$25,000 in the case of District management employees).

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 8: Post Retirement Health Care Benefits (Continued)

*Funding Policy.* The contribution requirement of plan members is established by the District's Board of Directors. The 2012-13 fiscal year contribution was calculated on a prefunding basis using entry age normal cost, with investment gains and losses amortized over a closed 30 year period with payments determined on a level percent of pay basis. For the fiscal year ending June 30, 2013 the District contributed \$0 to maintain prefunded status of the unfunded actuarial accrued liability (UAAL) based on a calculation of the annual required contribution certified by an actuarial valuation service. The District chose the California Employers Retiree Benefit Trust (CERBT) as the trustee for the plan. The District made the net contribution for fiscal year end June 30, 2013 directly to health insurance providers totaling \$61,209 and reimbursed retiree premiums directly to the retiree for \$41,116. These payments were not reimbursed by the CERBT. Plan members receiving benefits contributed \$0 of the total premiums.

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation (asset) to South Placer Public Utility District's Healthcare Plan:

Unreimbursed retiree premium payment made to plan provider	\$ (61,209)
Unreimbursed retiree premium payment made to retiree	(41,116)
Contribution to OPEB trust (accrual)	(62,964)
ARC for current fiscal year	165,289
Increase in net OPEB obligation (asset)	-
Net OPEB obligation (asset) - beginning of year	-
Net OPEB obligation (asset) - end of year	\$ -

Three year disclosure of the District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is as follows:

Fiscal Year End	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2011	\$ 152,175	100%	\$ -
June 30, 2012	160,086	100%	-
June 30, 2013	165,289	100%	-

## SOUTH PLACER MUNICIPAL UTILITY DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Note 8: Post Retirement Health Care Benefits (Continued)

*Funded Status and Funding Progress.* As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) was \$3,062,219 and the unfunded actuarial accrued liability (UAAL) for benefits was \$332,898. The District's plan was considered fully funded at June 30, 2008 because the District made a retrospective adoption, prefunding the annual required contribution including the UAAL in the 2007-2008 fiscal year. While the initial unfunded actuarial accrued liability was fully funded as of June 30, 2008, investment losses and actual investment returns, compared to original assumptions, on the initial contribution created a \$332,898 unfunded accrued liability as of July 1, 2011, the most recent actuarial valuation date. The District has chosen to amortize the \$332,898 unfunded accrued liability over a closed 30 year period with payments determined on a level percent of pay. The covered payroll (annual payroll of active employees covered by the plan) was \$1,532,745 and the ratio of the UAAL to the covered payroll was 21.72%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress will be presented in the future when multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits is available.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2011, actuarial valuation, the entry age normal cost, level percent of pay funding method is used. The asset valuation method was based on market value of assets in the OPEB trust.

The actuarial assumptions included a 7.61% discount rate. The valuation assumes that 100% of eligible retirees will actually participate in the retiree medical benefit. The annual healthcare cost trend rate of 10% initially, decreasing approximately .5% per year until reaching an ultimate rate of 4.5 percent for fiscal year end 2019 and later. 2011 healthcare cost trend rate were assumed to increase at slightly higher rates than were assumed in prior valuation. It was assumed salary increases will be 3.25% per annum.

Note 9: Joint Powers Agreement

On October 1, 2000 the South Placer Wastewater Authority was created to finance and construct the new Pleasant Grove treatment plant along with expanding facilities at the Dry Creek plant and other regional facilities. The Authority is made up of the City of Roseville, Placer County and South Placer Municipal Utility District. The composition of the Board of Directors for the Authority is two directors appointed by the City of Roseville, two directors appointed by Placer County and one director appointed by South Placer Municipal Utility District. The agreement provides that the City will own and operate the regional facilities. The Authority originally issued a total of \$179,775,000 of fixed and variable rate bonds. The South Placer Municipal Utility District is responsible for 25% of the debt service on these bonds. Bond payments are funded by regional connection fees charged by the District and remitted to the City of Roseville. In April 2011 the remaining \$163,179,000 outstanding bonds, including accrued interest, were refunded to obtain more favourable interest rates in a combination of fixed, SIFMA Index and variable rate bonds. Total connection fees collected by the District and paid to the Authority, under this agreement, for the 2012-13 fiscal year was \$1,827,631. To obtain a copy of the South Placer Wastewater Authority financial statements go to [www.roseville.ca.us/gov/finance/general\\_accounting/spwa.asp](http://www.roseville.ca.us/gov/finance/general_accounting/spwa.asp)

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 9: Joint Powers Agreement (Continued)

The District is responsible for its share of maintenance and operation expenses incurred at the Regional Treatment plants based on the volume of flow from District lines as a percentage of total volume of flow into the plants. The total amount calculated for South Placer Municipal Utility District during the 2012-13 fiscal year for maintenance and operation expenses was \$3,000,590 and an additional \$1,065,997 for the District's share of rehab project costs.

Note 10: Prior Period Adjustments

Prior period adjustments were made resulting in an increase to net position of \$499,338 to account for recalculating operations and maintenance and replacement/rehab expenses paid to the Regional Treatment Plant for the 2011/12 fiscal year. Additional prior period adjustments were recorded resulting in an increase of \$11,536 to beginning net position for payables and receivables discovered by the District after the prior year audit.

Note 11: Commitments and Contingencies

The District is responsible for maintenance and operation expenses incurred at the Regional Treatment plant based on the volume of flow from District lines as a percentage of total volume of flow into the plant. The share of the District cost is subject to periodic review and recalculations. The amount paid versus recalculated amounts can vary resulting in additional costs or credits to the District.

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

At June 30, 2013 the District had commitments with respect to various engineering services and construction projects.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2013**

	South Placer Operating Fund	Capital Maintenance Fund	Total
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and investments	\$ 13,190,393	\$ 29,722,554	\$ 42,912,947
Accounts receivable	3,270,389	64,503	3,334,892
Interest receivable	4,060		4,060
Prepaid expense	73,799	108,371	182,170
Total current assets	16,538,641	29,895,428	46,434,069
<b>Noncurrent Assets</b>			
Loan receivable		4,779,110	4,779,110
<b>Capital assets</b>			
<b>Nondepreciable capital assets</b>			
Land	435,860		435,860
Construction in progress	2,163,183		2,163,183
<b>Depreciable capital assets</b>			
Buildings	2,895,246		2,895,246
Sewer system	58,000,742		58,000,742
Equipment	658,609		658,609
Office furniture and equipment	204,346		204,346
Vehicles	1,234,955		1,234,955
Less accumulated depreciation	(15,939,009)		(15,939,009)
Total depreciable capital assets	47,054,889		47,054,889
Total capital assets (net of accumulated depreciation)	49,653,932		49,653,932
Total noncurrent assets	49,653,932	4,779,110	54,433,042
Total assets	\$ 66,192,573	\$ 34,674,538	\$ 100,867,111
<b><u>Liabilities and Net Position</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 833,748	\$ 850,741	\$ 1,684,489
Accrued expenses	41,564		41,564
Accrued payroll	76,612		76,612
Customer deposits	83,534		83,534
OPEB liability	62,964		62,964
Total current liabilities	1,098,422	850,741	1,949,163
<b>Long-Term Liabilities</b>			
Due within one year	45,831		45,831
Due in more than one year	89,820		89,820
Total long-term liabilities	135,651		135,651
Total liabilities	1,234,073	850,741	2,084,814
<b>Net Position</b>			
Net investment in capital assets	49,653,932		49,653,932
Unrestricted	15,304,568	33,823,797	49,128,365
Total net position	64,958,500	33,823,797	98,782,297
Total liabilities and net position	\$ 66,192,573	\$ 34,674,538	\$ 100,867,111

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	South Placer Operating Fund	Capital Maintenance Fund	Total
Operating revenue			
Sewer service charges	\$ 10,260,093	\$ -	\$ 10,260,093
Connection fees	-	680,755	680,755
Permits, plan check fees and inspections	132,774		132,774
Total operating revenues	<u>10,392,867</u>	<u>680,755</u>	<u>11,073,622</u>
Operating expenses			
Collection and treatment	4,761,584	1,319,189	6,080,773
Administration and general	1,054,767		1,054,767
Technical services	688,465		688,465
Depreciation	1,022,054		1,022,054
Total operating expenses	<u>7,526,870</u>	<u>1,319,189</u>	<u>8,846,059</u>
Operating income (loss)	<u>2,865,997</u>	<u>(638,434)</u>	<u>2,227,563</u>
Nonoperating revenue (expenses)			
Property taxes	610,400		610,400
Interest income	73,066	522,254	595,320
Gain/loss on disposition of fixed assets	-	4,039	4,039
Other revenues	11,499	772	12,271
Nonoperating revenues (expenses)	<u>694,965</u>	<u>527,065</u>	<u>1,222,030</u>
Net income before capital contributions and transfers	<u>3,560,962</u>	<u>(111,369)</u>	<u>3,449,593</u>
Transfers in	441,333	(1,974,320)	(1,532,987)
Transfers out	1,974,320	(441,333)	1,532,987
Capital contributions	330,760		330,760
Total capital contributions and transfers	<u>2,746,413</u>	<u>(2,415,653)</u>	<u>330,760</u>
Increase (Decrease) in net position	6,307,375	(2,527,022)	3,780,353
Net position, July 1	58,140,714	36,350,356	94,491,070
Prior period adjustments	510,411	463	510,874
Net position, June 30	<u>\$ 64,958,500</u>	<u>\$ 33,823,797</u>	<u>\$ 98,782,297</u>

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**COMBINING STATEMENT OF CASH FLOWS  
JUNE 30, 2013**

	South Placer Operating Fund	Capital Maintenance Fund	Total
<b>Cash flows from operating activities:</b>			
Cash receipts from customers and users	\$ 10,467,337	\$ 616,715	\$ 11,084,052
Cash payments to suppliers for goods and services	(2,963,370)	(975,305)	(3,938,675)
Cash payments for employees services	(2,785,848)	-	(2,785,848)
Net cash provided by (used in) operating activities	<u>4,718,119</u>	<u>(358,590)</u>	<u>4,359,529</u>
<b>Cash flows from noncapital financing activities:</b>			
Property taxes received	610,400	-	610,400
Loans receivable	-	88,056	88,056
Other non operating revenue received	11,499	772	12,271
Operating transfers in	441,333	(1,974,320)	(1,532,987)
Operating transfers out	<u>1,974,320</u>	<u>(441,333)</u>	<u>1,532,987</u>
Net cash provided by (used in) noncapital financing activities	<u>3,037,552</u>	<u>(2,326,825)</u>	<u>710,727</u>
<b>Cash flows from capital and related financing activities:</b>			
Gain and loss on sale of capital assets	-	4,039	4,039
Additions to capital assets	<u>(1,974,158)</u>	<u>-</u>	<u>(1,974,158)</u>
Net cash provided by (used in) capital financing activities	<u>(1,974,158)</u>	<u>4,039.00</u>	<u>(1,970,119)</u>
<b>Cash flows from investing activities:</b>			
Interest received on investments	<u>74,612</u>	<u>554,297</u>	<u>628,909</u>
Net increase (decrease) in cash and cash equivalents	5,856,125	(2,127,079)	3,729,046
Cash and cash equivalents, beginning of year	<u>7,334,268</u>	<u>31,849,633</u>	<u>39,183,901</u>
Cash and cash equivalents, end of year	<u>\$ 13,190,393</u>	<u>\$ 29,722,554</u>	<u>\$ 42,912,947</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>			
<b>Cash and cash equivalents, June 30</b>	<u>\$ 13,190,393</u>	<u>\$ 29,722,554</u>	<u>\$ 42,912,947</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating Income (Loss)	\$ 2,865,997	\$ (638,434)	\$ 2,227,563
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>			
Depreciation	1,022,054	-	1,022,054
<b>Changes in assets and liabilities:</b>			
Accounts receivable	(64,876)	(64,040)	(128,916)
Prop IA Receivable	55,812	-	55,812
Prepaid expenses	10,605	8,969	19,574
Accounts payables	773,604	334,915	1,108,519
Accrued expenses	41,564	-	41,564
Accrued payroll	(18,970)	-	(18,970)
OPEB liability	(773)	-	(773)
Customer deposits	83,534	-	83,534
Compensated absences	<u>(50,432)</u>	<u>-</u>	<u>(50,432)</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 4,718,119</u>	<u>\$ (358,590)</u>	<u>\$ 4,359,529</u>

*LARRY BAIN, CPA,*  
AN ACCOUNTING CORPORATION  
2148 Frascati Drive  
El Dorado Hills, CA 95762

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors  
South Placer Municipal Utility District  
Rocklin, CA

We have audited the financial statements of the South Placer Municipal Utility District as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated December 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Placer Municipal Utility District's (District) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We consider findings 13-1, 13-2, 13-3, 13-4 and 13-5 in the following schedule of findings to be deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider findings 13-6 through 13-19 in the following schedule of findings to be significant deficiencies in the District's internal control:

**South Placer Municipal Utility District's Response to Findings**

The South Placer Municipal Utility District's separate written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the District's internal control over financial reporting, accordingly this report is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management, the Placer County Auditor-Controller's Office and the Controller's Office of the State of California.



Larry Bain, CPA  
An Accounting Corporation  
December 9, 2013

# SOUTH PLACER MUNICIPAL UTILITY DISTRICT

## SCHEDULE OF FINDINGS

JUNE 30, 2013

### Deemed to be Significant Deficiency and Material Weakness

#### Finding 13-1

During our audit we noted the District paid Marques Pipeline Inc. a \$300,000 change order regarding a misunderstanding of contract terms related to the Upper Antelope Sewer Trunk Project. We did not observe Board of Director review and approval for this change order, nor did we observe the issue was reviewed by the Districts legal counsel. We also noted the District was over budget on this project.

Recommendation: We recommend the Board of Directors review the activity for the above payment to ensure the payment was a valid expense. We also recommend the district require board approval for all change orders exceeding the maximum amount authorized under the contract. The Board should also review project budgets and make budget amendments prior to the project going over budget.

#### Finding 13-2

During the audit we noted the capital asset schedule had not been updated to include all 2012/13 fixed asset additions. The District also did not transfer the capital expenses from the capital fund to be recorded as capital assets in the operating fund. We proposed entries in the amount of \$1,974,158 to transfer the 2012/13 capital additions to the proper fund and accounts. Furthermore the June 2013 depreciation expense and accumulated depreciation was recorded in July 2013. The District controls did not detect that the depreciation expense and accumulated depreciation were recorded in the subsequent accounting period or that the 2012/13 capital additions were not added to the asset schedule.

Recommendation: We recommend the District implement controls to review the asset schedule and verify that depreciation is recorded in the correct accounting period and that all additions and capital asset activity is included in the asset schedule. We also recommend the District transfer the capital additions from the capital fund to the operating fund capital asset accounts.

#### Finding 13-3

During our analytical review we noted that revenue was down significantly when compared to the prior year. Upon review we noted the final 2012/13 quarterly billing was posted to the 2013/14 fiscal year. We proposed a journal entry to increase receivables and sewer revenue \$2,684,153 at June 30, 2013.

Recommendation: We recommend the District record revenues in the period earned under the full accrual method of accounting.

#### Finding 13-4

During our testing assigned sewer receivables collected at Placer County we noted the District recorded the collections to tax revenue as opposed to reducing the amount that was assigned to the Placer County tax roll (assigned sewer receivable). We also noted the District did not accrue the final 2012/13 Placer County tax allocation that was collected in August 2013. This resulted in an overstatement to tax revenue of \$253,096 an overstatement in assigned sewer receivables of \$228,214 an overstatement of Prop 1A receivables of \$55,812 and an understatement to other receivables of \$25,931.

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT**

**SCHEDULE OF FINDINGS**

**JUNE 30, 2013**

**Deemed to be Significant Deficiency and Material Weakness (Continued)**

**Finding 13-5**

During our testing of the operating fund accounts payables we noted duplicate entries were made accruing legal fees and the Roseville O&M expense resulting in an overstatement to accounts payable and overstatement to expense in the amount of \$807,524. During our testing of the capital fund accounts payable we noted the District accrued one Roseville M&O payment in the Capital fund and then miscoded another M&O payment to revenue in the Capital fund. This resulted in an overstatement to accounts payables of \$1,418,058, a \$1,066,005 understatement in revenue and \$266,499 overstatement in Roseville rehab and replacement expense.

During the audit the District provided us with a schedule of accrued expenses totaling \$1,617,503. The District did not inform us that the entries had not been posted to the general ledger. The schedule also had a \$90,000 error in the accrued expense for legal services.

Recommendation: We recommend the District perform periodic checks of the general ledger during the fiscal year and at year end to ensure that account balances agree to the underlying support.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

SCHEDULE OF FINDINGS

JUNE 30, 2013

**Significant Deficiencies Not Deemed Material Weaknesses**

**Finding 13-6**

We noted the District had a lack of segregation of duties, as one person, or related persons are capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. This is a common condition for entities of this size. This comment was noted in previous audits.

**Finding 13-7**

The District relies on the external auditor to ensure its financial statements are in accordance with GAAP. In addition, the District relies on the external auditor to ensure that all necessary disclosures are included in the notes to the financial statements. The District does not employ a staff member with the necessary knowledge and training to prepare governmental financial statements. In accordance with Statement of Auditing Standards No. 115 external auditors cannot be part of an entity's internal controls over preparation of the financial statements and are prohibited from auditing their own work, which would impair their independence.

Recommendation: The District should consider training staff in preparing GAAP financial statements or hire an external qualified accountant to prepare the GAAP financial statements.

**Finding 13-8**

Interest receivable had a \$20,048 credit balance as a result of a reversing journal entry in January 2013. A credit balance in a receivable account is not a normal balance. The District did not review the trial balance prior to the audit to ensure that accounts balanced to the underlying documentation.

Recommendation: We recommend the District perform periodic checks of the trial balance to ensure that account balances agree to the underlying support.

**Finding 13-9**

During our review of the trial balance we noted the operating fund and capital fund were each out of balance \$162. We proposed a journal entry to balance each fund so that total debits equaled total credits in each fund.

Recommendation: We recommend the District review the trial balance periodically to verify that the funds are self balancing.

**Finding 13-10**

During our testing of prepaid expense we noted the District double accrued prepaid workers compensation and retiree health which resulted in an overstatement of \$32,804 to prepaid expense and an understatement of \$32,804 to expense.

Recommendation: We recommend the District perform year end closing procedures and reconcile each account to the underlying supporting documentation.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

SCHEDULE OF FINDINGS  
JUNE 30, 2013

**Significant Deficiencies Not Deemed Material Weaknesses (Continued)**

**Finding 13-11**

During our audit of interest revenue we noted the District quit allocating LAIF interest revenue to the capital fund. The District was allocating all LAIF interest revenue to the operating fund even though the capital fund held the largest portion of the LAIF investment.

Recommendation: We recommend the Board of Directors review the allocations of LAIF interest and direct staff to either take corrective action and allocate based on the investment balances per fund, or to continue allocating LAIF interest only to the operating fund.

**Finding 13-12**

During our testing of compensated absences we noted the District did not reconcile the compensated absence balance from the schedule to the general ledger. Furthermore the schedule provided to us included the sick leave accrual where the District does not payout sick leave as a termination benefit. The schedule provided to us indicated a liability of \$623,442 where based on our audit the compensated absence liability should be \$135,377 resulting in a \$488,065 variance. The general ledger balance was \$186,083 resulting in an overstatement to compensated absence liability and an overstatement to salary expense in the amount of \$50,706.

Recommendation: We recommend the District prepare the compensated absence schedule to only record the liability that will be paid off at termination. Furthermore we recommend as part of year end procedures that the District reconcile the general ledger to the underlying documentation.

**Finding 13-13**

During our receipts testing we noted Sierra College was paying the old monthly rate of \$26 and did not update their billing for the 2012/13 rate of \$28. Sierra College under paid \$4,408.68 as a result of using the old rate.

Recommendation: We recommend the District review the payments made by Sierra College during the 2012/13 fiscal year and verify the amount under paid. The District should then send Sierra College a bill for the underpayment.

**Finding 13-14**

During our testing of contracts we noted the District did not accrue the \$125,544.50 10% retention owed to Marques Pipeline Inc as of June 30, 2013. This resulted in an understatement to accounts payables and an understatement to capital assets. Furthermore the maximum amount of retention withholding allowed by section 4201 of the public contract code for public works projects is 5%, unless the project is substantially complex and the District follows certain procedures to raise the retention amount.

Recommendation: The District should accrue retentions payable on contracts. The District should also review and follow the public contract code for maximum retentions allowed on public works contracts.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

SCHEDULE OF FINDINGS

JUNE 30, 2013

**Significant Deficiencies Not Deemed Material Weaknesses (Continued)**

**Finding 13-15**

During our review of salary allocations from the operating fund to the capital fund we noted that no allocations were made in the 4<sup>th</sup> quarter of the 2012/13 fiscal year. We proposed a journal entry to allocate \$88,267 based on the average first three quarters allocation.

Recommendation: The District should have controls in place to verify that the salary allocations are made each quarter.

**Finding 13-16**

During our testing of the Newcastle Sanitary District loan receivable we noted the full amount of the loan repayment charge was credited to the loan receivable account. We proposed a journal entry to reduce the loan receivable by the principal portion and reclassify \$91,595 to interest revenue based on the 2.5% interest rate.

Recommendation: We recommend the District prepare the computation to allocate between principal and interest for each quarterly billing.

**Finding 13-17**

During our testing of compensated absences we noted one employee where we calculated an ending balance of 310 vacation hours, but the District showed 340 hours at June 30, 2013.

Recommendation: We recommend the District review the activity for this employee and make any needed adjustments to account for unrecorded activity.

**Finding 13-18**

During our testing of workers compensation liability we noted the account had a \$41,438 balance at June 30, 2013. It appears that more is accruing each month than is paid to the workers compensation carrier.

Recommendation: We recommend the District review why the liability account is not clearing after each workers compensation payment.

**Finding 13-19**

During our testing of capital asset activity we noted the District recorded \$142,033 to the system rehab account for expenses related to the Upper Antelope project. We proposed a journal entry to reclassify to the proper account.

Recommendation: We recommend better attention to detail when coding expenses. We also recommend monitoring capital asset activity and reconciling project expenses to the underlying activity.