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CAFR 2016

South Placer Municipal Utility District
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2016

SPMUD BOARD OF DIRECTORS
Will Dickinson, Board President
Vic Markey
Jerry Mitchell
Jim Williams
John Murdock

MANAGEMENT
Herb Niederberger, General Manager
Joanna Belanger, Administrative Services Manager
Eric Nielsen, District Engineer
Sam Rose, Superintendent

PREPARED BY
Administrative Services Department

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
Comprehensive Annual Financial Report
(Audited)

June 30, 2016



SOUTH PLACER MUNICIPAL UTILITY DISTRICT

June 30, 2016

(Audited)

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October 6, 2016

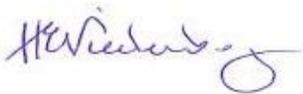
Members of the Board of Directors
South Placer Municipal Utility District

Directors:

The South Placer Municipal Utility District is required by State statute to publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we are pleased to present the Comprehensive Annual Financial Report (CAFR) for the South Placer Municipal Utility District (District) for the fiscal year ended June 30, 2016. The information presented in this CAFR is intended to provide financial information with all the disclosures necessary to enable the District's customers, investment community and general public to assess the District's financial condition. This report contains management's representations concerning the finances of the District. Management is responsible for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed to both protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

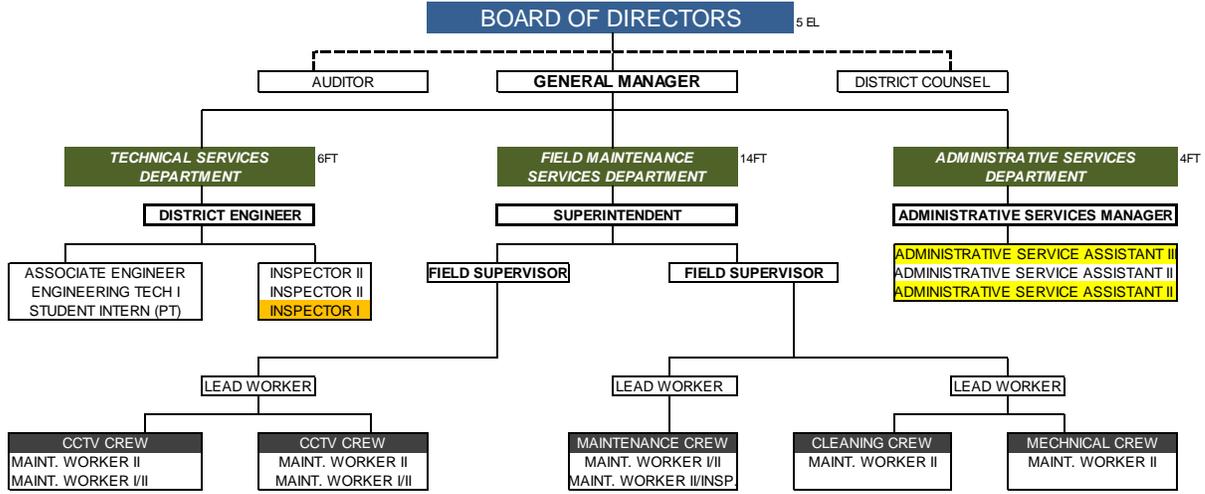
The District's financial statements have been audited by Stroub Thompson Noble, CPAs, a firm of licensed certified public accountants with which the District contracts for these services. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2016, are free from material misstatement. The independent audit involved examining, on a test basis, evidence about the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A).

This transmittal letter is designed to complement the MD&A and is intended to be read in conjunction with it.

A handwritten signature in blue ink, appearing to read "Herb Niederberger".

Herb Niederberger
General Manager

SOUTH PLACER MUNICIPAL UTILITY DISTRICT



33 TOTAL POSITIONS: 5 ELECTED, 2 CONTRACT, 4 MANAGEMENT, 2 SUPERVISORS, 18 FULL-TIME & 1 PART-TIME

EFFECTIVE JULY 1, 2016

NEW POSITION
RECLASSIFIED POSITION



Newcastle

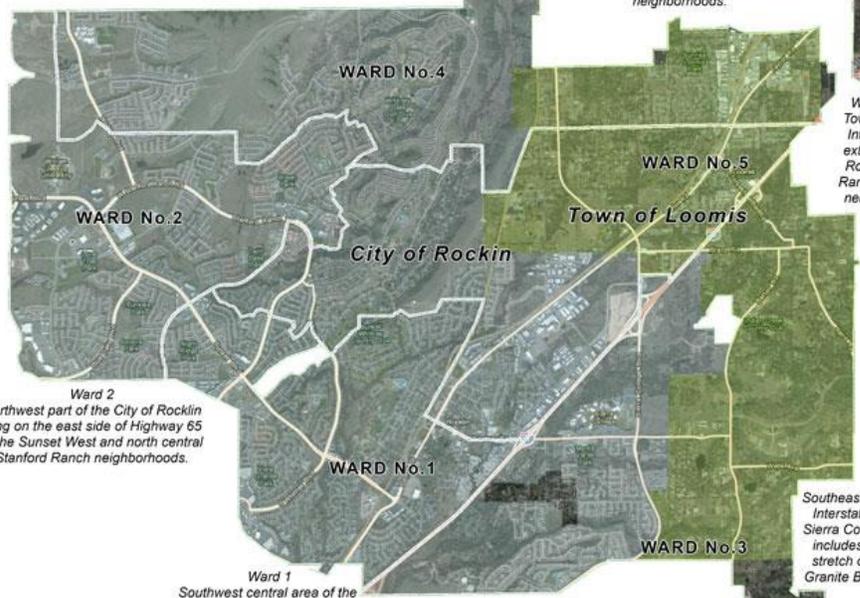
WARD No.4

*Ward 4
Community of Penryn, the Town of Newcastle and the Town of Loomis lying north of King Road, extending west into the north part of the City of Rocklin in the Whitney Ranch and north Whitney Oaks neighborhoods.*



Penryn

*Ward 5
West and central part of the Town of Loomis lying between Interstate 80 and King Road, extending west into the City of Rocklin into the east Stanford Ranch and south Whitney Oaks neighborhoods, as well as the east part of old Rocklin.*

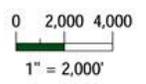


*Ward 2
Northwest part of the City of Rocklin lying on the east side of Highway 65 in the Sunset West and north central Stanford Ranch neighborhoods.*

*Ward 1
Southwest central area of the City of Rocklin lying north of Interstate 80, including the Woodside, Five Star/Fairway Heights, south Stanford Ranch, and Sunset neighborhoods, as well as the west parts of old Rocklin.*

*Ward 3
Southeast Rocklin lying south of Interstate 80 in the vicinity of Sierra Community College. Also includes south Loomis and a stretch of land extending into Granite Bay in the Joe Rodgers Road area.*

Rodgersdale



SOUTH PLACER MUNICIPAL UTILITY DISTRICT

June 30, 2016

(Audited)

Board of Directors

| <u>Title</u> | <u>Name</u> | <u>Yrs of Service</u> | <u>Term</u> |
|-----------------------------------|--------------------|-----------------------|-----------------|
| <u>Elected Board of Directors</u> | | | |
| President | William Dickinson | 9 | 2018 |
| Vice President | Vic Markey | 7 | 2016 |
| Director | Gerald P. Mitchell | 13 | 2016 |
| Director | James T. Williams | 12 | 2016 |
| Director | John Murdock | 18 | 2018 |
| <u>Appointed Manager</u> | | | |
| General Manager | Herb Niederberger | 2 | 1/2015- Current |



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Placer Municipal Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of South Placer Municipal Utility District for the fiscal year ended June 30, 2016 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the South Placer Municipal Utility District.

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 7 to 13 and budgetary comparison information on page 40 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 October 6, 2016, on our consideration of the South Placer Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering South Placer Municipal Utility District.



Stroub Thompson Noble
Certified Public Accountants

October 6, 2016

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

OVERVIEW OF FINANCIAL STATEMENTS

The purpose of this Management's Discussion and Analysis (MDA) is to provide a fact-based summary of the financial status of the South Placer Municipal Utility District (District) from a management's perspective. This report provides an indication of the District's financial performance for fiscal year beginning on July 1, 2015 and ending June 30, 2016 (FY2015/16) and should be reviewed in conjunction with the audited financial statements, which follow this MDA.

DISTRICT OVERVIEW

The District provides sewer collection services in southwestern Placer County, CA and serves an estimated population of 75,000 residing in the City of Rocklin and Town of Loomis, and in the unincorporated communities of Penryn, Newcastle and the Rodgersdale area of Granite Bay. Sewage is collected by the District and conveyed to regional wastewater treatment plants (WWTP) operated by the City of Roseville. Ninety-one percent of the District's customers are residential, 5% commercial and 4% educational.

A significant change in the District financial programs from previous year's audits was the implementation of the Tyler Financial Management Software consisting of a financial/utility billing database program that began in FY2013/14 and continued into FY2014/15. During FY2015/16 the monthly service charge remained the same, but on October 1, 2015, the Local Participation Fee was increased to \$3000 per equivalent dwelling unit (EDU).

Table 1 below compares major District statistics for the last two fiscal years.

TABLE 1: DISTRICT STATISTICS

| Item | Unit | Fiscal Yr 2014/15 | Fiscal Year 2015/16 | % Change over Previous |
|-------------------------|-----------------|----------------------|------------------------|---------------------------|
| Service Charges | Dollars | \$ 10,758,026 | \$ 10,911,091 | 1.4% |
| Customer Accounts | Each | 21,108 | 21,658 | 2.6% |
| Equal Dwelling Units | EDU | 31,241 | 31,676 | 1.4% |
| Service Fee per EDU | Monthly | \$28.00 | \$28.00 | 0.0% |
| Annual Flow to WWTP | Million Gallons | 1,500 | 1,411 | -6.0% |
| Sewer Mains | Miles | 257.3 | 266.9 | 3.7% |
| Lower Service Laterals | Miles | 139 | 123 | -11.2% |
| Manhole/Flushing Branch | Each | 6,050 | 6,083 | 0.5% |
| Lift Stations | Each | 13 | 13 | 0.0% |
| Force Mains | Miles | 6.8 | 6.8 | 0.0% |

The District experienced a modest 1.4% increase in Customer Service Charge revenue that corresponds to the increase in EDUs placed into billing. The District continues to meet its growth expectations by adding approximately 500 new accounts each year. This modest growth is also reflected by the increase in assets, miles of pipe and manholes, added to the system with Developer contributions.

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

The District continues to reflect the impact of the drought and the corresponding conservation efforts by customers; the annual flow sent to the wastewater treatment facilities operated by the South Placer Wastewater Authority dropped by 6% over the previous year.

FINANCIAL ANALYSIS OF THE DISTRICT

Revenues and Expenses for the past two fiscal years are summarized in Table 2 and Table 3, respectively.

Per the Districts previously adopted five-year financing plan, the monthly service charge for FY 2013/14 was scheduled to increase by \$2.00 (\$28.00 to \$30.00) per EDU in 2014; however, the District chose to defer this increase; not only for 2014 but also 2015 and 2016. The District's Sewer Participation Fee was also reduced in 2014 from \$2,500 to \$2100 per EDU. During FY2015/16 the monthly service charge remained the same, but on October 1, 2015, the Local Participation Fee was increased to \$3000 per EDU.

TABLE 2- REVENUE

| GENERAL FUND | FISCAL YR 2014/15 | FISCAL YR 2015/16 | % Change over Previous |
|--|-------------------------|-------------------------|---------------------------|
| SEWER SERVICE CHARGES REVENUES | \$ 10,758,026 | \$ 10,911,091 | 1.4% |
| PERMITS, PLAN CHECK FEES & INSPECTIONS | \$ 274,971 | \$ 443,885 | 61.4% |
| PROPERTY TAXES | \$ 686,237 | \$ 790,587 | 15.2% |
| INTEREST | \$ 62,489 | \$ 61,938 | -0.9% |
| GAIN ON SALE FIXED ASSET DISPOSAL | \$ 1,570 | \$ - | -100.0% |
| OTHER REVENUES | \$ - | \$ - | 0.0% |
| TOTAL GENERAL FUND | \$ 11,783,293 | \$ 12,207,501 | |
| CAPITAL IMPROVEMENT PROGRAM FUND | | | |
| SEWER PARTICIPATION FEES | \$ 888,198 | \$ 1,443,773 | 62.6% |
| INTEREST | \$ 451,475 | \$ 523,523 | 16.0% |
| LOAN REPA YMENT NSD - PRSC | \$ 65,706 | \$ 73,973 | 12.6% |
| DEPRECIATION TRANSFER FROM GENERAL FUND | \$ 1,163,361 | \$ 1,381,819 | 18.8% |
| INTEREST FROM LOAN REPA YMENT NSD - PRSC | \$ (129,039) | \$ (122,564) | -5.0% |
| TOTAL CIP FUND | \$ 1,276,340 | \$ 1,918,705 | |
| CAPITAL REPLACEMENT FUND | | | |
| INTEREST | \$ - | \$ 47,023 | 100.0% |
| TOTAL CAPITAL REPLACEMENT FUND | \$ - | \$ 47,023 | |
| TOTAL SPMUD REVENUE | \$ 13,059,633 | \$ 14,173,229 | |

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

As stated previously, General Fund Revenues derived from customer service charges were up only slightly over last year. General fund revenue derived from permits, plan check fees and inspections increased over 61.4% due to the increased development activity over the previous year. Local home resales drove an increase in revenue from the Districts' portion of the local property taxes by 15%. Revenue derived from interest income on General Fund investments was higher due keeping a lower local check fund balance and transfers to investment funds. Total General Fund Revenue used to fund ongoing operations, maintenance and administrative functions of the District were increased over \$424,000 from the previous year

Revenue received from Sewer Participation charges increased approximately \$555,000 over previous due to increased development fee and developer activity within the District boundaries. On February 4, 2016, the District adopted a strategy for the investment of District funds that resulted in a significant increase in the rate of return (reported as interest in Table 2) on District funds. While revenue derived from interest income on General Fund 100 investments was slightly lower due to keeping a lower local checking account fund balance and transfers to investment funds, total revenue on investments increased \$118,000 for FY 2015/16.

It should be noted that previous financial statements inadvertently included depreciation transfers in the revenue analysis. This has been corrected and stricken out in Table 2 for emphasis. It will be excluded in future financial statements. Depreciation will be included as an annual operating expense.

Total SPMUD revenue reported for FY 2015/16 showed an increase of \$1.11M (8.5%) over the previous year.

TABLE 3 – EXPENSES

| | FISCAL YR 2014/15 | FISCAL YR 2015/16 | % Change over Previous |
|---|----------------------|----------------------|---------------------------|
| Sub Total Salaries & Benefits | \$ 3,133,253 | \$ 3,305,066 | |
| Sub Total Local SPMUD General Fund Expenses | \$ 1,828,855 | \$ 1,271,136 | -30.5% |
| Sub Total SPWA O&M+ R&R Expenses | \$ 4,591,517 | \$ 5,826,189 | 26.9% |
| Total Operations Expense before Depreciation | \$ 9,553,625 | \$ 10,402,391 | 8.9% |
| Depreciation expense | \$ 1,163,361 | \$ 1,381,819 | 18.8% |
| Total General Fund Expenses | \$ 10,716,986 | \$ 11,784,210 | 10.0% |

General Fund Expenses increased from FY 2014/15 to FY 2015/16 by \$1.07M (10%) from \$10.71M to \$11.78M. This increase resulted primarily due to increased charges from the South Placer Wastewater Authority (SPWA) to fund the Regional Waste Water Treatment Plant (RWWTP) Operations and Maintenance (O&M) and Rehabilitation and Replacement (R&R) Programs. These two SPWA charges increased approximately \$1.24M over the previous year. To offset these increased expenses, District staff reduced locally controlled expenses by over 30%.

General Fund Revenues of \$12.20M exceeded General Fund Expenses (not including Capital Outlays; of \$11.78M).

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

Another change over previous years is the categorization on Capital Outlays to their respective fund centers. For example, those projects designated as Capital Replacement & Rehabilitation projects would be funded by accumulated depreciation; those projects designated as Capital Improvement projects (CIP) and Expansion projects are funded through the accumulation of the Sewer Participation fee; the remainder of the District's projects would be pay-as-you-go through the General Fund.

The District budgeted \$1.276M in Capital Outlay during FY 2015/16 but only expended \$495,000 consisting of \$75,910 in General Fund -100 projects,\$259,533 in CIP & Expansion fund – 300 projects, and \$159,558 in Capital Rehabilitation & Replacement fund – 400 projects.

The District also received \$1,957,750 in sewer asset contributions from new development. This included 9.6 miles of gravity sewer pipe, and 30 manholes.

A list of the District's Capital Projects is included in Table 4.

TABLE 4- CAPITAL OUTLAY ACTIVITY

| | FY 15-16 Budget | General Fund Capital - 100 | CIP & Expansion - 300 | Capital Replacement & Rehabilitation - 400 |
|---|---------------------|----------------------------------|-----------------------------|---|
| CAPITAL IMPROVEMENTS FY 15-16 | | | | |
| Board Room Furniture | \$ 6,100 | | | \$ 6,100 |
| Board Room Audio/Visual upgrades | \$ 5,000 | | | \$ - |
| Corp Yard Storage Enclosure Upgrade | \$ 32,000 | | | \$ 32,000 |
| Corp Yard Bathroom Renovation | \$ 7,500 | | | \$ 7,500 |
| Corp Yard Vehicle Wash Facility Upgrades | \$ 5,500 | | | \$ 5,500 |
| Bypass Equipment | \$ 77,000 | | | \$ - |
| Easement Roadway Replacements | \$ 35,000 | \$ 11,004 | | \$ 20,762 |
| Vehicle Replacement (x2) | \$ 125,000 | | | \$ - |
| Hydro-Vac Excavation Kit | \$ 6,000 | | | \$ 7,544 |
| Portable Flow Recorder Replacement | \$ 32,000 | | | \$ 37,389 |
| Hands-Free Communication | \$ 6,500 | \$ 4,486 | | |
| CY & HQ Fire/Bldg Access Ctrl/HQLobby/Camera Security | \$ 50,000 | \$ 37,890 | | \$ 10,187 |
| Hydro Cleaning Nozzle - Chain Flail | \$ 7,800 | | | \$ 7,844 |
| RPS Tyler Software Upgrades | \$ 10,000 | | | \$ 11,193 |
| Solar Upgrades | \$ 200,000 | \$ - | | |
| Corp Yard/HQ Smart TV Screens | \$ 2,500 | \$ 1,615 | | |
| Data Acquisition - Lucy | \$ 35,000 | \$ 20,915 | | |
| System Rehabilitation | \$ 440,000 | | | |
| Lower Loomis Diversion Sewer - Final Design & R.O.W. | \$ 490,000 | | \$ 43,119 | |
| Foothill Trunk Project - Design | \$ 230,000 | | \$ 216,414 | |
| Foothill Trunk Project - Construction | \$ 640,000 | | | |
| HRF Pre-Design | \$ 100,000 | | | |
| GPS Survey Unit | \$ 13,600 | | | \$ 13,539 |
| District Participation in Regional Projects | \$ 200,000 | | | |
| Total Capital Improvements | \$ 2,756,500 | \$ 75,910 | \$ 259,533 | \$ 159,558 |

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

The District has a very conservative policy on how they invest their reserves. On February 4, 2016, the District adopted a strategy for the investment of District funds to optimize these investment balances that resulted in a significant increase in the rate of return (reported as interest in Table 2) on District funds over the previous year. A breakdown analysis of the District's Financial Statements for Cash and Investments are summarized in Table 5.

SPMUD Total cash and investments increased by almost \$4.76M (10.41%) over last year from \$45.67M to \$50.43M; The District will be drawing down some of these reserves in future years to fund ongoing pay-as-you-go construction projects and to conform with the District's adopted reserve policy.

TABLE 5- CASH & INVESTMENT BALANCES

| CASH & INVESTMENT ACCOUNT BALANCES | Fiscal Yr 2014/15 | Fiscal Yr 2015/16 | % Change over previous |
|---|----------------------|----------------------|---------------------------|
| PLACER COUNTY TREASURY POOLED CASH - PCTIP | \$ 35,048,340 | \$ 5,026,138 | -85.66% |
| LOCAL AGENCY INVESTMENT FUND - LAIF | \$ 9,763,453 | \$ 5,004,902 | -48.74% |
| CALTRUST | \$ - | \$ 19,112,690 | 100.00% |
| WELLS FARGO INVESTMENTS | \$ - | \$ 18,131,214 | 100.00% |
| CHECKING ACCOUNT - CASH ON HAND | \$ 862,369 | \$ 3,155,631 | 265.93% |
| UNREALIZED GAIN/LOSS | \$ - | \$ 193,120 | 100.00% |
| TOTAL CASH & INVESTMENTS (END OF FY) | \$ 45,674,162 | \$ 50,623,695 | 10.84% |

ECONOMIC FACTORS AND FISCAL YEAR 2016/17 BUDGET OVERVIEW

A comparison of previous year's results and the adopted budget for Fiscal Year 2016/17 is included in **Tables 6 through 8**.

Revenue - The Economic forecast for growth within the District's service area boundaries looks favorable. There is now a backlog of development proposal under review which should allow the District to add about 500 EDUs during the next fiscal year, the Federal Government has kept its benchmark interest rate at a range between zero and one-quarter percent and this will continue to depress interest income received on investments. The District will be reviewing its investment policy to enhance revenue potential through diversification of the investment portfolio. Accounting for all revenue sources indicates that revenues will continue to be flat. Staff anticipates the preparation of a 5-year financial plan during the coming year.

**TABLE 6- FY 2016/17 BUDGET REVIEW
SPMUD REVENUE**

| SPMUD REVENUE | FISCAL YR 14/15 | FISCAL YR 15/16 | BUDGETED FISCAL YR 16/17 |
|----------------------------|----------------------|----------------------|--------------------------------|
| Total General Fund Revenue | \$ 11,799,723 | \$ 11,354,976 | \$ 11,837,434 |
| Total Capital Fund Revenue | \$ 1,276,340 | \$ 1,443,773 | \$ 2,145,794 |
| TOTAL SPMUD REVENUE | \$ 13,076,063 | \$ 12,798,749 | \$ 13,983,228 |

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

Personnel - SPMUD has 39 approved personnel positions that include 5 elected, 2 contracted, 4 management, 2 supervisors, and 26 staff positions; there are currently 27 FTE. The MOU's for employees and management was negotiated in FY14 for FY15 thru FY17 and Cost of Living Increases are tied to the Consumer Cost Index. Management has elected to forego seasonal hiring of temporary workers as a cost savings measure.

Expenses - Indexes for fuel oil, gasoline, electricity, and natural gas have been declining which is helping to keep those related costs down. The district has been successful keeping a cap on locally controlled expenses as well. Total charges from SPWA continue to rise, although the District expects them to drop in the coming years. The drought has impacted flows to sewers which may necessitate a review of the sewage allocation to the RWWTP by the SPWA partners.

**TABLE 7 – FY 2016/17 BUDGET REVIEW
GENERAL FUND EXPENSES**

| | FISCAL YR 2014/15 | FISCAL YR 2015/16 | BUDGETED FISCAL YR 2016/17 |
|---|----------------------|----------------------|----------------------------------|
| Salaries/Wages | \$ 1,891,189 | \$ 1,957,192 | \$ 1,800,000 |
| FICA - Social Security | \$ 148,117 | \$ 148,117 | \$ 138,200 |
| CalPERS Retirement | \$ 378,230 | \$ 450,481 | \$ 466,000 |
| 457 Retirement | \$ 44,150 | \$ 39,960 | \$ 44,600 |
| Insurance Benefits | \$ 486,146 | \$ 505,351 | \$ 540,000 |
| Pers OPEB | \$ 185,421 | \$ 203,965 | \$ 225,000 |
| Sub Total Salaries & Benefits | \$ 3,133,253 | \$ 3,305,066 | \$ 3,213,800 |
| Property & Liability Insurance | \$ 93,933 | \$ 92,070 | \$ 110,000 |
| Professional Services | \$ 360,800 | \$ 335,261 | \$ 120,000 |
| Vehicle Repair and Maintenance | \$ 64,329 | \$ 55,333 | \$ 56,000 |
| Professional Development | \$ 47,595 | \$ 31,479 | \$ 48,000 |
| Legal Services | \$ 63,679 | \$ 66,913 | \$ 100,000 |
| Utility Billing/Banking Expense | \$ 147,194 | \$ 150,350 | \$ 140,000 |
| General Operating Supplies & Maintenance | \$ 155,007 | \$ 139,038 | \$ 126,000 |
| Gas & Oil Expenses | \$ 42,487 | \$ 25,617 | \$ 35,000 |
| Utilities | \$ 97,376 | \$ 105,851 | \$ 104,000 |
| Repair/Maintenance Agreements | \$ 42,396 | \$ 56,212 | \$ 73,000 |
| Regulatory Compliance/Government Fees | \$ 28,396 | \$ 13,857 | \$ 40,000 |
| Other Operating Expenses | \$ 685,663 | \$ 199,155 | \$ 256,000 |
| Sub Total Local SPMUD General Fund Expenses | \$ 1,828,855 | \$ 1,271,136 | \$ 1,208,000 |
| RWWTP Maintenance & Operations | \$ 3,614,539 | \$ 4,513,821 | \$ 4,600,000 |
| RWWTP Rehab & Replacement | \$ 976,978 | \$ 1,312,368 | \$ 1,320,000 |
| Sub Total SPWA O&M + R&R Expenses | \$ 4,591,517 | \$ 5,826,189 | \$ 5,920,000 |
| Total Operations Expense before Depreciation | \$ 9,553,625 | \$ 10,402,391 | \$ 10,341,800 |
| Depreciation expense | \$ 1,163,361 | \$ 1,381,819 | \$ 1,350,600 |
| Total General Fund Expenses | \$ 10,716,986 | \$ 11,784,210 | \$ 11,692,400 |

**South Placer Municipal Utility District
Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2016 (FY 2015/16)**

Capital – The District anticipates increased capital facility construction in the coming years with the installation of the Foothill Trunk and the Loomis Basin Diversion Trunk. The District has sufficient funds available to construct these facilities on a pay-as-you-go and does not anticipate the need to secure debt to finance these upcoming projects. The District will be drawing down some of these reserves in future years to fund these ongoing construction projects and to conform with the District's adopted reserve policy.

**TABLE 8 – FY 2016/17 BUDGET REVIEW
CAPITAL INVESTMENT**

| CAPITAL INVESTMENT | FY 2014/15 | FY 2015/16 | BUDGETED FY 2016/17 |
|---------------------------------------|------------------------|----------------------|--------------------------------|
| CIP | \$ 619,872.00 | \$ 259,533.00 | \$ 2,061,000.00 |
| R&R | \$ 738,490.00 | \$ 159,558.00 | \$ 1,049,000.00 |
| <i>SUBTOTAL CAPITAL OUTLAY</i> | \$ 1,358,362.00 | \$ 419,091.00 | \$ 3,110,000.00 |
| GENERAL FUND IMPROVEMENTS | \$ 106,503.00 | \$ 75,910.00 | \$ 445,500.00 |
| TOTAL ANNUAL INVESTMENT | \$ 1,464,865.00 | \$ 495,001.00 | \$ 3,555,500.00 |

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.

BASIC FINANCIAL STATEMENTS

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION
(Audited)
AS OF JUNE 30, 2016

| ASSETS | Operating | CIP | Capital | Total |
|--|----------------------|----------------------|----------------------|-----------------------|
| CURRENT | Fund | Fund | Replacement | |
| | Fund | Fund | Fund | Total |
| Cash and Cash Equivalents | \$ 5,372,908 | \$ 3,945,994 | \$ 3,867,769 | \$ 13,186,671 |
| Short Term Investments | 8,253,913 | 14,595,947 | 14,394,045 | 37,243,905 |
| Accounts Receivable (Net of Allowance for Doubtful Accounts) | 3,702,548 | - | - | 3,702,548 |
| Note Receivable, Current | - | 65,706 | - | 65,706 |
| Prepaid Expenses | 53,884 | - | - | 53,884 |
| Total Current Assets | 17,383,253 | 18,607,647 | 18,261,814 | 54,252,714 |
| FIXED ASSETS | | | | |
| Depreciable Capital Assets(net) | 62,016,560 | - | - | 62,016,560 |
| Non Depreciable Capital Assets | 1,398,769 | - | - | 1,398,769 |
| TOTAL FIXED ASSETS (NET) | 63,415,329 | - | - | 63,415,329 |
| Note Receivable, Net of Current Portion | - | 5,021,786 | - | 5,021,786 |
| TOTAL ASSETS | \$ 80,798,582 | \$ 23,629,433 | \$ 18,261,814 | \$ 122,689,829 |
| LIABILITIES & NET POSITION | | | | |
| CURRENT | | | | |
| Accounts Payable | \$ 147,831 | \$ - | \$ - | \$ 147,831 |
| Other Accrued Liabilities | 187,322 | - | - | 187,322 |
| OPEB Liability | - | - | - | 0 |
| Compensated Absences | 149,945 | - | - | 149,945 |
| Note Payable, Current | 65,706 | - | - | 65,706 |
| Deferred Participation Agreements | - | - | - | 0 |
| TOTAL CURRENT LIABILITIES | 550,804 | - | - | 550,804 |
| Note Payable, Net of Current Portion | 5,021,786 | - | - | 5,021,786 |
| Deferred Participation Agreements | - | 595,692 | - | 595,692 |
| Aggregate Net Pension Liability | 2,403,545 | - | - | 2,403,545 |
| TOTAL LIABILITIES | 7,976,135 | 595,692 | - | 8,571,827 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Net Pension Liability | 580,173 | - | - | 580,173 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 58,393,543 | - | - | 58,393,543 |
| Restricted Funds | - | 5,021,786 | - | 5,021,786 |
| Unrestricted Fund Balance | 13,848,731 | 18,011,955 | 18,261,814 | 50,122,500 |
| TOTAL NET POSITION | \$ 72,242,274 | \$ 23,033,741 | \$ 18,261,814 | \$ 113,537,829 |
| TOTAL LIABILITIES & NET POSITION | \$ 80,798,582 | \$ 23,629,433 | \$ 18,261,814 | \$ 122,689,829 |

The notes to the financial statements are an integral part of these financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Audited)
AS OF JUNE 30, 2016

| | <u>Operating Fund</u> | <u>CIP Fund</u> | <u>Capital Replacement Fund</u> | <u>Total</u> |
|---|---------------------------|------------------------|---|-----------------------|
| REVENUES | | | | |
| Sewer Charges | \$ 10,911,091 | \$ - | \$ - | \$ 10,911,091 |
| Connection Charges | - | 1,443,773 | - | 1,443,773 |
| Permits, Fees, and Inspections | 443,885 | - | - | 443,885 |
| Total Fees and Charges | \$ 11,354,976 | \$ 1,443,773 | \$ - | \$ 12,798,749 |
| OPERATING EXPENSES | | | | |
| Collection and Treatment | 6,447,778 | 28,344 | - | 6,476,122 |
| Administration and General | 1,269,273 | - | - | 1,269,273 |
| Technical Services | 2,106,383 | - | - | 2,106,383 |
| Depreciation | 1,381,819 | - | - | 1,381,819 |
| Total Operating Expenses | \$ 11,205,253 | \$ 28,344 | \$ - | \$ 11,233,597 |
| INCOME (LOSS) FROM OPERATIONS | \$ 149,723 | \$ 1,415,429 | \$ - | \$ 1,565,152 |
| Tax Revenue | 790,587 | - | - | 790,587 |
| Interest Income | 104,626 | 599,492 | 121,486 | 825,604 |
| Interest Expense | (122,564) | - | - | (122,564) |
| Net Income (Loss) Before Transfers | \$ 922,372 | \$ 2,014,921 | \$ 121,486 | \$ 3,058,779 |
| Net Transfers from Operating Fund | - | (15,689,110) | 18,140,328 | 2,451,218 |
| Net Transfers to Capital Maintenance Fund | (2,451,218) | - | - | (2,451,218) |
| Capital Contributions | 1,957,751 | - | - | 1,957,751 |
| CHANGE IN NET POSITION | \$ 428,905 | \$ (13,674,189) | \$ 18,261,814 | \$ 5,016,530 |
| Net Position, Beginning of Year | \$ 71,813,369 | \$ 36,707,930 | \$ 0 | \$ 108,521,299 |
| Net Position, End of Year | \$ 72,242,274 | \$ 23,033,741 | \$ 18,261,814 | \$ 113,537,829 |

The notes to the financial statements are an integral part of these financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
(Audited)
AS OF JUNE 30, 2016

| | <u>Operating Fund</u> | <u>CIP Fund</u> | <u>Capital Replacement Fund</u> | <u>Total</u> |
|--|---------------------------|------------------------|---|------------------------|
| Cash Provided by Operating Activities | | | | |
| Cash Receipts from Customers | \$ 11,354,976 | \$ 2,853,417 | \$ - | \$ 14,208,393 |
| Payments for Employee Services | (2,821,307) | - | - | (2,821,307) |
| Payments to Suppliers for Goods and Services | (1,559,678) | (28,344) | - | (1,588,022) |
| Payments to City of Roseville | (5,826,189) | - | - | (5,826,189) |
| Cash Provided by (used in) Operations | <u>\$ 1,147,802</u> | <u>\$ 2,825,073</u> | <u>\$ -</u> | <u>\$ 3,972,875</u> |
| Cash Flows from Financing Activities | | | | |
| Cash Flows from Noncapital Financing Activities: | | | | |
| Tax Revenue | \$ 790,587 | \$ - | \$ - | \$ 790,587 |
| Deferred Pension Inflows | (188,700) | - | - | (188,700) |
| Net Transfers from Operating Fund | (2,451,218) | - | - | (2,451,218) |
| Net Transfers to/from Capital Funds | - | (15,689,110) | 18,140,328 | 2,451,218 |
| Cash Flows from Capital Financing Activities: | | | | |
| Contributed Assets | 1,957,751 | - | - | 1,957,751 |
| Note Payable | (73,973) | 73,973 | - | - |
| Cash Flows Provided by Financing Activities | <u>\$ 34,447</u> | <u>\$ (15,615,137)</u> | <u>\$ 18,140,328</u> | <u>\$ 2,559,638</u> |
| Cash Flows from Investing Activities | | | | |
| Interest Income | \$ 104,626 | \$ 599,492 | \$ 121,486 | \$ 825,604 |
| Interest Expense | (122,564) | - | - | (122,564) |
| Investment in Short Term Investments | (8,253,913) | (14,595,947) | (14,394,045) | (37,243,905) |
| Additions to Fixed Assets | (2,479,139) | - | - | (2,479,139) |
| Cash Flows Provided by (Used in) Investing Activities | <u>\$ (10,750,990)</u> | <u>\$ (13,996,455)</u> | <u>\$ (14,272,559)</u> | <u>\$ (39,020,004)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | <u>\$ (9,568,741)</u> | <u>\$ (26,786,519)</u> | <u>\$ 3,867,769</u> | <u>\$ (32,487,491)</u> |
| Net Cash and Cash Equivalents - Beginning of Year | <u>\$ 14,941,649</u> | <u>\$ 30,732,513</u> | <u>\$ -</u> | <u>\$ 45,674,162</u> |
| Net Cash and Cash Equivalents - End of Year | <u>\$ 5,372,908</u> | <u>\$ 3,945,994</u> | <u>\$ 3,867,769</u> | <u>\$ 13,186,671</u> |

The notes to the financial statements are an integral part of these financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STATEMENT OF CASH FLOWS
(Audited)
AS OF JUNE 30, 2016

| | <u>Operating Fund</u> | <u>CIP Fund</u> | <u>Capital Replacement Fund</u> | <u>Total</u> |
|--|---------------------------|---------------------|---|---------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | |
| Income (Loss) From Operations | \$ 149,723 | \$ 1,415,429 | \$ - | \$ 1,565,152 |
| Items Not Requiring An Outlay of Cash: | | | | |
| Depreciation | \$ 1,381,819 | \$ - | \$ - | \$ 1,381,819 |
| Deferred Compensation Arrangements | (188,700) | - | - | (188,700) |
| Changes in Working Capital: | | | | |
| Accounts Receivable | \$ 315,986 | \$ - | \$ - | \$ 315,986 |
| Interest Receivable | - | 21,640 | - | 21,640 |
| Refund Receivable | - | 1,536,167 | - | 1,536,167 |
| Prepaid Expenses | (38,719) | - | - | (38,719) |
| Accounts Payable | (652,847) | - | - | (652,847) |
| Accrued Expenses | 13,755 | - | - | 13,755 |
| OPEB Liability | 165,031 | - | - | 165,031 |
| Compensated Absences | 1,754 | - | - | 1,754 |
| Deferred Participation Agreements | - | (148,163) | - | (148,163) |
| Adjustments to Working Capital | \$ (195,040) | \$ 1,409,644 | \$ - | \$ 1,214,604 |
| Cash Provided by (Used in) Operations | <u>\$ 1,147,802</u> | <u>\$ 2,825,073</u> | <u>\$ -</u> | <u>\$ 3,972,875</u> |

The notes to the financial statements are an integral part of these financial statements.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

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 a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

B. Fund Accounting:

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

C. Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting. This accounting method conforms to accounting principles generally accepted in the United States of

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued):

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 to their maturity that they present insignificant risk of changes in value. 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

(Audited)

June 30, 2016

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 Special District Risk Management Authority, with the employer's liability limit of \$10,000,000 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 any 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. At June 30, 2016, all of the restricted net position consisted of total outstanding Newcastle Sanitary District (NSD) loan receivable balance. South Placer Municipal Utility District and Newcastle Sanitary District have entered into agreements relating to the annexation of the NSD service area to SPMUD and the financing of the 'NSD project' costs associated with the annexation required the creation of the Newcastle Special Benefit Area (NSBA) for the adoption of levying of a project-related service charge (PRSC) for the repayment of said financing. Under SPMUD Resolutions 12-19 and 13-13, PRSC should be used exclusively to repay the principal and interest on the amount repayable.

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.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

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.

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 are 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 |

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)**N. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) and additions to/deductions from CalPERS' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2: Cash and Investments

Cash and equivalents as reported on the balance sheet at June 30, 2016, consisted of the following:

| Component | Amounts |
|----------------------------|---------------|
| General Checking | \$ 3,155,630 |
| LAIF Account | 5,004,902 |
| Placer County Treasury | 5,026,139 |
| Total cash and equivalents | \$ 13,186,671 |

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 California Government Code §53601 (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.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 2: Cash and Investments (continued)**A. Investments Authorized by the California Government Code §53601 and the Entity's Investment Policy (continued)**

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>% of Portfolio</u> | <u>One Issue Limitation</u> |
|--|-------------------------|-----------------------|-----------------------------|
| Investment pools authorized under CA statute governend by Government Code: | | | \$40 Million |
| Local Agency Investment Fund (LAIF) | N/A | 75% | No Limit |
| Placer County Treasurer's Invest. Pool | N/A | 75% | No Limit |
| Investment Trust of CA (CalTrust) | N/A | 75% | No Limit |
| Bank Savings Account | 180 Days | 75% | No Limit |
| Federal Agencies | 5 Years | 25% | No Limit |
| Commercial Paper | 180 Days | 15% | No Limit |
| Negotiable Certificates of Deposits | 180 Days | 20% | No Limit |
| Re-Purchase Agreements | 180 Days | 20% | No Limit |
| US Treasury Obligations | 5 Years | No Limit | No Limit |
| Any other allowed investments under CGC §53601 | Limited | 20% | No Limit |

B. 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 or 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.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 2: Cash and Investments (continued)**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.

D. 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 investments by remaining maturity:

| Investment Type | Totals | Remaining Maturity | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | | 0-12 Months | 13-48 Months |
| State Investment Pool | \$ 5,004,902 | \$ 5,004,902 | \$ - |
| Placer County Pooled Cash | 5,026,139 | 5,026,139 | - |
| Investment Trust of CA (CalTrust) | 19,112,690 | 4,021,927 | 15,090,763 |
| CDs and Marketable Securities | <u>18,131,214</u> | <u>-</u> | <u>18,131,214</u> |
| Totals | \$ <u>47,274,945</u> | \$ <u>14,052,968</u> | \$ <u>33,221,977</u> |

E. Investment in State Investment Pool and Other Investments

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.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 2: Cash and Investments (continued)

E. Investment in State Investment Pool and Other Investments (continued)

The District is a voluntary participant in the Placer County Treasurer's Investment Portfolio that is administered by the Placer County Treasurer. Its primary objective is to safeguard the principal of the funds under its control and to meet any liquidity needs of the depositor. Maximizing the rate of return is performed consistent with the objectives of safeguarding principal and meeting liquidity needs.

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 the County Treasurer for the entire portfolio under its control.

The District is a voluntary participant in the Investment Trust of California (CalTrust). CalTrust is a program operated by the joint powers authority to offer a high level of current income consistent with preservation of principal. It offers short and medium term bond funds. The objective of the investment policy is to obtain the best possible return commensurate with the degree of risk that participants are willing to assume in obtaining such return.

The District has a portfolio Brokerage account managed by Wells Fargo Securities. This portfolio is primarily invested in bonds issued by government sponsored enterprises and bank certificate of deposits. The portfolio is organized with staggered maturity dates. This structure assures part of the portfolio is liquidating at par value on a regular basis.

All 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. The recognition of fair value includes unrealized gains and losses are reported as part of the yearly portfolio income or loss.

Note 3: Note Receivable and Note Payable

In February 2014, the Newcastle Sanitary District was merged into South Placer Municipal Utility District and is now a service ward of the District. This loan was absorbed with the transfer of the capital assets contributed by the Newcastle Sanitary District.

The District loaned funds to Newcastle Sanitary District (NSD) for the purpose of covering the cost of several reconstruction tasks required in connection with NSD facilities upgrades and regulatory compliance issues. The total outstanding loan amount as of June 30, 2016, was \$5,087,492.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 3: Note Receivable and Note Payable (continued)

Interest on the principal amount accrues at an annual rate of 2.5%. The principal and interest charges are being billed quarterly to NSD customers at \$54 per month over a 40 year payback period.

Note 4: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

| | <u>June 30, 2015</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2016</u> |
|---|----------------------|---------------------|--------------------|----------------------|
| Buildings | \$ 3,173,847 | \$ 36,493 | \$ - | \$ 3,210,340 |
| Sewer System | 73,178,305 | 2,034,564 | - | 75,212,869 |
| Equipment | 1,178,019 | 164,223 | - | 1,342,242 |
| Office Furniture | 195,084 | 12,082 | - | 207,166 |
| Vehicles | 1,552,995 | 18,613 | - | 1,571,608 |
| Less Accumulated Depreciation | <u>(18,101,962)</u> | <u>(1,425,703)</u> | | <u>(19,527,665)</u> |
| Total Capital Assets being Depreciated (net) | 61,176,288 | 840,272 | - | 62,016,560 |
| Land | 1,139,235 | - | - | 1,139,235 |
| Construction in Progress | <u>46,370</u> | <u>213,164</u> | | <u>259,534</u> |
| Total Capital Assets not being Depreciated | 1,185,605 | 213,164 | - | 1,398,769 |
| Total Capital Assets (net) | <u>\$ 62,361,893</u> | <u>\$ 1,053,436</u> | <u>\$ -</u> | <u>\$ 63,415,329</u> |

Note 5: 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 menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees'

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 5: Defined Benefit Pension Plan (continued)**A. Plan Description (continued)**

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 can be obtained from the CalPERS Executive Office at 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 II 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 ended June 30, 2014 was 15.685% for Tier I, 10.282% for Tier II. 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. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

As of June 30, 2014, the last valuation date available, the District reported net pension asset of \$0 and net pension liability of \$2,403,545.

| | Proportionate Share | Net Pension Asset | Net Pension Liability |
|--|------------------------|-------------------------|--------------------------|
| PERF C - Miscellaneous Second Tier Program | 0.00004% | \$ - | \$ 2,761 |
| PERF C - Miscellaneous Program | 0.03858% | \$ - | \$ 2,400,776 |
| PERF C - PEPRM Miscellaneous Program | 0.00000% | \$ - | \$ 8 |
| Total Net Pension Asset / Liability | | <u>\$ -</u> | <u>\$ 2,403,545</u> |

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 5: Defined Benefit Pension Plan (continued)**C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)**

The net pension and asset liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of July 1, 2014 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating employers.

For the year ended June 30, 2014, recognized pension expense of \$207,192 and pension income of \$902. At June 30, 2014, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes in assumptions | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 610,472 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 35,771 | \$ 6,630 |
| Contributions subsequent to the measurement date | \$ - | \$ - |
| Total | <u>\$ 35,771</u> | <u>\$ 617,102</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Deferred Outflows (Inflows) of Resources |
|------------------------|---|
| 2016 | \$ (188,058) |
| 2017 | \$ (191,347) |
| 2018 | \$ (201,926) |
| 2019 | \$ - |
| 2020 | \$ - |

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 5: Defined Benefit Pension Plan (continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)

Actuarial Assumptions: The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Investment rate of return | 7.50%, net of pension plan investment expense, |

Active member mortality rates are a function of the member's gender, occupation, and age and are developed based upon plan experience. Retiree mortality assumptions were based on CalPERS' specific data that includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The 7.50% assumed investment rate of return is comprised of an inflation of 2.50%, a real return of 5.00% that is net of investment expense.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 5: Defined Benefit Pension Plan (continued)**C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)**

The target allocation and best estimates of geometric real rates of return for major asset class are summarized in the following table:

| | New Strategic Allocation | Real Return Years 1 - 10 | Real Return Years 11+ |
|-------------------------------|--------------------------|------------------------------------|-----------------------|
| Global Equity | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Totals | 100.00% | | 27.62% |
| | | Inflation | 2.50% |
| | | Expected Arithmetic Nominal Return | 3.00% |

Discount rate:

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 5: Defined Benefit Pension Plan (continued)**C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (continued)****Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate:**

The following represents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | Discount Rate -1% (6.50%) | Current Discount Rate (7.50%) | Discount Rate +1% (8.50%) |
|---|------------------------------|----------------------------------|------------------------------|
| Plan's Net Pension Liability/(Asset) | \$ 4,282,374 | \$ 2,403,545 | \$ 844,295 |

Note 6: 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 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 Memorandum of Understanding with all other employees. The District's annual pension cost for the matching contributions under the 457 deferred compensation plan was \$33,308.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 7: 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 Kaiser. 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. As of June 30, 2016, there were 15 retired employees who qualified for the healthcare plan. 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).

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, 2015 actuarial valuation, the entry age normal cost, level percent of pay funding method is used. The entry age normal cost method spreads plan costs for each participant from the entry date to the expected retirement date, of prior service costs. For retirees, the AAL is the present value of all projected benefits. The asset valuation method was based on market value of assets in the OPEB trust.

The actuarial assumptions included a 7.28% investment rate of return. The valuation assumes that 100% of eligible retirees will actually participate in the retiree medical benefit. The annual healthcare cost trend rate of 8.5% initially, decreasing approximately .5% per year until reaching an ultimate rate of 4.5% for fiscal year ending 2023 and later. It was assumed salary increases will be 3.00% per annum.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 7: Post Retirement Health Care Benefits (continued)**Funding Policy**

The contribution requirement of the District to contribute to the plan is established and may be amended by the Board. Currently, employees are not required to contribute to the plan. The District's contributions are calculated on a pre funding basis using entry age normal cost, with investment gains and losses amortized over the remaining 24 year period with payments determined on a level percent of pay basis. The District has prefunded the actuarial accrued liability (AAL) 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, 2016 by paying health insurance providers or reimbursing to the retiree premiums paid by the retiree. These reimbursements were not funded by CERBT.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based all 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 to South Placer Public Utility District's Healthcare Plan:

| | | |
|---|----|----------------|
| Retiree Healthcare Premium Costs | \$ | 161,824 |
| Amortization of UAAL | | 113,283 |
| Interest to Fiscal Year End | | 20,027 |
| ARC for Current Fiscal Year | | <u>295,134</u> |
| Decrease in Net OPEB Obligation (Asset) | | - |
| Net OPEB Obligation (Asset) - Beginning of Year | | - |
| Net OPEB Obligation (Asset) - End of Year | \$ | <u>-</u> |

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:

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 7: Post Retirement Health Care Benefits (continued)

| | Annual OPEB Cost | % of Annual OPEB Cost Funded | Net OPEB Obligation |
|---------------|---------------------|------------------------------------|------------------------|
| June 30, 2013 | 165,289 | 100% | - |
| June 30, 2014 | 183,883 | 100% | - |
| June 30, 2015 | 295,134 | 100% | - |
| June 30, 2016 | 295,134 | 100% | - |

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) was \$5,596,626 and the unfunded actuarial accrued liability (UAAL) for benefits was \$1,770,730. 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 \$1,770,730 unfunded accrued liability as of July 1, 2015 the most recent actuarial valuation date. The District has chosen to amortize the \$1,770,730 unfunded accrued liability over the remaining 24 year period with payments determined on a level percent of pay. 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 following schedule of funding progress shows 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.

| Valuation Date | Actuarial Accrued Liabilities | Actuarial Accrued Assets | Unfunded Actuarial Liability | Funded Ratio | Annual Covered Payroll | UL as a % of Payroll |
|----------------|-------------------------------------|--------------------------------|------------------------------------|-----------------|------------------------------|----------------------------|
| July 1, 2011 | \$ 3,062,219 | \$ 2,729,321 | \$ 332,898 | 89.1% | \$ 1,387,068 | 24.0% |
| July 1, 2013 | \$ 3,496,648 | \$ 3,181,069 | \$ 315,579 | 91.1% | \$ 1,425,554 | 22.1% |
| July 1, 2015 | \$ 5,596,626 | \$ 3,825,896 | \$ 1,770,730 | 68.0% | \$ 1,671,388 | 105.9% |

SOUTH PLACER MUNICIPAL UTILITY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(Audited)

June 30, 2016

Note 8: 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 and later refunded to obtain more favorable interest rates in a combination of fixed, SIFMA Index and variable rate bonds. The agreement was also amended effective October 1, 2012. South Placer Municipal Utility District proportionate share decreased from its original allocation of 25% to 22.43% for the shared operating costs and debt service on these bonds. Bond payments are funded by regional connection fees charged by the District and remitted to the City of Roseville. Total connection fees collected by the District and paid to the Authority under this agreement, for the fiscal year ended June 30, 2016 was \$6,055,684. The financial statements for the South Placer Wastewater Authority are available online at http://roseville.ca.us/gov/finance/general_accounting/spwa.asp

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 fiscal year ended June 30, 2016 for maintenance and operation expenses was \$4,513,821 and an additional \$1,312,368 for the District's share of rehab project costs.

Note 9: 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. The District's insurance carrier also covers defense costs that are not recovered from the opposing side upon successful resolution.

At June 30, 2016, the District had commitments with respect to various engineering services and construction projects.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

(Audited)

June 30, 2016

Note 9: Commitments and Contingencies (continued)

Over the years, a number of agreements have been entered into by the District and local developers for installation of wastewater servicing facilities to the developer's projects. The developers constructed and installed the wastewater facilities at their own expense and thereafter dedicated said facilities to the District for public use. In return the Developers will receive partial reimbursement from construction fees actually collected on the properties within the project area, through the Agreement period. No contingent liability to the District is incurred for the uncollected portion of the agreed maximum amount.

| <u>Project Name</u> | <u>Max</u> <u>Reimbursement</u> | <u>EDUs Benefited</u> |
|---|------------------------------------|-----------------------|
| Croftwood Offsite Sewer (Sierra College) | \$ 186,010 | 1958 |
| Poppy Ridge II Annexation | \$ 3,620 | 36 |
| Sierra College Annexation | \$ 2,951,158 | 612 |
| Yankee Hill Estates (Middle Antelope Creek) | \$ 217,375 | 925 |
| Rocklin 60 – Phase I | \$ 68,255 | 999 |
| Rocklin 60 – Phase II | \$ 139,621 | 999 |

SUPPLEMENTAL INFORMATION

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT
SCHEDULE OF OPERATING EXPENSES**

(Audited)

AS OF JUNE 30, 2016

| | <u>Administrative and General</u> | <u>Collection and Treatment</u> | <u>Technical Services</u> | <u>Total</u> |
|---|---------------------------------------|-------------------------------------|-------------------------------|---------------------|
| OPERATING EXPENSES | | | | |
| Repairs and Maintenance | \$ - | \$ 4,801,765 | \$ 16,581 | \$ 4,818,346 |
| Salaries and Wages | 443,163 | 1,089,847 | 424,182 | 1,957,192 |
| Employee Benefits | 368,363 | 249,616 | 91,340 | 709,319 |
| Professional Fees | 264,871 | 44,941 | 25,449 | 335,261 |
| Retirement | 70,197 | 170,954 | 63,590 | 304,741 |
| Utilities | - | 105,851 | - | 105,851 |
| Insurance | 92,070 | - | - | 92,070 |
| Bank Charges | - | - | 66,113 | 66,113 |
| Memberships and Licenses | 15,174 | - | 10,162 | 25,336 |
| Office Expenses | 9,010 | - | - | 9,010 |
| Rental | - | 175 | - | 175 |
| Other Operating Expenses | <u>6,425</u> | <u>12,973</u> | <u>1,408,966</u> | <u>1,428,364</u> |
| EXPENSES BEFORE DEPRECIATION | <u>\$ 1,269,273</u> | <u>\$ 6,476,122</u> | <u>\$ 2,106,383</u> | <u>\$ 9,851,778</u> |
| Depreciation | | | \$ <u>1,381,819</u> | |
| TOTAL OPERATING EXPENSES | | | <u>\$ 11,233,597</u> | |

**SOUTH PLACER MUNICIPAL UTILITY DISTRICT
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL**

(Audited)

AS OF JUNE 30, 2016

| | Final Budget | Actual | Variance With Final Budget Favorable (Unfavorable) |
|--|--------------------------------|--------------------------------|---|
| Revenues | | | |
| Sewer Charges | \$ 10,554,000 | \$ 10,911,091 | \$ (357,091) |
| Connection Charges | 1,150,000 | 1,443,773 | (293,773) |
| Permits, Fees, and Inspections | <u>260,000</u> | <u>443,885</u> | <u>(183,885)</u> |
| Total Fees and Charges | \$ <u>11,964,000</u> | \$ <u>12,798,749</u> | \$ <u>(834,749)</u> |
| OPERATING EXPENSES | | | |
| Collection and Treatment | \$ 6,440,631 | \$ 6,476,122 | \$ (35,491) |
| Administration and General | 1,710,380 | 1,269,273 | 441,107 |
| Technical Services | 3,910,781 | 2,106,383 | 1,804,398 |
| Depreciation | <u>1,350,600</u> | <u>1,381,819</u> | <u>(31,219)</u> |
| Total Operating Expenses | \$ <u>13,412,392</u> | \$ <u>11,233,597</u> | \$ <u>2,178,795</u> |
| LOSS FROM OPERATIONS | \$ (1,448,392) | \$ 1,565,152 | \$ (3,013,544) |
| Tax Revenue | 700,000 | 790,587 | (90,587) |
| Interest Income | 335,000 | 825,604 | (490,604) |
| Interest Expense | - | (122,564) | 122,564 |
| Other Revenue | <u>20,000</u> | <u>-</u> | <u>20,000</u> |
| NET INCOME BEFORE TRANSFERS | \$ <u>(393,392)</u> | \$ <u>3,058,779</u> | \$ <u>(3,452,171)</u> |

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Audited)
JUNE 30, 2016
LAST 10 FISCAL YEARS AS OF JUNE 30, 2014 *

| | Miscellaneous Second Tier Plan | Miscellaneous Plan | PEPRA Miscellaneous Plan |
|--|--------------------------------------|-----------------------|--------------------------------|
| Proportion of the net pension liability (asset) | 0.00004% | 0.03858% | 0.00000% |
| Proportionate share of the net pension liability (asset) | \$ 2,761 | \$ 2,400,776 | \$ 8 |
| Covered employee payroll | \$ 134,654 | \$ 1,418,993 | \$ 28,754 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 2.05% | 169.19% | 0.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.03% | 83.03% | 82.98% |

* In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset) in their RSI. The 10-year schedule will need to be built prospectively. The schedule above is only for the current year.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Audited)
JUNE 30, 2016
LAST 10 FISCAL YEARS AS OF JUNE 30, 2014 *

| | Miscellaneous Second Tier Plan | Miscellaneous Plan | PEPRA Miscellaneous Plan |
|--|--------------------------------------|-----------------------|--------------------------------|
| Contractually required contribution | \$ 12,569 | \$ 224,826 | \$ 5,072 |
| Contributions in relation to the contractually required contribution | \$ (12,569) | \$ (224,826) | \$ (5,072) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll | \$ 134,654 | \$ 1,418,993 | \$ 28,754 |
| Contributions as a percentage of covered-employee payroll | 9.33% | 15.84% | 17.64% |

* Amounts presented were determined as of calendar year January 1 – December 31. Employers will be required to prospectively develop this table in future years to show 10 years of information. The schedule above is only for the current year. Prior year numbers are available from your prior year note disclosure information.

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
NOTES TO THE SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY
(Audited)

June 30, 2015

Note 1: Change in Benefit Terms

The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Year Additional Service Credit (a.k.a. Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities.

Note 2: Change in Assumptions

None



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

To the Board of Directors of
South Placer Municipal Utility District

We have audited the accompanying financial statements of the business-type activities, of South Placer Municipal Utility District as of June 30, 2016, for the year then ended, and have issued our report thereon dated October 6, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

In planning and performing our audit, we considered South Placer Municipal Utility District'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

We noted the District had a lack of segregation of duties, as one person was 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 occurring without being detected.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the South Placer Municipal Utility District's financial statements are free of material misstatements, 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 result 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.



Stroub Thompson Noble
Certified Public Accountants

October 6, 2016