

REGIONAL WATER AUTHORITY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

JUNE 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Regional Water Authority
Citrus Heights, California

We have audited the accompanying basic financial statements of the Regional Water Authority as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards accepted in the United States of America and standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Water Authority as of June 30, 2008 and 2007 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2008, on our consideration of Regional Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and retirement system – schedule of funding progress on page 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The program statements of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The program statements of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cook CPA Group

Roseville, California
November 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Regional Water Authority (RWA) promotes collaboration on water management and water supply reliability programs in the greater Sacramento area. The following discussion and analysis of the RWA financial performance provides an overview of the financial activities for the fiscal years ending June 30, 2008 and 2007. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 13 to 27 of this report.

Description of Basic Financial Statements

RWA maintains its accounting records in accordance with generally accepted accounting principles for a special-purpose government engaged in business-only type activities as prescribed by the Government Accounting Standards Board. The accounts of RWA are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Because RWA recovers operational costs through assessment fees and charges, RWA's funds are accounted for as an enterprise fund type of the proprietary fund group. The basic financial statements include balance sheets, statements of revenues, expenses, and changes in net assets, and statements of cash flows.

The balance sheets include all of RWA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether RWA's financial position is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets report all of RWA's revenues and expenses during the periods indicated. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. interest income and amounts due to vendors).

The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from interest earnings and cash used for equipment purchases.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 17 to 27 of this report.

Condensed Financial Information

For the fiscal years ending June 30, the following condensed comparative balance sheets are presented:

	<u>2008</u>	<u>2007</u>
Current Assets	\$11,114,575	\$1,185,653
Capital Assets	<u>9,029</u>	<u>10,485</u>
Total Assets	<u>\$11,123,604</u>	<u>\$1,196,138</u>
Current Liabilities	\$10,286,768	\$ 391,321
Net Assets:		
Invested in capital assets	9,029	10,485
Unrestricted	<u>827,807</u>	<u>794,332</u>
Total net assets	<u>\$ 836,836</u>	<u>\$ 804,817</u>

Current Assets

Current assets consisted of cash, investments, grants receivable, accounts receivable, prepaid expenses and amounts due from the Sacramento Groundwater Authority (SGA), a related party. For fiscal year 2008, cash and cash equivalents of \$1,056,944 includes \$615,621 which is restricted for subscription programs by contract. Total cash reflects an overall increase from the previous fiscal year of \$83,781 due to \$40,932 net cash provided by operating activities plus interest earnings of \$47,457. Accounts receivable are \$34,403 higher than the prior year and reflect increased amounts due from the subscription based Water Efficiency Program (WEP) for additional products and services.

Grants receivable have increased by \$9,798,122 from the prior year. An amount of \$9,928,903 is reflected as a grant receivable reflecting amounts earned mainly from the California Department of Water Resources (DWR) and Sacramento Regional County Sanitation District (SRCSD) for fulfillment of grant obligations from the following subscription based grant awards: Prop 50 Implementation Grant (Prop 50); the Integrated Regional Water Management Planning Program (IRWMP), the American River Basin Conjunctive Use Program (ARBCUP) and the toilet replacement incentives. The Prop 50 grant receivable of \$9,655,766 represents the majority of the balance. Amounts due from grants can be expected to vary from year to year, depending upon the availability of grant awards, as well as the timing of the fulfillment of grant obligations.

Capital Assets

Net capital assets include office furniture, office equipment, and leasehold improvements, net of accumulated depreciation. The overall decrease in capital assets reflects annual depreciation, disposition of assets and are somewhat offset by an office equipment purchase.

Current Liabilities

Current liabilities due within one year include amounts due to vendors, grants payable to program participants, subscription program advances, unearned revenue, and accrued liabilities. Of the \$9,895,447 increase in liabilities, \$9,827,594 is from amounts due to program participants for fulfillment of grant obligation. These amounts due to program participants for grant payments closely correlates to the amounts expected to be received from DWR and SRCSD. Additionally, \$41,450 in fiscal year 2009 annual assessment revenue received by June 30, 2008 is reflected as unearned revenue.

Net Assets Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$9,029 and decreased a net \$1,456 over the prior year due to depreciation and amortization of \$6,139 offset by \$4,683 office equipment purchases.

Unrestricted Net Assets

Unrestricted net assets consisted of net assets that did not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net assets of \$827,807 reflect an increase of \$33,475 over the prior year due to income exceeding expenses. These unrestricted net assets may be used to meet RWA’s ongoing obligations to member agencies and creditors.

Certain amounts of the unrestricted net assets have been designated for purposes authorized by the Board. According to contractual provisions, \$366,663 has been designated for future program expenses. Approximately \$354,200 of unrestricted net assets has been designated as fee stabilization funds and an operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses.

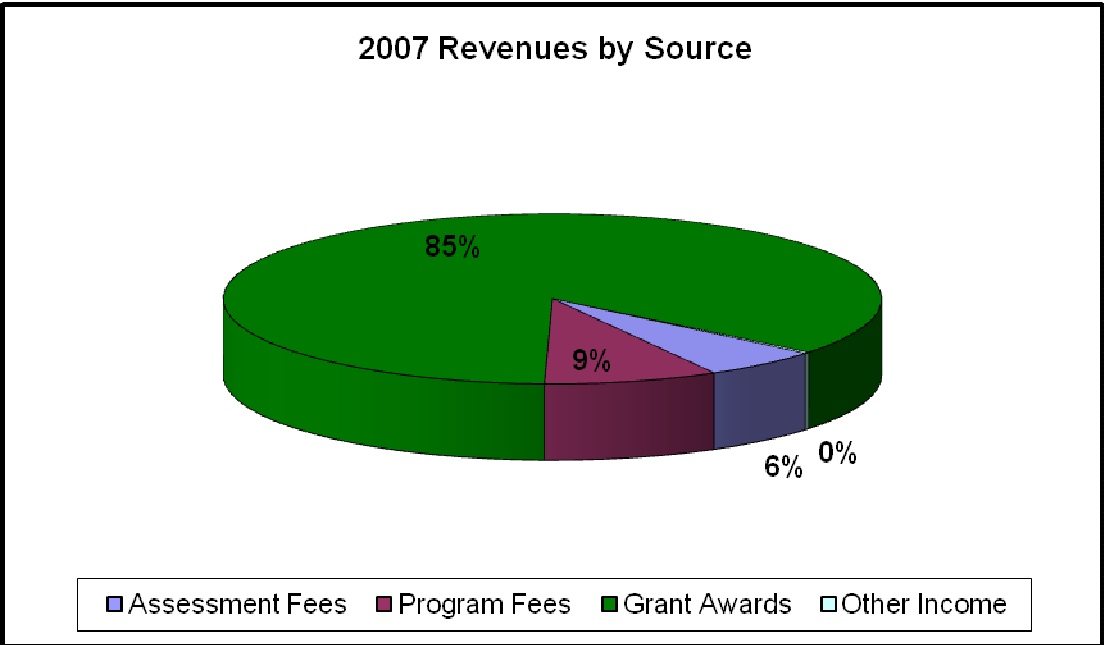
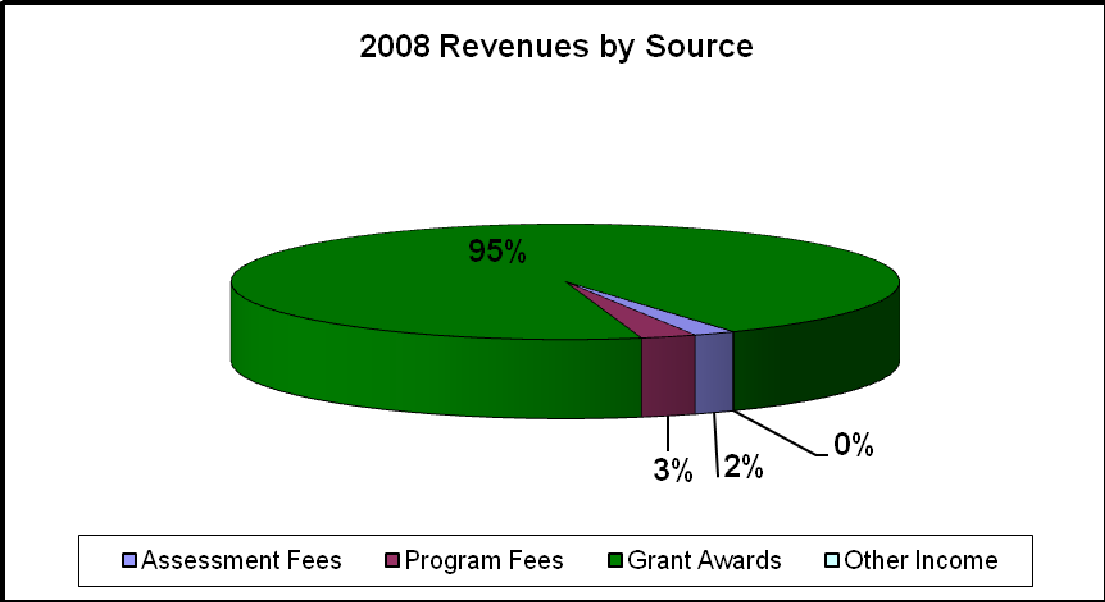
Another \$72,000 of unrestricted net assets has been designated for other postemployment benefits (OPEB). RWA will be required to recognize OPEB expenses under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) during fiscal year 2010. As described in Note 7, RWA has been paying for these costs on a pay-as-you-go-basis. The actuarial determined annual required contribution under GASB 45 could have a significant impact on RWA’s operating budget in the coming fiscal years, depending upon the funding decisions. GASB 45 does not require pre-funding this liability but does require recognition of its cost in the financial statements. During fiscal year 2008, RWA began designating some net assets to help pay for this obligation. See Note 8 on page 25 of the Notes to Basic Financial Statements for the detail and types of designations. Also see Economic factors and assumptions for fiscal year June 30, 2009 on page 11 of the Management, Discussion and Analysis.

Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Assessment Fees	\$ 364,227	\$ 346,879
Subscription Program Fees	486,898	515,670
Grants	17,305,120	5,162,020
Other Income	<u>9,700</u>	<u>15,705</u>
Total Operating Revenues	\$18,165,945	\$6,040,274
Non-operating income	<u>45,209</u>	<u>44,963</u>
Total Revenues	<u>\$18,211,154</u>	<u>\$6,085,237</u>
Operating Expenses:		
Administrative Expenses	437,142	456,200
Subscription Program Direct Expenses	455,317	650,647
Grant Payments	<u>17,286,676</u>	<u>4,941,557</u>
Total Operating Expenses	<u>18,179,135</u>	<u>6,048,404</u>
Increase in Net Assets	32,019	36,833
Net Assets July 1	<u>804,817</u>	<u>767,984</u>
Net Assets June 30	<u>\$836,836</u>	<u>\$804,817</u>

Operating Revenues

RWA's operating revenues are substantially derived from assessment fees, program fees, and grant awards. Annual assessment fees are paid by members and are designed to fund the core RWA activities. Program fees are derived from additional one-time or ongoing subscription-based programs for services or products available in addition to the core RWA activities. Revenues charged for these products and services are designed to cover the costs of the additional services offered beyond the basic membership level. Grants are awarded to RWA either from state, federal, or local agencies to fund water related projects and conservation, depending upon the grant program.



Analytical Review of Operating Revenues

Operating revenues totaled \$18,165,945 or \$12,125,671 higher than in the previous year. The increase is substantially due to earning more net grant income in the current year offset by a decline in program fee revenues.

Assessment fees: Assessment fee income increased by \$17,348 due to a 5% increase in assessment fees as planned and budgeted.

Subscription Program Fees: Except for the core WEP, program fees will vary from year to year as these projects are usually non-recurring and the project scope and costs are not expected to be comparable from year to year. In fiscal year 2008, the program fees are derived from four programs:

- 1) The WEP revenues increased by a net \$39,627. The regular dues increased by \$14,661 reflecting increased member participation as annual dues stayed the same as in the previous year. The balance of the increase was due to the program participants partnering together to receive a better rate on bulk purchases related to water efficiency educational materials. The WEP also provides a menu of additional water conservation services that program participants can select and pay for and are sometimes referred to as Category 2 programs.
- 2) The IRWMP Program began in fiscal year ending June 30, 2004 and is a five-year effort to identify the facilities and partnerships to bolster water supply reliability in the Sacramento region. Revenues recognized for the current fiscal year's commitments decreased by \$54,069 and are designed to correspond with current year expenses related to the planning grant but not paid for by grant funds. The IRWMP did receive advances from program participants for expenses for the next phase of this program and the amount in excess of expenses is reflected as subscription program advances on the balance sheet.
- 3) The Prop 50 Grant (Prop 50) revenues decreased by \$14,330 and are designed to closely match the expenses of the program not paid for by grant funds. The Prop 50 program evolved into a joint application with the Freeport Regional Water Authority (FRWA), for \$25 million in Proposition 50 grant funds for a package of integrated regional water management projects. The final application included 14 projects expanding regional conjunctive use facilities (surface water diversions/treatment plants, groundwater wells, and pipelines), expanding the use of recycled water, and habitat/recreation improvement. On April 9, 2007, the Department of Water Resources (DWR) notified RWA that it was successful in its joint application with the FRWA for the \$25 million grant.

Grants: State, federal and local government grants and incentives will vary from year to year based upon availability and applicability to participating agencies. The grants represent monies earned by member agencies and other program participants, but administered by the RWA under agreement with the grantors.

- 1) The American River Basin Conjunctive Use Program (ARBCUP) grants revenue decreased by \$3,204,235 from the previous year. The ARBCUP grant, which was awarded in fiscal year ending June 2003, totals \$21.67 million dollars in grant awards. As of June 30, 2008, \$21.37 million has been awarded to date and the grant activities are expected to be finalized by June 2009.
- 2) Water Efficiency Program (WEP) grants and incentives increased a net \$95,620 from the previous year. Large landscape grants increased by \$159,293, toilet rebate incentives decreased by \$90,583, while leak detection and other grants increased by \$26,910 from the previous year. The revenues received are for reimbursement of eligible costs incurred by program participants and then issued directly to their customers. The increased revenues of the leak detection program and large landscape grants reflect the completion of work activity on the program.

- 3) The Integrated Regional Water Master Plan (IRWMP) Program decreased \$155,051 from the previous year. Activity has slowed on this program because RWA is awaiting the release of new guidelines for IRWMPs from DWR.
- 4) The \$25 million joint grant with FRWA revenue increased by \$15,406,766 reflecting grant revenue earned for incurring eligible reimbursable costs by program participants under the grant agreement.

Non-operating revenue

Non-operating revenue of \$45,209 substantially represents interest income and reflects a decrease of \$41, reflecting declining interest rates even though RWA maintained higher average cash balances than the previous year.

Operating expenses

Operating expenses fall into three major categories: administrative expenses, subscription program direct expenses, and grant awards. Administrative expenses represent the net costs associated with the core RWA strategy and activities. The subscription program direct expenses correlate to the subscription based revenues, which represent additional services over and above the core RWA membership services. The grant payments represent grant awards to program participants for completion of grant eligibility requirements.

Analysis Review of Operating Expenses

The operating expenses totaled \$18,179,135 and are \$12,130,731 higher than the previous year. The higher expenses are the result of increased grant award expenses in parallel with the increase in grant award income. The higher grant awards are offset by a decrease in subscription based direct expenses, which correlates with a decrease in subscription based revenues for IRWMP, ARBCUP and PROP 50 as discussed in more detail in the following analysis.

Administrative Expenses: As illustrated in Note 9 on page 26 of the financial statements, overall administrative expenses incurred by RWA increased slightly from the previous year by \$2,118 due to careful cost management. RWA also manages the Sacramento Groundwater Authority (SGA). Under an administrative services agreement, SGA reimburses RWA for 50% of the common costs to administer the organizations. Examples of these costs include but are not limited to rent, administrative staff, and office costs. Staffing costs are allocated based upon time spent to administer SGA. The reimbursements invoiced due from SGA of \$371,193 and \$350,017 for the years ending June 30, 2008 and 2007, respectively are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Assets. As detailed in Note 9, the amount of administrative expenses allocated to RWA decreased by \$19,058 from the prior year. The net amount of administrative costs allocated to RWA in total can vary based upon the work required for SGA. RWA also allocates staffing costs to the subscription based programs for administering these programs.

Subscription Program Direct Expenses: These expenses typically consist of program related legal fees, outside consulting assistance for program execution, as well as communication and print material deliverables. These expenses will closely track with the subscription based revenues in any given year as the costs of the projects are funded by special assessments paid for by program participants who benefit from the program. Expenses and the related revenues associated with special subscription projects are expected to fluctuate from year to year as the nature and scope of these projects are continually changing to meet the changing needs of the membership. During fiscal year 2008, there are four major subscription programs as discussed below.

- 1) WEP: The WEP program increased costs of \$13,161 mainly due to additional assistance needed to manage additional grant activity.
- 2) ARBCUP: Since the grant award activity is declining, the ARBCUP expenses decreased by \$11,496, reflecting a decline in the activity level needed to manage the grant. The revenues to pay for the direct expenses were invoiced, earned, and collected in the fiscal year ending June 30, 2003. Contractually, \$53,066 in previously earned revenues is remaining at June 30, 2008 and has been designated for the continued grant administration. See Note 8, Board designations.
- 3) IRWMP: The IRWMP expenses are \$175,988 lower than in the previous year and somewhat correlate with the decline in earned revenue. RWA has incurred reimbursable costs and DWR has withheld 10% of these eligible reimbursable costs. RWA will not collect and earn these retention revenues until the project is complete.
- 4) Prop 50: The Prop 50 expenses are \$21,007 lower than in the prior year and track with the current year earned revenue.

Grant Payments: These expenses reflect the amount of grant awards earned by program participants during the fiscal year. These grant award expenses are expected to fluctuate from year to year and should closely parallel grant award revenues. Three major subscription programs incurred grant awards as detailed below.

- 1) WEP: An additional \$142,588 was earned by program participants during fiscal year 2008. The increase in grant awards reflects the completion of two long-term DWR awards: the Large Landscape Grant Program and the Leak Detection Program. The increase in additional grant awards is offset by a decline in toilet incentive awards largely due to the timing of when incentive cost reimbursements were received versus paid to agencies.
- 2) ARBCUP: The decline in grant award expense matches the decline in grant award income and reflects the winding down of this grant program.
- 3) Prop 50: The increase of \$15,406,766 in grant awards reflects completion of eligible cost reimbursements of the grant award and matches the grant revenue increase. The grant revenues earned by RWA are then paid out to the eligible participants who incurred the costs.

Capital Assets

Capital asset investment includes office furniture, equipment and leasehold improvements as of June 30, 2008 and amounts to \$9,029 net of accumulated depreciation. RWA's asset acquisition consisted of office equipment. Capital asset acquisitions are co-owned with SGA and each authority pays 50% of the acquisition cost. Additional information on the furniture and equipment can be found in note 3 on page 21 of this report.

	<u>2008</u>	<u>2007</u>
Furniture	\$14,464	\$14,464
Equipment	33,183	30,240
Leasehold Improvements	<u>3,165</u>	<u>3,165</u>
Total	<u>\$50,812</u>	<u>\$47,869</u>

Additional information on the furniture and equipment can be found in note 3 on page 21 of this report.

Economic factors and assumptions for fiscal year June 30, 2009

Periodically, RWA outlines goals and objectives to assist its members in collaborating on programs that will protect and enhance the quality and reliability of the region's water supplies. These goals and objectives drive the annual budget process. The following economic factors and assumptions affected the budget for fiscal year June 30, 2009.

- 1) RWA assessment fees will increase 5% during fiscal year June 30, 2009.
- 2) Revenue projections assume the membership base will remain unchanged.
- 3) RWA's total planned expenses exceed planned revenues in the new fiscal year by \$155,250. The major portion of expenses in excess of revenues of \$158,470 is caused by the subscription based programs. The subscription based programs collect revenues in advance of expenses and often straddle several years prior to completion. The funds are held in a designated restriction until the expenses are incurred. The expenses in excess of revenues will be funded by carryover designations and restrictions specific to these subscription based programs.
- 4) Subscription revenue and subscription cash contribute approximately 9% towards RWA expenses.
- 5) Forecasted subscription revenues include the Water Efficiency Program, Prop 50 grant awards, ARBCUP grant implementation and the IRWMP program.
- 6) The budget and projections do not include staffing the WEP Manager position in fiscal year 2009. The WEP program work and coordination is budgeted using a continuation of contract resources but gives the flexibility to hire a permanent staff.
- 7) General expenses are expected to increase 3% while labor and related benefits are expected to increase by 6%, except health care is budgeted to increase by 7%.

- 8) RWA will continue to manage the Sacramento Groundwater Authority (SGA). Common costs for staffing, office, professional fees, and other expenses are shared with SGA at a 50/50 split. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2009 is \$440,950.
- 9) The Senior Project Manager is budgeted at 30% to RWA. RWA's full time equivalent employees are 1.8 people.
- 10) Approximately \$158,470 of the subscription program expenses are expected to be funded using program cash designations collected in current or previous fiscal years.
- 11) An estimate for other post employment benefits was included in the current year budget, but is subject to review and refinement. This estimate will be adjusted once RWA determines a funding strategy of these estimated future costs for health related retirement benefits.

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2009.

In October 2008, RWA received a preliminary actuarial analysis of the OPEB. The actuarial accrued liability cost of these benefits is not reflected in the current financial statements. RWA has yet to determine its funding methodology and whether it will adopt funding prospectively or retrospectively. The annual costs range from \$15,574 to \$88,818 depending upon prefunding decisions. The actuarial accrued liability estimated at July 1, 2008 ranges from \$381,801 to \$603,893, depending upon prefunding decisions.

The actuarial determined annual required contribution under GASB 45 could have a significant impact on RWA's operating budget in the coming fiscal years, depending upon the funding decisions. As discussed in note 8, RWA has begun to set aside monies to prefund the actuarial accrued liability. However, the amount designated is only a fraction of these estimated costs. The impact of these costs and the funding decisions will be an integral part of the fiscal year 2010 budget.

Requests for Information

This financial report is designed to provide a general overview of RWA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance and Administrative Services Officer, Regional Water Authority, 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610.

REGIONAL WATER AUTHORITY
BALANCE SHEETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and Investments	\$ 441,323	\$ 388,663
Restricted Cash	615,621	584,500
Grants Receivable	9,928,903	130,781
Accounts Receivable	50,327	15,924
Receivable from Sacramento Groundwater Authority	51,410	50,756
Interest Receivable	8,413	10,736
Other Assets	18,578	4,293
Total Current Assets	11,114,575	1,185,653
Furniture and Equipment, Net	9,029	10,485
Total Assets	\$ 11,123,604	\$ 1,196,138
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 115,146	\$ 132,849
Unearned Revenue	41,450	-
Payable to Member Agencies	9,939,353	111,759
Subscription Program Advances	190,819	146,713
Total Current Liabilities	10,286,768	391,321
Net Assets		
Investment in Furniture and Equipment	9,029	10,485
Unrestricted	827,807	794,332
Total Net Assets	836,836	804,817
Total Liabilities and Net Assets	\$ 11,123,604	\$ 1,196,138

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Operating Revenues		
Assessment Income	\$ 364,227	\$ 346,879
Subscription Program Fees	486,898	515,670
Grant Revenues	17,305,120	5,162,020
Other Income	9,700	15,705
Total Operating Revenues	18,165,945	6,040,274
Operating Expenses		
Administrative Expenses	437,142	456,200
Subscription Program Direct Expenses	455,317	650,647
Grant Payments	17,286,676	4,941,557
Total Operating Expenses	18,179,135	6,048,404
Operating Loss	(13,190)	(8,130)
Other Income		
Interest Income	45,134	45,175
Gain (Loss) on Disposition of Asset	75	(212)
Net Other Income	45,209	44,963
Net Income	32,019	36,833
Net Assets, Beginning of Year	804,817	767,984
Net Assets, End of Year	\$ 836,836	\$ 804,817

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 902,277	\$ 1,053,170
Cash received from SGA	370,539	356,838
Cash received from grants and other sources	7,516,698	5,147,621
Cash paid to employees and related benefits and taxes	(524,574)	(545,338)
Cash paid to suppliers	(764,926)	(1,115,144)
Cash paid to subscription program participants	(7,459,082)	(4,829,798)
	40,932	67,349
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	47,457	44,825
Net cash from investing activities	47,457	44,825
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of office equipment	(4,683)	(1,460)
Gain on sale of office equipment	75	-
Net cash used by financing activities	(4,608)	(1,460)
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,781	110,714
CASH AND CASH EQUIVALENTS, beginning of year	973,163	862,449
CASH AND CASH EQUIVALENTS, end of year	\$ 1,056,944	\$ 973,163

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

RECONCILIATION OF LOSS FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (13,190)	\$ (8,130)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	6,139	7,926
Change in operating assets and liabilities:		
Grants Receivable	(9,798,122)	(30,104)
Receivable from SGA	(654)	6,821
Accounts Receivable	(34,403)	137,737
Other assets	(14,285)	593
Accounts payable and accrued liabilities	(17,703)	(212,137)
Payable to member agencies	9,827,594	111,759
Member advances payable	44,106	56,636
Unearned revenue	41,450	(3,752)
	<u>40,932</u>	<u>(3,752)</u>
Net cash provided by operating activities	<u>\$ 40,932</u>	<u>\$ 67,349</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of reporting entity – Regional Water Authority (RWA) was formed under a Joint Exercise of Powers Agreement on March 20, 1990 and was previously named the Sacramento Metropolitan Water Authority. The members of RWA are governmental units in and around the greater Sacramento area of the State of California. The mission of RWA is to present a unified voice on regional water resource issues for member agencies on area water policy and management issues; and to promote regional cooperative projects that will provide reliable long-term water supplies in a cost-effective manner for the benefit of RWA’s membership, rate-payers and consumers.

RWA is governed by a board comprised of two representatives from each of the member agencies. The representatives are appointed by the member agencies.

Basis of Accounting - For financial reporting purposes, RWA is considered a special-purpose government engaged in business-only type activities. Accordingly, RWA’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are earned when services are performed and expenses are recorded when an obligation has been incurred.

Operating revenues and expenses are generated and funded through assessments from member agencies and subscription revenues from program participants on a cost reimbursement basis. Grants managed on behalf of program participants, agencies, administration and depreciation expenses are also considered operating activities. Other revenues and expenses not included in the above categories are reported as nonoperating revenues and expenses.

As permitted by GASB Statement No. 20, RWA has elected non-application of all FASB Statements and Interpretations issued after November 30, 1989.

Assessment Income - Each of the member water districts, cities and service districts pay yearly assessments to RWA based on the number of retail water connections each provides. During 2008, the minimum assessment was \$3,996 and a maximum assessment was \$31,170. Non-voting associate members pay an annual fee equal to 0.1% of the entities annual operating budget, rounded to the next even thousand dollars, with a maximum annual fee of \$10,000 per year, subject to adjustments from time to time by the RWA Board.

Subscription Program Fees – On a subscription basis, RWA provides seminars, media, grant writing, and program and grant administration assistance to certain program participants over and above the core RWA services. Program participants who benefited from these activities reimbursed RWA for their share of direct costs and related administrative overhead. For grant and program administration, RWA invoices program revenue in advance to program participants. Amounts received in advance but not yet earned by RWA for these activities are recorded as subscription program advances in the financial statements.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Revenue - RWA coordinates grant applications among program participants and then administers these grants awards. The program participants incur the expenses and make payments to vendors. RWA has administrative grant responsibilities and submits the grant reimbursement requests to the oversight agency. The grant reimbursements are recorded in the financial statements as grants revenues and grants receivable. The amounts payable to the program participants and the related expenses is presented in the financial statements as grants payable and grant payments.

Cash and Investments – RWA participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. Based on information obtained from LAIF, the investment in LAIF has been recorded at fair value.

Furniture and Equipment – Fixed assets, consisting of furniture and equipment, with useful lives of more than one year are stated at historical cost and are included in the financial statements. RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is five years.

Unearned Revenue – Monies received as annual assessments relating to the subsequent year and received in advance of new fiscal year are recorded as unearned revenue. These monies will be recognized as assessment income during the year ended June 30, 2009.

Subscription Program Advances - Program revenue received in advance of subscription based program costs are classified as advances. The purpose of these fees is to pay for subscription based program costs. These advances will be recognized as revenues as program costs are incurred over the life of the projects. Subscription based programs often straddle multiple fiscal years. At the completion of the subscription based program, any unused portion of these fees are then returned to participants. For the years ending June 30, the advances by subscription program are as follows:

	2008	2007
IRWMP	\$ 134,776	\$ 146,713
Prop. 50	51,778	-
WEP	4,265	-
	<u>\$ 190,819</u>	<u>\$ 146,713</u>
Total	<u>\$ 190,819</u>	<u>\$ 146,713</u>

Net Assets – RWA’s net assets are classified as follows:

Capital assets: Represents RWA’s total investment in capital assets.

Unrestricted: Represents funds not subject to any outside legal restrictions on use of these funds.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related Party Shared expenses – RWA manages the Sacramento Groundwater Authority (SGA) using shared staff resources. SGA was created in 1998 under another Joint Exercise of Powers Agreement. Many of the member agencies of RWA are also member agencies of SGA. Under an Administrative Services Agreement, SGA and RWA are equally responsible for all costs incurred to operate the joint office. Expenses paid on SGA’s behalf by RWA were \$371,193 and \$350,017 for 2008 and 2007, respectively. The Statement of Revenues, Expenses, and Changes in Net Assets reflect the net expenses of RWA after reimbursement by SGA. The Statements of Cashflows reflect the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers. Note 9 reflects the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription based programs. See Note 9 for the shared expenses and cost allocations.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Non-exchange Transactions –The grant awards received by RWA are considered voluntary non-exchange transactions since these awards and incentives are entered into willingly by the grantors and RWA. In the non-exchange transactions, RWA receives value (benefit) from another party (the grantor) without directly giving equal value in exchange. Typically, RWA has administrative oversight in distributing these grant and incentive proceeds to program participants. All current grant agreements offer grant awards on a reimbursement basis once allowable costs have been incurred under the program. These requirements must be met in advance of applying for and receiving the funds from the grantors. RWA recognizes revenues and receivables when all applicable eligibility requirements have been met. Additionally, RWA simultaneously recognizes a grant award expense and grants payable for these grant awards since RWA then will reimburse participating agencies when the actual cash is received.

To the extent RWA receives the allowable cost information from the participating agencies in a timely manner, recognition of receivables and revenues are not delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

Use of estimates in financial statements – In preparing of financial statements in conformity with generally accepted accounting principles requires 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain amounts in the financial statements for the year ended June 30, 2007 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2008. Such reclassifications had no effect on net assets at June 30, 2007 or loss in net assets for the year then ended.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 – CASH AND INVESTMENTS

Cash and investments in the balance sheet consist of the following:

	2008	2007
Deposit with financial institutions	\$ 127,994	\$ 181,671
Investments in LAIF	928,950	791,492
Total cash and investments	<u>\$ 1,056,944</u>	<u>\$ 973,163</u>

Investments Authorized by RWA’s Investment Policy

RWA’s investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). The investment policy does not contain any specific provisions to limit RWA’s exposure to interest rate risk, credit risk and concentration of credit risk.

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 an investment. Generally, an investments sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments contained in the LAIF investment pool on June 30, 2008 and 2007 was approximately 212 and 176 days, respectively.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

LAIF has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

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 deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and RWA’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than 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. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

At June 30, 2008 and 2007, RWA's bank balances were \$6,007,020 and \$206,464 respectively. At June 30, 2008, RWA had \$5,907,020 in cash in a financial institution in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

RWA does not normally keep high bank balances. On June 20, 2008, RWA received two large grant payments from the Department of Water Resources. The bank placed a 7-day hold on the checks. A payment to the City of Roseville was made prior to June 30 in the amount of \$5,751,000. The check cleared the bank on July 1, 2008. RWA has not experienced any losses in such account and believes it is not exposed to any significant custodial credit risk on cash balances.

Investment in State Investment Pool

RWA 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 Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based upon RWA's pro-rate 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 reported on an amortized cost basis.

Restricted Cash

Restricted cash represents cash received by RWA for subscription based program revenue restricted in use for these programs. The restriction is based upon contractual agreements on how to use the advanced program revenues. As of June 30, restricted cash by program is as follows:

	2008	2007
Water Efficiency Program	\$ 381,141	\$ 393,597
American River Basin Conjunctive Use Program	53,066	67,930
Integrated Regional Water Master Plan	134,776	122,973
Proposition 50 Grant Administration	46,638	-
Total	<u>\$ 615,621</u>	<u>\$ 584,500</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets, consisting of furniture and equipment purchases of \$500 or greater, with useful lives of more than one year are stated at historical cost and are included in the financial statements.

RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is five years.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 – PROPERTY AND EQUIPMENT (CONTINUED)

A summary of the furniture and equipment at cost is as follows:

	Balance			Balance June 30, 2008
	June 30, 2007	Increases	Decreases	
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Equipment	30,240	4,683	(1,740)	33,183
Leasehold Improvements	\$ 3,165	\$ -	\$ -	\$ 3,165
Total	47,869	4,683	(1,740)	50,812
Less accumulated depreciation	(37,384)	(6,139)	1,740	(41,783)
Fixed Assets, Net	<u>\$ 10,485</u>	<u>\$ (1,456)</u>	<u>\$ -</u>	<u>\$ 9,029</u>

NOTE 4 – LEASE COMMITMENTS

RWA is obligated under a lease agreement for office space of which SGA pays 50% of this cost under the administrative services agreement. This lease expires during February 2009 and RWA's minimum rental commitment for operating leases in effect at June 30, 2008 is \$16,674. RWA's rental expense was \$24,967 for the years ended June 30, 2008 and 2007, respectively.

NOTE 5 – RETIREMENT COMMITMENTS

Plan Description

RWA's defined benefit pension Miscellaneous Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Menus of benefit provisions as well as other requirements are established by California State statutes within the Public Employees' Retirement Law. RWA selects optional benefits provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report which can be obtained from CalPERS Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

Funding Policy

Active employees in the Miscellaneous Plan are required to contribute 7% of their annual covered salary. RWA pays the required employee contributions on their behalf. RWA is required to contribute the actuarially determined amount to fund the benefits for its members. These annual contribution rates were 12.086% and 11.923% for the years ending June 30, 2008 and 2007, respectively. The entry age actuarial cost method (the actuarial method) and assumptions used are those adopted by the CalPERS Board of Administration. 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 – RETIREMENT COMMITMENTS (CONTINUED)

Annual Pension Cost

For fiscal years ending June 30, 2008 and 2007, RWA’s annual pension cost was \$62,207 and \$71,568, respectively and they contributed the entire amount. The required contribution for fiscal 2008 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return net of administrative expenses; (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members. Both (a) and (b) include an inflation component of 3.00%.

The Miscellaneous Plan’s unfunded actuarial accrued liability as of June 30, 2007 is being amortized over 16 years as a level percentage of projected payrolls.

Three-Year Trend Information for Miscellaneous Plan

RWA’s actual contributions, annual pension cost, and the percentage of annual pension cost contributed, for the current and each of the two preceding years, are as follows:

Year ending	Required Employer Annual Contribution Rate	Annual Pension Cost (APC) Includes Employee Portion	Percentage of APC Contribution	Net Pension Obligation
6/30/2006	12.560%	63,537	100.0%	-
6/30/2007	11.923%	71,568	100.0%	-
6/30/2008	12.086%	62,207	100.0%	-

Funded Status

As of June 30, 2003, the pension plans having less than 100 active members were lumped into risk pools based on their benefit formula and membership category. Since RWA has less than 100 active members, RWA’s pension plan was lumped into the Miscellaneous 2% @ 55 risk pool. Therefore, information about RWA’s individual funded status is not available. RWA did not have a surplus when it joined the risk pool. At the time of joining the risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of RWA’s plan. A negative side fund causes RWA’s contribution rate to be increased by the amortization of the side fund. For the years ended June 30, 2008 and 2007, the required contribution rate for RWA of 12.086% and 11.923% was 2.264% and 1.779% higher due the amortization of this side fund, respectively.

Information about the funded status and funding progress of the Miscellaneous 2% @ 55 risk pool was prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of RWA’s plan. The Miscellaneous 2% @ 55 pool plan’s funding based upon the most recent valuation date of June 30, 2007 is as follows:

Valuation Date	Accrued Liabilities (AL)	Market Value of Assets (MVA)	Funded Ratio (MVA/AL)
6/30/2007	\$2,611,746,790	\$2,756,866,860	105.6%

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 – RETIREMENT COMMITMENTS (CONTINUED)

	Actuarial Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Liabilities (UL)	Funded Ratio (AVA/AL)	Covered Payroll	UL as a % of Payroll
2007	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the risk pool’s actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Asset Valuation Method

CalPERS calculates the fair value of investments and uses a 15 year Smoothed Market asset valuation method that smoothes the effect of short-term volatility in the market value of investments. An expected value of assets is computed by bringing forth the prior year’s actuarial value of assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return of 7.75%. The actuarial value of assets is then computed as the expected value of assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However, in no case will the actuarial value of assets be less than 80% nor greater than 120% of the actual Market Value of Assets.

NOTE 6 – DEFERRED COMPENSATION PLAN

RWA offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all RWA employees and permits them to defer a portion of their salary until future years. The Deferred Compensation Plan deferred elections are not available to employees until termination, retirement, death or unforeseeable emergency.

AIG Variable Annuity Life Insurance Company administers the deferred compensation plan. RWA does not contribute to the Deferred Compensation Plan on behalf of its employees. No unfunded accrued liabilities exist for this plan.

NOTE 7 – OTHER POST-RETIREMENT BENEFITS

In addition to pension benefits described in Note 5, RWA provides post-employment benefit options for health care insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the California Public Employees’ Retirement (CalPers) Law. The criteria to determine eligibility includes years of CalPers service, employee age, and disability due to line of duty. Plan benefits paid during the year were \$6,403 and \$5,582 for June 30, 2008 and 2007, respectively. Expenses for post-retirement health care benefits are recognized as eligible employee claims are paid on a pay-as-you-go basis.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 – BOARD DESIGNATIONS

A portion of net assets have been designated by the Board based upon contraction provisions and board authorization. The designations by contract represent advances by participants in excess of program costs for the specific program. These advances are restricted for the intended program by contract. The Board approves the operating fund, membership dues, and OPEB target balances on an annual basis during the budget process and follows the Financial/Designation Reserve Policy No. 500.1. The Board approved the target balances during the budget process for June 30, 2008 and 2007 on May 17, 2007 and May 18, 2006, respectively. The amounts as of June 30 are as follows:

	2008	2007
<u>Contractual Provision</u>		
Water Efficiency Program	\$ 313,597	\$ 333,760
American River Basin Conjunctive Use Program	53,066	67,930
Proposition 50 Grant	-	2,709
Total by Contract	\$ 366,663	\$ 404,399
<u>Board Authorization</u>		
Operating Fund	\$ 288,300	\$ 265,200
Membership Dues	54,600	52,100
Subscription Programs	11,300	13,000
Other Post-Employment Benefits	72,000	-
Total by Board Authorization	\$ 426,200	\$ 330,300

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Note 9 - OPERATING AND ADMINISTRATIVE EXPENSES

As discussed in Note 1 under shared expenses, RWA manages the SGA and SGA shares in 50% of the common administrative costs. Additionally, RWA also administers subscription based programs and allocates administrative costs to run these programs. The subscription based programs include the ongoing Water Efficiency Program as well as one-time projects that may span over several years. The information below details total administrative expenses incurred by RWA by type and how these costs are then allocated to the various subscription based programs and SGA. The remaining net agency administrative expenses are expected to be paid for by annual member assessment dues.

The total amount of shared administrative expenses incurred by RWA was as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Administrative Expenses		
Staff expenses	\$ 520,687	\$ 571,409
Office Expenses	108,627	119,372
Professional Fees	172,881	107,510
Depreciation and Amortization Expense	<u>6,140</u>	<u>7,926</u>
 Total Administrative Expenses	 808,335	 806,217
 Allocated Administrative Expenses - Administrative Services Agreement		
Sacramento Groundwater Authority	<u>(371,193)</u>	<u>(350,017)</u>
 Total RWA Administrative Expenses - Net of SGA allocation	 437,142	 456,200
 Allocated Administrative Expenses to Subscription Programs		
Water Efficiency Program	(79,128)	(119,419)
American River Basin Conjunctive Use Program (ARBCUP)	(5,280)	(12,660)
Integrated Regional Water Management Plan (IRWMP)	(11,800)	(16,110)
Proposition 50	<u>(18,440)</u>	<u>(7,580)</u>
 Total Allocated Administrative Expenses - Subscription Programs	 <u>(114,648)</u>	 <u>(155,769)</u>
 Net Agency Administrative Expenses - Agency Core Program	 <u>\$ 322,494</u>	 <u>\$ 300,431</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 10 – CONTINGENCIES

Grant Awards and Payments

RWA participates in numerous state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2008 and 2007 may be impaired. In the opinion of RWA's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

According to the voluntary grant agreements with the California Department of Water Resources (DWR), 10% of the eligible grant award payment is withheld until project completion. Project completion is considered an eligibility requirement. Since these retention payments are withheld until the project is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the project is complete. Once the retention is received, RWA will then pay the program participants for the eligible costs incurred. This contingent liability to program participants is estimated at \$1,795,787 at June 30, 2008 and is not currently reflected in the financial statements.

Other Post-Employment Benefits (OPEB)

RWA will be required to recognize OPEB expenses under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45) during fiscal year 2010. Currently, as described in Note 7, RWA pays these costs on a pay-as-you-go basis. In October 2008, RWA received a preliminary actuarial analysis of the OPEB. The actuarial accrued liability cost of these benefits is not reflected in the current financial statements. RWA has yet to determine its funding methodology and whether it will adopt funding prospectively or retrospectively. The annual costs range from \$15,574 to \$88,818 depending upon prefunding decisions. The actuarial accrued liability estimated at July 1, 2008 ranges from \$381,801 to \$603,893, depending upon prefunding decisions.

The decision whether or not to prefund and at what level will be discussed in fiscal year 2009 in preparation of the fiscal year 2010 budget. These costs could have a significant impact on RWA's operating budget in the coming fiscal years, depending upon the funding decisions. Additionally, the annual required contributions will change in future periods as the employee group and cost data change.

GASB 45 does not require pre-funding this liability, but does require recognition of its cost in the financial statements. During fiscal year 2008, RWA began designating some net assets to help pay for this obligation. See Note 8 on page 25 of the Notes to Basic Financial Statements for the detail and types of designations.

REQUIRED SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2008

Retirement System – Schedule of Funding Progress

As required by Governmental Accounting Standards Board, the following information is required supplementary information in regards to the historical funding progress of RWA's pension plan obligations. Since RWA's individual plan is combined into CalPER's Miscellaneous 2% @ 55 risk pool, individual historical funding information is not available for RWA. However, the information below serves as surrogate for the funding status of RWA's plan. Using covered payroll as of June 30, 2007 as an approximate measurement scale, RWA's represents .0529% of the total risk pool covered payroll (\$352,034/\$665,522,859). This covered payroll ratio would not necessarily translate to similar ratios for RWA's actuarial value of assets, market value of assets or accrued liabilities and is only used to understand the scale of information relative to RWA.

Valuation Date	Accrued Liabilities (AL)	Market Value of Assets (MVA)	Funded Ratio (MVA/AL)
6/30/2003	\$2,596,966,545	\$2,157,162,743	83.1%
6/30/2004	\$2,746,095,668	\$2,420,946,068	88.2%
6/30/2005	\$2,891,460,651	\$2,663,352,304	92.1%
6/30/2006	\$2,754,396,608	\$2,636,941,527	95.7%
6/30/2007	\$2,611,746,790	\$2,756,866,860	105.6%

Valuation Date	Actuarial Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Liabilities (UL)	Funded Ratio (AVA/AL)	Covered Payroll	UL as a % of Payroll
6/30/2003	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.4%	\$725,020,458	30.9%
6/30/2004	\$2,746,095,668	\$2,460,944,656	\$285,151,012	89.6%	\$743,691,970	38.3%
6/30/2005	\$2,891,460,651	\$2,558,713,000	\$302,747,651	89.5%	\$755,046,679	40.1%
6/30/2006	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.5%	\$699,897,835	37.5%
6/30/2007	\$2,611,746,790	\$2,391,434,447	\$220,312,343	91.6%	\$665,522,859	33.1%

Source: CalPERS Miscellaneous 2% at 55 risk pool as of June 30, 2007, Section 2

Notes to Required Supplementary Information

1. This information is intended to help users assess the Retirement System's funding status on an on-going basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employees

SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2008

	<u>Agency Core Program</u>	<u>Water Efficiency Program</u>	<u>ARBCUP</u>	<u>IRWMP</u>	<u>PROP 50</u>	<u>TOTAL RWA</u>
Operating Revenues						
Assessment Income	\$ 364,227	\$ -	\$ -	\$ -	\$ -	\$ 364,227
Subscription Program Fees	-	455,839		5,128	25,931	486,898
Grant Revenues	-	515,368	1,374,069	8,917	15,406,766	17,305,120
Other Income	9,700	-	-	-	-	9,700
Total Operating Revenues	<u>373,927</u>	<u>971,207</u>	<u>1,374,069</u>	<u>14,045</u>	<u>15,432,697</u>	<u>18,165,945</u>
Operating Expenses						
Administrative Expenses	322,494	79,128	5,280	11,800	18,440	437,142
Direct Project Expenses	-	406,400	9,584	30,263	9,070	455,317
Grant Payments	-	505,841	1,374,069	-	15,406,766	17,286,676
Total Operating Expenses	<u>322,494</u>	<u>991,369</u>	<u>1,388,933</u>	<u>42,063</u>	<u>15,434,276</u>	<u>18,179,135</u>
Net Operating Income (Loss)	<u>51,433</u>	<u>(20,162)</u>	<u>(14,864)</u>	<u>(28,018)</u>	<u>(1,579)</u>	<u>(13,190)</u>
Other Income						
Interest Income	45,134	-	-	-	-	45,134
Gain on Disposition of Asset	75	-	-	-	-	75
Net Other Income	<u>45,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,209</u>
Net Income (Loss)	<u>\$ 96,642</u>	<u>\$ (20,162)</u>	<u>\$ (14,864)</u>	<u>\$ (28,018)</u>	<u>\$ (1,579)</u>	<u>32,019</u>
Net Assets, Beginning of the Year						804,817
Net Assets, End of the Year						<u>\$ 836,836</u>

Note: The Statement of Revenues, Expenses, and Changes in Net Assets By Program are net of cost reimbursements from SGA.
See Footnote 9, Operating and Administrative Expenses for total expenses incurred by RWA.

REGIONAL WATER AUTHORITY
PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2007

	<u>Agency Core Program</u>	<u>Water Efficiency Program</u>	<u>ARBCUP</u>	<u>IRWMP</u>	<u>PROP 50</u>	<u>TOTAL RWA</u>
Operating Revenues						
Assessment Income	\$ 346,879	\$ -	\$ -	\$ -	\$ -	\$ 346,879
Subscription Program Fees	-	416,212	-	59,197	40,261	515,670
Grant Revenues	-	419,748	4,578,304	163,968	-	5,162,020
Other Income	15,705	-	-	-	-	15,705
Total Operating Revenues	<u>362,584</u>	<u>835,960</u>	<u>4,578,304</u>	<u>223,165</u>	<u>40,261</u>	<u>6,040,274</u>
Operating Expenses						
Administrative Expenses	300,431	119,419	12,660	16,110	7,580	456,200
Direct Project Expenses	-	393,239	21,080	206,251	30,077	650,647
Grant Payments	-	363,253	4,578,304	-	-	4,941,557
Total Operating Expenses	<u>300,431</u>	<u>875,911</u>	<u>4,612,044</u>	<u>222,361</u>	<u>37,657</u>	<u>6,048,404</u>
Net Operating Income (Loss)	<u>62,153</u>	<u>(39,951)</u>	<u>(33,740)</u>	<u>804</u>	<u>2,604</u>	<u>(8,130)</u>
Other Income						
Interest Income	45,175	-	-	-	-	45,175
Loss on Disposition of Asset	(212)	-	-	-	-	(212)
Net Other Income	<u>44,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,963</u>
Net Income (Loss)	<u>\$ 107,116</u>	<u>\$ (39,951)</u>	<u>\$ (33,740)</u>	<u>\$ 804</u>	<u>\$ 2,604</u>	<u>36,833</u>
Net Assets, Beginning of the Year						<u>767,984</u>
Net Assets, End of the Year						<u>\$ 804,817</u>

Note: The Statement of Revenues, Expenses, and Changes in Net Assets By Program are net of cost reimbursements from SGA. See Footnote 9, Operating and Administrative Expenses for total expenses incurred by RWA.

OTHER REPORT

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

To the Board of Directors
Regional Water Authority
Citrus Heights, California

We have audited the financial statements of Regional Water Authority as of and for the years ended June 30, 2008, and have issued our report thereon dated November 24, 2008. 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 Regional Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regional Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regional Water Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Regional Water Authority in a separate letter dated November 24, 2008.

This report is intended solely for the information and use of management, the board of directors, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Cook CPA Group

Roseville, California
November 24, 2008