

REGIONAL WATER AUTHORITY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

June 30, 2013 and 2012

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Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Regional Water Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Water Authority (the Authority) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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

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of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013 and 2012 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

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States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company

December 2, 2013

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, 2013 and 2012. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 16 to 36 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 statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows.

During the year ended June 30, 2013, RWA adopted Governmental Accounting Standards Board (“GASB”) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* (“GASB No. 63”). GASB No. 63 requires net assets to now be reported as net position. RWA’s statement of net position include all assets, deferred inflows, liabilities, and deferred outflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether RWA’s financial position is improving or deteriorating.

The statements of revenues, expenses, and changes in net position report all of RWA’s revenues and expenses during the periods indicated. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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 20 to 36 of this report.

Condensed Financial Information

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

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 2,130,519	\$ 2,195,430
Capital Assets	22,077	29,616
Non-Current Assets	<u>11,398</u>	<u>14,133</u>
Total Assets	<u>\$ 2,163,994</u>	<u>\$ 2,239,179</u>
Current Liabilities	\$ 1,192,245	\$ 1,327,972
Non-Current Liabilities	<u>15,589</u>	<u>13,277</u>
Total Liabilities	<u>\$ 1,207,834</u>	<u>\$ 1,341,249</u>
Deferred Inflows	<u>\$ 28,266</u>	<u>\$ 33,737</u>
Net Position:		
Invested in capital assets	22,077	29,616
Restricted	375,549	340,355
Unrestricted	<u>530,268</u>	<u>494,222</u>
Total net position	<u>\$ 927,894</u>	<u>\$ 864,193</u>

Current Assets

Current assets consisted of cash, grants receivable, accounts receivable, interest receivable, prepaid expenses and amounts due from Sacramento Groundwater Authority (“SGA”), a related party. Total current assets have decreased \$64,911 from the previous year. Grants receivables have increased by \$605,466 from the prior year. RWA has several ongoing grant awards and funding partnerships with the California Department of Water Resources (“DWR”), the United States Bureau of Reclamation (“USBR”), the California Water Foundation Resources Legacy Fund (“Legacy Fund”), and Sacramento County Regional Sanitation District (“SRCSD”). The receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Drought Grant, the Proposition 84 grant, the USBR ET Controller grant, the Legacy Fund, and the Sacramento County Regional Sanitation District Appliance/Toilet rebate award. Amounts due from grants and partnerships can be expected to vary from year to year, depending upon the availability and grant awards, as well as the timing of the fulfillment of these obligations.

For fiscal year 2013, cash and cash equivalents of \$1,003,238 includes \$652,494 which is restricted for subscription programs by contract. Total cash reflects an overall decrease from the previous fiscal year of \$713,327 mainly due to the year-end timing of grant awards received at June 30, 2012 that had yet to be paid to participants in the year ending June 30, 2013.

RWA acts as the administrative manager for SGA since SGA does not have any employees. RWA staff provides management services for SGA to carry out the objectives of SGA. Staffing and overhead costs, including common costs to operate the office, are allocated between both entities under an Administrative and Management Service agreement. Amounts due from SGA have increased at June 30, 2013 reflecting a one-time charge for historical overhead costs for management services related to pension plan obligations. As the employer, RWA retired a \$69,141 obligation to CalPERS in order to eliminate an annual 7.5% interest charge RWA was incurring on this obligation. SGA's allocated cost share under the administrative service agreement is \$26,610 and is included in the amounts due to RWA at June 30, 2013.

Capital Assets

Net capital assets include office furniture, office equipment, website development, and leasehold improvements, net of accumulated depreciation. The overall decrease in capital assets reflects the annual depreciation of leasehold improvements and the disposition of fully depreciated and obsolete assets.

Non-Current Assets

Non-current assets represent shared office equipment, furniture and remodeling costs that was acquired with SGA from cash received as part of a lease incentive in renewing the office lease in fiscal year 2012. These acquisition costs will be amortized over the life of the office lease agreement in the form of rental expense reimbursement to RWA.

Current Liabilities

Current liabilities due within one year include amounts due to vendors and accrued liabilities, the current portion of compensated absences, grants payable to program participants, subscription program advances, and unearned revenue. There was a \$135,727 decrease in current liabilities in fiscal year 2013 largely due to subscription program advances being used for subscription programs.

Other changes in liabilities include a decrease in unearned revenue of \$36,427 for fiscal year 2013 assessment revenues received in the prior year which is now considered revenue for the year ending June 30, 2013. No assessments were received in advance at June 30, 2013. Accounts payable decreased by \$12,943 due to timing of vendor payments.

Non-Current Liabilities

RWA's non-current liability represents the portion of compensated absences which are not expected to be used during the next fiscal year. See Note 8 for additional information.

Deferred Inflows

Deferred inflows represent the lease incentive received when renewing the lease for the year ending June 30, 2012. This lease incentive will be amortized over the life of the lease. See Note 7 for additional information, including the portion which will be amortized in the next year.

Net Position Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$22,077 and decreased a net \$7,539 over the prior year due an additional year of depreciation on the capital assets.

Restricted Net Position

Restricted net position increased by \$35,194, reflecting the net effect of a new \$87,692 restriction for the Integrated Regional Water Management Plan (“IRWMP”) and a loss of \$51,878 to the Water Efficiency Program (“WEP”), which was funded by prior years accumulated net position. The IRWMP has been incorporated into the RWA general operations and remaining subscription fees at June 30, 2013 are to be used only for this IRWMP. The WEP loss is the result of expenses exceeding fees and was expected as part of its business plan. Funds have also been contractually set aside for the American River Basin Conjunctive Use Program (“ARBCUP”) to complete reporting requirements of this grant.

Unrestricted Net Position

Unrestricted net position consists of amounts that do not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net position of \$530,268 reflects an increase of \$36,046 over the prior year due to revenues exceeding expenses. These unrestricted net assets may be used to meet RWA’s ongoing obligations to member agencies and creditors.

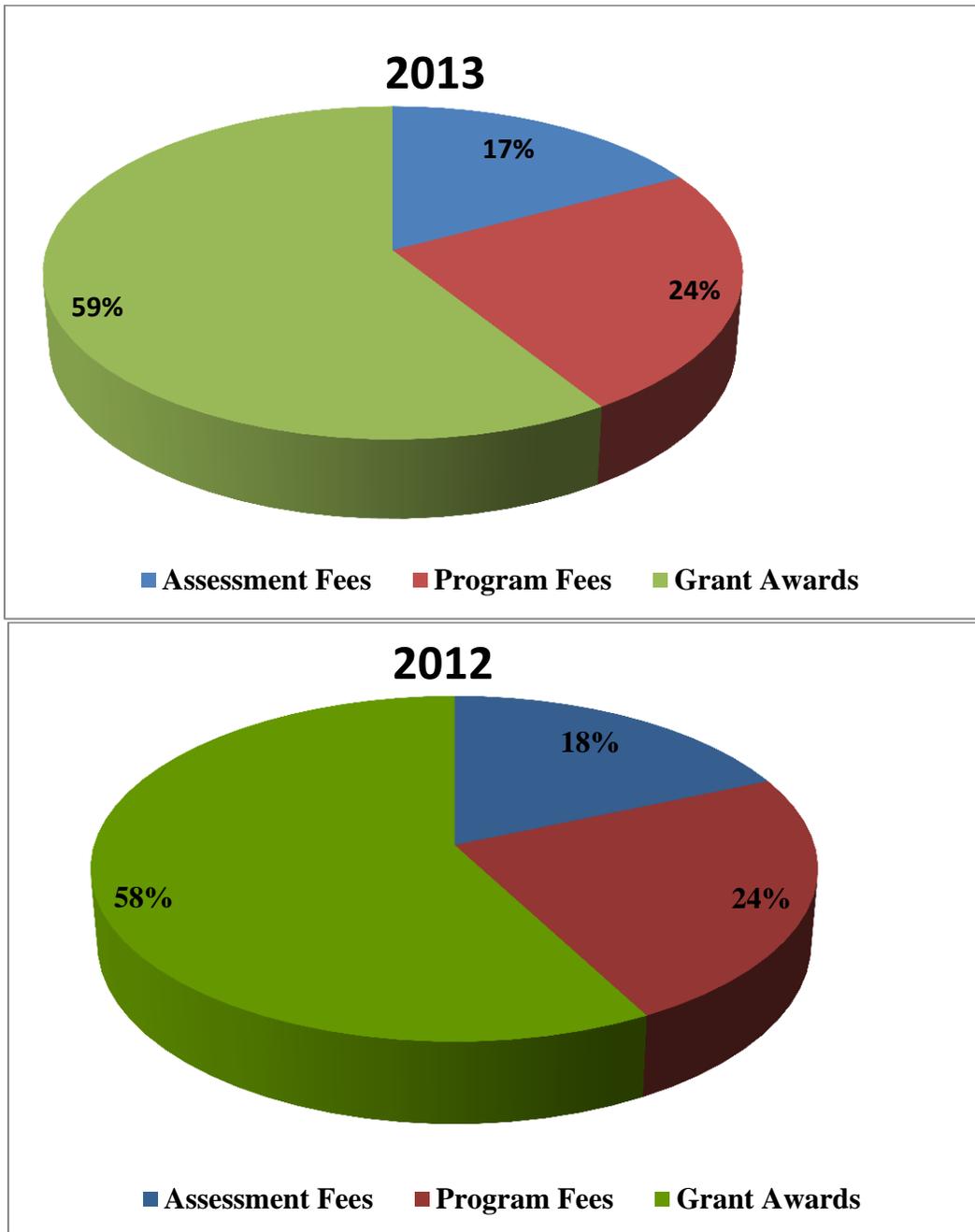
Certain amounts of the unrestricted net position have been designated for purposes authorized by the Board. Approximately \$350,700 of unrestricted net assets has been designated as operating and fee stabilization funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 6 for additional information.

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

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Assessment Income	\$ 475,793	\$ 471,123
Subscription Program Fees	662,819	604,079
Incentives, Grants and Reimbursements	1,634,703	1,470,783
Other Income	<u>6,433</u>	<u>6,921</u>
Total Operating Revenues	2,779,748	2,552,906
Non-operating income	<u>3,721</u>	<u>3,875</u>
Total Revenues	2,783,469	2,556,781
Operating Expenses:		
Administrative Expenses	672,825	644,871
Subscription Program		
Direct Expenses	733,409	698,508
Grant Awards	<u>1,313,534</u>	<u>1,154,750</u>
Total Operating Expenses	<u>2,719,768</u>	<u>2,498,129</u>
Increase in Net Position	63,701	58,652
Net Position, July 1	<u>864,193</u>	<u>805,541</u>
Net Position, June 30	<u>\$ 927,894</u>	<u>\$ 864,193</u>

Operating Revenues

RWA's operating revenues are substantially derived from assessment fees, subscription program 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 core membership service. Grants and incentives 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 \$2,779,748 and was \$226,842 higher than in the previous year. The increase is due to higher grant and incentive earnings as well as higher subscription program fees earned in the current year.

Assessment fees: The \$4,670 assessment fee income increase was due to the Woodland-Davis Clean Water Agency joining RWA. RWA did not have an assessment fee increase for the year ending June 30, 2013.

Subscription Program Fees: Program fees will vary from year to year as the projects are often limited in duration. Program fees are not expected to be comparable from year to year. In fiscal year 2013, the program fees are derived from the following programs:

- 1) Total Water Efficiency Program (“WEP”) revenues decreased by a net \$4,935 due to a decrease in bulk purchases and green gardener classes, as well as the drought program using dollars for program management. The WEP program did not assess a fee increase in fiscal year 2013.
- 2) The Integrated Regional Water Management Plan (“IRWMP”) Program revenues increased by \$78,866. Historically, the annual revenues were designed to correspond with annual expenses related to the planning grant activities that were not paid for by grant funds. Starting in fiscal year 2014, the IRWMP Committee and the RWA Board decided that the IRWMP program will now be considered a core RWA function. Participants do not expect to be reimbursed for these funds, but the funds will be used in the future for updates and improvements to the adopted IRWMP. Therefore, the remaining unused advances are recognized as revenue as of June 30, 2013. These revenues have been set aside as restricted cash and net position to be used for IRWMP activities.
- 3) The Prop 50 Grant \$25 million grant (“Prop 50”) revenues decreased slightly by \$3,599 and are designed to closely match the management expenses of the program, which are not paid for by grant funds. This grant was a joint application with the Freeport Regional Water Authority (FRWA) for \$25 million in Proposition 50 grant funds for a package of 14 integrated regional water management projects. These 14 projects include expanding regional conjunctive use facilities, expanding the use of recycled water, and habitat/recreation improvement. Because the Department of Water Resources would only execute the funding agreement with one entity, RWA entered into the agreement with DWR and is managing the grant on behalf of the participating agencies.
- 4) RWA was awarded a \$16 million Proposition 84 (“Prop 84”) grant and the program began implementation in the year ending June 30, 2013. The Prop 84 grant subscription fees are \$12,430 and represent annual fees paid for by participating agencies for facilitating this program. These fees are designed to correspond with annual expenses not paid for by grant funds. However, prior to formalization of this grant program, \$12,430 of program expenses were incurred during the year ending June 30, 2012 which are now being reimbursed by participants, which was recognized as revenue in the year ending June 30, 2013.
- 5) RWA continued its subscription-based public relations program. The intent of the program is to educate and inform the public, legislators, and others about the region’s water resource needs and concerns while building a broad coalition of support for regional water issues. During the year ending June 30, 2013, these fees are also designed to correspond with annual expenses and declined by \$28,237, reflecting lower costs for fiscal year 2013.
- 6) In May 2012, Sacramento Suburban Water District (“SSWD”) was awarded a \$1 million grant under the Bay-Delta Restoration Program CalFed Water Use Efficiency Grant Program (“USBR/CalFED Meter”). The project will include the installation of 4,021 meters by September 2014 by the participating agencies. RWA was not considered an eligible applicant under the program because it does not have water delivery authority. However, RWA is the project manager of this grant and submits grant reimbursement requests on behalf of SSWD and other agencies. Subscription fees for this program

reimburse RWA for project management time. Approximately \$25,000 was billed to the participants to pay for staff time in managing this grant.

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

- 1) WEP grants and incentives decreased a net \$562,666 from the previous year. WEP grants and incentives for the year ending June 30, 2013 are a result of four main programs: DWR Proposition 50 grant, the USBR ET Controller grant, the SRCSD appliance/toilet incentive grant and the new DWR Proposition 84 grant. The Prop 50 grant is designed to accelerate installation of 1,000 meters, provide incentives for high-efficiency washers, and to expand promotion of commercial industrial water saving devices. The USBR ET Controller grant is a collaborative project between four water supply agencies in the Sacramento region, with RWA acting as the lead applicant and program manager. The project issues incentives to residential and commercial customers to install weather based irrigation controllers to achieve water savings. The SRCSD appliance/toilet programs allow regional water purveyors to offer incentives to residential and commercial customers for replacing older high-use toilets and washers with water efficient devices. The new Proposition 84 grant is a part of the overall \$16 million grant awarded to RWA. One million dollars of this grant was awarded to the WEP for a regional water meter retrofit acceleration project that will install 840 additional residential meters in the service areas of the City of Sacramento, Sacramento Suburban Water District, and Sacramento County Water Agency. The meters will conserve an estimated 126 acre-feet of water per year.
- 2) The IRWMP grant award for fiscal year 2013 had a net increase of \$31,930. This increase represents cost reimbursements received from both DWR as well as some federal grant reimbursement funds from member agency San Juan Water District ("SJWD"). SJWD is the grantee with the USBR for a regional water system optimization review grant. RWA prepared the grant application, but was unable to apply as the grantee since RWA lacks water delivery authority, one of the grant's award criteria. However, RWA is the program manager of the grant under the grant agreement and is incurring the grant related costs. SJWD agreed to reimburse these costs as grant funds are received from USBR. This grant and the related awards were completed during the year ending June 30, 2013.
- 3) The \$25 million Prop 50 grant revenue increased by \$138,348 for a total of \$210,984 in awards. Grant activity and cost reimbursements will vary year to year, depending upon the timing and completion of work. The eligible grant period continues through December 31, 2014.
- 4) The \$16 million Prop 84 grant agreement was signed in fiscal year 2013. The first reimbursement request in the amount of \$545,501 has been sent to DWR. This grant from DWR's Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 will assist in financing projects associated with the American River Basin IRWMP and is expected to end July 1, 2016.
- 5) A new \$100,000 grant from the California Water Foundation's Resources Legacy Fund is focused on helping improve the sustainability of the greater Sacramento regional water supply. This grant will allow RWA to evaluate hydrologic modeling needs in support of

the IRWMP for the Lower American River Basin. During the year ending June 30, 2013, RWA embarked on a regional tools assessment (“Regional Tools”) program using these grant funds. The first reimbursement request invoice amounted to \$10,807.

Non-operating revenue

Non-operating revenue of \$3,721 represents interest income, which decreased slightly from prior year, reflecting the low interest rates and lower year end cash balances.

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 executing 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 awards represent grants for program participants for completion of grant eligibility requirements.

Analysis Review of Operating Expenses

The operating expenses totaled \$2,719,768 and are \$221,639 higher than the previous year. The increase in expenses is the result of increased grant awards as well as increases in administrative expenses and subscription program direct expenses.

Administrative Expenses: As illustrated in the supplementary information section of the financial statements, after allocating costs to SGA, overall administrative expenses incurred by RWA increased from the previous year by a net \$27,954. Prior to allocating costs to SGA, RWA incurred an additional \$70,218 in administrative expenses, which included an additional \$90,125 in staffing costs, offset by a \$9,689 decrease in office expenses and \$10,162 decrease in professional fees. The staffing costs increase is mainly a result of the one-time charge for historical overhead costs related to a pension plan obligation. RWA retired a \$69,141 obligation to CalPERS in order to eliminate an annual 7.5% interest charge RWA was incurring on this obligation. This payment will reduce the CalPERS employer contribution rate in fiscal year 2014 from 12.890% to 11.104%, with an estimated savings of approximately \$10,500 in the first year.

Under the administrative services agreement, SGA reimburses RWA for 50% of the common costs to administer the organizations. These costs can include but are not limited to rent, administrative staff, professional fees, and office costs. Administrative management costs are allocated based upon time spent to administer SGA. The reimbursements invoiced to SGA of \$457,655 and \$415,391 for the years ending June 30, 2013 and 2012, respectively, are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Position.

RWA also allocates staffing costs to the subscription-based programs for administering these programs. These subscription-based programs pay for these costs from the subscription-based fees.

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. These costs are sometimes funded by grant awards. 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 2013, there are seven major subscription programs as previously discussed.

- 1) WEP: The WEP program increased direct costs of \$41,550 due to spending more on public outreach and the green gardener program, offset by a decrease in external consulting expenses.
- 2) IRWMP: The IRWMP expenses are \$24,029 higher than in the previous year reflecting more consulting activity than prior year. These expenses have been paid for mostly from grant awards.
- 3) Prop 50 \$25 million grant: The Prop 50 \$25M grant expenses are \$3,737 lower and will fluctuate based upon activity. These costs represent program management costs.
- 4) Proposition 84: These costs were \$1,500 for the program and represent program management costs.
- 5) Public Relations Program (“PR”): The PR program costs are \$28,236 lower and represent hired consulting services to execute the objectives of this program, which include educating and informing the public, legislators, and others on behalf of the region’s water resources needs and concerns. This program will be drawing the remainder of its funds down in fiscal year 2014 and will become a CORE program.
- 6) The Resources Legacy Fund: This grant program spent \$17,054 of consulting costs assessing regional water analytical tools in its first year. Consulting expenses for the assessment are being reimbursed in arrears in the amount of up to \$100,000 through a grant awarded by the Resources Legacy Fund in January 2013. The grant is effective through January 31, 2014. The Sacramento Groundwater Authority is a cost share partner for the assessment in an amount up to \$40,000.
- 7) USBR Meter: As the administrator for the USBR Meter Acceleration Program, these expenses correlated to the administration of the grant and are funded by subscription-based revenue. Direct expenses are lower by \$3,818 due to reduced administrative work.

Grant Awards: 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 typically correlate with grant award revenues and are detailed below.

- 1) WEP: The fiscal year 2013 grant awards to participants include the ET Controller Grant for \$200,383, DWR’s drought grant for \$248,423, the Proposition 84 grant for \$32,722 and SRCSD’s incentives program for \$68,166.
- 2) Prop 50 \$25 million grant: The \$138,356 increase in grant awards from the previous year matches the increase in grant revenues. The activity and payments vary on these grants and year to year comparability is not expected. Grant expenses are expected to continue through fiscal year 2014.
- 3) The Prop 84 \$16 million grant: In the first year of this program, \$545,501 of eligible costs was incurred by the participants for grant reimbursement.

Capital Assets

Capital asset investment includes office furniture, equipment, website development and leasehold improvements as of June 30, 2013 and amounts to \$22,077 net of accumulated depreciation. During the year ending June 30, 2013, RWA disposed of some obsolete fully depreciated office equipment. Most capital asset acquisitions are co-owned with SGA and each authority pays 50% of the acquisition cost, unless specifically purchased for the benefit of an individual authority.

Additional information on the capital assets can be found in Note 3 of this report.

	<u>2013</u>	<u>2012</u>
Furniture	\$ 14,464	\$ 14,464
Equipment	21,374	28,960
Website Development	15,604	15,604
Leasehold Improvements	<u>17,951</u>	<u>17,951</u>
Gross Capital Assets	69,393	76,979
Less Accumulated Depreciation and Amortization	<u>(47,316)</u>	<u>(47,363)</u>
Net Capital Assets	<u><u>\$ 22,077</u></u>	<u><u>\$ 29,616</u></u>

Economic factors and assumptions for fiscal year June 30, 2014

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, 2014.

- 1) The fiscal year 2014 budget was approved with a 5% rate increase.
- 2) RWA's total planned expenses exceed planned revenues in the new fiscal year by approximately \$178,800. The expenses in excess of revenues are derived from subscription-based programs, which collect monies in advance to offset future expenses. Subscription advances will be used to fund the expenses in excess of revenues.
- 3) The subscription-based programs continue to help pay for core program administrative activities, such as staffing and office costs. Subscription revenue and subscription cash of approximately \$278,200 are expected to contribute approximately 22% towards RWA expenses.
- 4) Forecasted subscription revenues include the WEP and the Prop 50 \$25 million grant award.
- 5) Grant award income is projected to come from the Prop 50 \$25 million grant and Prop 84 grant.
- 6) General expenses are expected to increase 3%. Staffing expenses include 6.3 full-time staff persons to help support the growing monitoring and reporting of subscription-based

programs. Salary expenses are within ranges for each classification. Health care is budgeted to increase by 10%.

- 7) RWA will continue to invoice SGA for management services. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2014 is \$506,050.
- 8) The operating fund is targeted at approximately 6 months for fiscal year 2014.
- 9) The IRWMP subscription program will become part of the core program activities during fiscal year 2014.
- 10) RWA plans on setting aside an additional \$110,000 for a total of \$150,000 in fiscal year 2014 in anticipation of adopting and funding the pension plan liability related to implementing the Governmental Accounting Standards Board (“GASB”) pension plan accounting change, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (“GASB 68”). Even though RWA has been fully funding its annually required contribution, RWA will have an unfunded pension plan liability. The CalPERS report, dated June 30, 2011, reflects an approximate liability of \$330,000 when comparing projected benefits to the plan’s market value of assets.

These significant factors above were considered in preparing the RWA’s budget for the fiscal year ending June 30, 2014.

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 Manager, Regional Water Authority, 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610.

REGIONAL WATER AUTHORITY
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets		
Cash and Investments	\$ 350,744	\$ 589,341
Restricted Cash	652,494	1,127,224
Grants/Incentives Receivable	997,772	392,306
Accounts Receivable	14,495	7,074
Grant Receivable from San Juan Water District	-	8,238
Receivable from Sacramento Groundwater Authority	101,623	58,783
Other Assets	13,391	12,464
Total Current Assets	2,130,519	2,195,430
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	11,398	14,133
Furniture and Equipment, Net	22,077	29,616
Total Non-Current Assets	33,475	43,749
Total Assets	\$ 2,163,994	\$ 2,239,179
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Liabilities		
Accounts Payable and Accrued Liabilities	\$ 91,867	\$ 104,810
Compensated Absences, current portion	36,500	31,000
Unearned Revenue	-	36,427
Grants Payable	902,691	908,969
Subscription Program Advances	161,187	246,766
Non-current liabilities - Compensated Absences	15,589	13,277
Total Liabilities	1,207,834	1,341,249
Deferred Inflows - Rent	28,266	33,737
Net Position		
Net Investment in Furniture and Equipment	22,077	29,616
Restricted	375,549	340,355
Unrestricted	530,268	494,222
Total Net Position	927,894	864,193
Total Liabilities, Deferred Inflows, and Net Position	\$ 2,163,994	\$ 2,239,179

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues		
Assessment Income	\$ 475,793	\$ 471,123
Subscription Program Fees	662,819	604,079
Incentives, Grants, and Reimbursements	1,634,703	1,470,783
Other Income	6,433	6,921
Total Operating Revenues	2,779,748	2,552,906
 Operating Expenses		
Administrative Expenses	672,825	644,871
Subscription Program Direct Expenses	727,637	688,197
Refund of Subscription Program Fees	5,772	10,311
Grant Awards	1,313,534	1,154,750
Total Operating Expenses	2,719,768	2,498,129
 Operating Income	59,980	54,777
 Other Income		
Interest Income	3,721	3,875
Total Other Income	3,721	3,875
 Net Income	63,701	58,652
 Net Position, Beginning of Year	864,193	805,541
Net Position, End of Year	\$ 927,894	\$ 864,193

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS (USED) PROVIDED		
BY OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 1,017,423	\$ 1,233,440
Cash received from SGA	417,550	393,671
Cash received from grants and other sources	1,035,670	1,954,473
Cash paid to employees and related benefits and taxes	(873,287)	(793,266)
Cash paid to suppliers	(994,763)	(945,190)
Cash paid to subscription program participants	<u>(1,319,812)</u>	<u>(1,028,112)</u>
Net Cash (Used) Provided by Operating Activities	(717,219)	815,016
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	<u>3,892</u>	<u>4,120</u>
Net Cash Provided by Investing Activities	3,892	4,120
 CASH FLOWS USED BY CAPITAL AND		
RELATED FINANCING ACTIVITIES:		
Proceeds from Lease Incentives	-	19,148
Purchase of Furniture and Equipment	<u>-</u>	<u>(19,746)</u>
Net Cash Used by Financing Activities	-	(598)
 NET (DECREASE) INCREASE IN CASH AND CASH		
EQUIVALENTS	(713,327)	818,538
 CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,716,565</u>	<u>898,027</u>
 CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$ 1,003,238</u></u>	<u><u>\$ 1,716,565</u></u>
 RECONCILIATION OF CASH AND CASH		
EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	350,744	589,341
Restricted cash and cash equivalents	<u>652,494</u>	<u>1,127,224</u>
	<u><u>\$ 1,003,238</u></u>	<u><u>\$ 1,716,565</u></u>

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

RECONCILIATION OF INCOME FROM
OPERATIONS TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES:

Operating income	\$ 59,980	\$ 54,777
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	7,539	7,308
Disposition of assets	-	287
Change in operating assets and liabilities:		
Grants receivable	(605,466)	457,621
Receivable from SGA	(40,105)	(21,720)
Receivable from San Juan Water District	8,238	40,787
Accounts receivable	(7,421)	34,135
Other assets	(1,098)	(404)
Accounts payable and accrued liabilities	(12,943)	18,186
Compensated absences	7,812	(5,063)
Payable to member agencies	(6,278)	131,197
Member advances payable	(85,579)	46,889
Deferred inflows - rent	(5,471)	14,589
Unearned revenue	(36,427)	36,427
	<u> </u>	<u> </u>
Net cash (used) provided by operating activities	<u>\$ (717,219)</u>	<u>\$ 815,016</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 under the previous name of 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 serve and represent regional water supply interests and assist Regional Water Authority members with protecting and enhancing the reliability, availability, affordability and quality of water resources. RWA promotes 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. Additionally, RWA may receive grant awards from federal, state or local agencies. Grants managed on behalf of program participants, administration and depreciation expenses are also considered operating activities. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Administrative expenses are allocated to subscription programs based upon budgeted allocation agreements and based upon staffing resources used. The Authority follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Implementation of New Governmental Accounting Standards Board (GASB) Statements –

During the year ended June 30, 2013, RWA adopted Governmental Accounting Standards Board (“GASB”) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* (“GASB No. 63”) and Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB No. 65”). GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by concepts Statement No. 4, *Elements of Financial Statements*.

These elements are a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. These types of elements are distinct from assets and liabilities. GASB No. 63 amends the net asset reporting requirement in GASB Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* by incorporating deferred outflows of resources and deferred inflows of resources

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

into the definitions of the required components and by renaming these items as net position, rather than net assets. GASB No. 65 further defines and provides examples of deferred outflows of and deferred inflows of Resources. Adopting GASB No. 63 and 65 has no effect on total net position at June 30, 2012 or net income for the year then ended.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

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

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.

Furniture and Equipment – Fixed assets, consisting of furniture, website development costs, office equipment and leasehold improvements in excess of \$2,500 per unit acquired after May 17, 2012, with useful lives of more than one year are stated at historical cost and are included in the financial statements. Before May 17, 2012, assets in excess of \$500 with useful lives of more than one year were capitalized at historical cost. Routine repairs and maintenance are charged to operating expenses in the year the expense is incurred. RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is typically five years or over the lease term for leasehold improvements.

Deferred Outflows and Deferred Inflows – As previously discussed, RWA adopted Governmental Accounting Standards Board (“GASB”) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* (“GASB No. 63”).

Deferred inflows represent the lease incentive received when renewing the lease for the year ending June 30, 2012. This lease incentive is being amortized over the life of the lease. See Note 7 for additional information, including the portion which will be amortized within one year.

Compensated Absences – Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statement of Revenue, Expenses and Changes in Net Position. RWA’s policy provides vacation leave to employees at a rate of 12 to 25 days per year based upon the number of years of employment and is considered earned on a pro-rata basis for each payroll period. Unused earned vacation leave is paid to employees upon

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

separation. Total vacation hours are accrued and capped at 45 days. Vacation leave will resume accrual once the employee’s accrued time is less than 45 days.

Sick leave accrues at a rate of eight hours per calendar month and is capped at 480 hours per employee. Upon termination of employment, the employee’s remaining accrued but unused sick leave will be credited to additional service credit for the California Public Employee Retirement System program (CalPERS) to the extent permitted under the CalPERS-Authority contract and CalPERS law. The Authority does not accrue for unused sick leave since it is not paid out upon termination.

Subscription Program Advances – Program revenue received in advance of subscription-based program costs are recognized as advances. The purpose of these advances is to pay for subscription-based program costs not paid for by grant awards. 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 is typically returned to participants.

For the years ending June 30, the advances by subscription programs are as follows:

	2013	2012
IRWMP	\$ -	\$ 92,454
Prop. 50 - \$25 million grant	28,704	40,310
USBR CalFed Meter 2012	21,850	-
Prop. 84 Program Management	73,503	-
Public Relations	35,813	108,470
Water Efficiency Program Category 2	1,317	5,532
Total	<u>\$ 161,187</u>	<u>\$ 246,766</u>

Unearned Revenue – Monies received as annual assessments relating to the subsequent year and received in advance of the new fiscal year are recorded as unearned revenue. There was no unearned revenue as of the fiscal year ending June 30, 2013.

Net Position – RWA’s net position is classified into the following categories as follows:

Invested in furniture and equipment: Furniture and Equipment, net of accumulated depreciation.

Restricted: Represent net position which consists of constraints placed on net asset use through external requirements imposed by creditors, grantors, members, or laws and regulations of other governments or constraints by law through enabling legislation. RWA’s restricted net position represent funds for the Water Efficiency Program, the ARBCUP and the IRWMP. These funds will be used first for these specific programs prior to use of unrestricted funds.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted: Funds not subject to any outside legal restrictions on use of these funds and may be designated for use by management or the Board.

Non-exchange Transactions – The grant awards and incentives 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.

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 2013, the minimum assessment was \$3,091 and a maximum assessment was \$36,427. Non-voting associate members pay an annual fee equal to 0.1% of the entity's 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 public relations, 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.

Grant Revenue – RWA coordinates grant applications among program participants and then administers these grants awards. Typically, the program participants incur the expenses and make payments to vendors and request reimbursement for these expenses from RWA. RWA has administrative grant responsibilities and submits the grant reimbursement requests to the grantor. The grant reimbursements are recorded in the financial statements as grants revenue and grants

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

receivable. The amounts payable to the program participants and the related expenses is presented in the financial statements as grant awards and grants payable to member agencies.

Related Parties – RWA invoices the Sacramento Groundwater Authority (SGA) for management services and common office costs. 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 \$457,655 and \$415,391 for 2013 and 2012, respectively. The Statements of Revenues, Expenses, and Changes in Net Position reflect the net expenses of RWA after reimbursement by SGA. The Statements of Cash flows reflect the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers. A supplementary schedule of shared administrative expenses outlines 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 the schedule of shared administrative expenses in the supplementary information.

If capital asset acquisitions benefit both organizations, the costs are shared 50/50 between both organizations. During the year 2012, RWA incurred \$38,296 in office remodel costs, using lease incentives. The accounting treatment of the lease incentive is reflected as deferred inflows for RWA (see note 7). RWA also recorded a receivable from SGA for 50% of the acquisition costs of the related office remodel. SGA owes 50% of the acquisition cost to RWA and RWA owes 50% of the lease incentive to SGA. RWA will amortize this SGA receivable over the life of the lease by offsetting deferred inflows related to rent for SGA’s portion of the lease incentive.

SGA is also a subscription participant in the Resource Legacy Fund regional tools grant award. RWA invoiced SGA \$6,248 in grant-related subscription expenses.

During fiscal years ending June 30, 2013 and 2012, RWA incurred system optimization review grant-related expenses associated with the Integrated Regional Water Management Program. San Juan Water District (“SJWD”), a member agency, agreed to be the lead agency grantee on the system optimization review grant application with the United States Bureau of Reclamation. The grant project benefits RWA members. SJWD was awarded the grant with RWA as the project manager of the grant. SJWD applies for cost reimbursement of system optimization review costs incurred by RWA. Once the reimbursement is received by SJWD, then RWA receives reimbursement from SJWD. A total of \$51,732 of reimbursable costs has been paid to RWA during the year ending June 30, 2013 from SJWD. During the year ending June 30, 2012, \$28,522 of reimbursable costs has been incurred by RWA and was due from SJWD.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 2 – CASH AND INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Deposits with financial institutions	\$ 103,450	\$ 795,669
Investments in LAIF	<u>899,788</u>	<u>920,896</u>
Total cash and investments	<u>\$ 1,003,238</u>	<u>\$ 1,716,565</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). RWA is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, the Treasurer of the State of California serving as chairman. The fair value of RWA’s investment in this pool is reported in the Statements of Net Assets as a cash equivalent based upon the RWA’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. The total fair value of all public agencies invested in LAIF at June 30, 2013 and 2012 was \$58,828,474,533 and \$60,588,253,603, respectively. For information on the types of investments made by LAIF, refer to the State of California Treasurer’s separately issued investment reports. Copies of these investment reports may be obtained by calling (916) 653-3001, by writing to LAIF, 915 Capitol Mall, Room 106, Sacramento, CA 95814, or by logging on to the treasurer’s website at www.treasurer.gov/pmia-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 investment’s sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments in the LAIF investment pool on June 30, 2013 and 2012 was approximately 278 and 268 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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. RWA has 90% of its cash invested in LAIF.

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.

At June 30, 2013 and 2012, RWA's bank balances were \$164,599 and \$906,071, respectively. For the years ending June 30, 2013 and 2012, there were grant award payments processed. However, due to the check signing policy requiring two signors for check amounts greater than \$20,000, these checks were not signed at June 30, but signed and mailed shortly after June 30.

RWA bank balance is covered 100% by FDIC insurance. Therefore, for the year ending June 30, 2013, RWA is not exposed to custodial credit risk.

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-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 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, restricted cash by program is as follows:

	2013	2012
Water Efficiency Program - Category 1 & 2	\$ 386,988	\$ 949,736
Integrated Regional Water Master Plan	87,692	10,144
Prop 84 Project Management	73,503	-
Public Relations	35,813	108,470
Proposition 50 \$25 Million Grant Administration	28,704	40,310
USBR CALFED Meter 2012	21,850	-
American River Basin Conjunctive Use Program	17,944	18,564
Total Restricted Cash	\$ 652,494	\$ 1,127,224

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets, consisting of furniture, equipment purchases, website development costs and leasehold improvements are stated at historical cost. Acquired assets are owned 50% by RWA and 50% by SGA, unless the asset specifically benefits only one agency. During the year ending June 30, 2013, RWA disposed of \$7,586 fully depreciated obsolete office equipment.

RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is typically five years. Leasehold improvements are amortized over the contractual period of the lease agreement. Depreciation and amortization expense is \$7,539 and \$7,308 for the years ending June 30, 2013 and 2012, respectively. A summary of the furniture and equipment at cost is as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	28,960		(7,586)	21,374
Website Development	15,604			15,604
Leasehold Improvements	17,951	-	-	17,951
Total	76,979	-	(7,586)	69,393
Less accumulated depreciation and amortization	(47,363)	(7,539)	7,586	(47,316)
Fixed Assets, Net	\$ 29,616	\$ (7,539)	\$ 0	\$ 22,077

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 – PROPERTY AND EQUIPMENT (CONTINUED)

	Balance			Balance
	June 30, 2011	Increases	Decreases	June 30, 2012
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	27,163	2,460	(663)	28,960
Website Development	13,104	2,500		15,604
Leasehold Improvements	3,165	14,786	-	17,951
Total	<u>57,896</u>	<u>19,746</u>	<u>(663)</u>	<u>76,979</u>
Less accumulated depreciation and amortization	<u>(40,431)</u>	<u>(7,308)</u>	<u>376</u>	<u>(47,363)</u>
Fixed Assets, Net	<u>\$ 17,465</u>	<u>\$ 12,438</u>	<u>\$ (287)</u>	<u>\$ 29,616</u>

NOTE 4 – OPERATING LEASE COMMITMENTS

Office Lease

RWA is obligated under an operating lease agreement for office space. RWA re-negotiated a seven year operating lease during the year ending June 30, 2012. As part of the lease renegotiation, RWA received a lease incentive of \$38,296, which was used to complete an office remodel. This lease incentive is reflected as deferred inflow.

RWA's rental expense was \$19,497 and \$20,408 for the years ended June 30, 2013 and 2012. Minimum lease payments are as follows:

Year Ending June 30,	
2014	\$ 24,967
2015	24,967
2016	24,967
2017	24,967
2018	24,967
2019	<u>4,162</u>
Total minimum lease payments	<u>\$ 128,997</u>

Copier Lease

RWA entered into an operating lease agreement during fiscal year 2010 for a copier. This lease expires March 2015. The monthly lease payment is \$244, including taxes. RWA incurred \$2,975 and \$3,034 in rental expense for the years ending June 30, 2013 and 2012, respectively.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 – OPERATING LEASE COMMITMENTS (CONTINUED)

Minimum lease payments are as follows:

Year Ending June 30,

2014	\$ 2,928
2015	<u>2,196</u>
Total minimum lease payments	<u><u>\$ 5,124</u></u>

NOTE 5 – EMPLOYEE BENEFIT PLANS

California Public Employees’ Retirement System (CalPERS)

Plan Description: CalPERS is a cost-sharing multiple-employer pension plan that provides defined benefits to RWA staff members as part of the State Miscellaneous 2% at 55 risk pool. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries through its Public Employees Retirement Fund (“PERF”). A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law (“PERL”).

Funding Policy: RWA is required to contribute the actuarially determined amounts to fund the pension benefits for its participants. Additionally, RWA elects to contribute the employees’ portion of the funding. The amount paid by RWA on behalf of employees was \$36,625 during 2013 and \$34,470 during 2012.

For the fiscal years ended June 30, 2013, 2012 and 2011, RWA’s annual contribution was \$100,655, \$100,274, and \$94,864, respectively, which includes the employee portion. The annual pension cost is equal to the required contributions, all of which were paid for the years ended June 30, 2013, 2012 and 2011. The required employer contribution rate for the years ended June 30, 2013, 2012 and 2011 was 12.270%, 12.037%, and 12.761%, respectively. The required contribution for year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a level 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 3.55% to 14.45% for miscellaneous members and (c) overall payroll growth of 3.25% compounded annually. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the PERF’s assets was determined using a technique that is designed to smooth the effect of short-term volatility in the market value gains and losses over a fifteen year period. The PERF’s unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirement of the plan members is established by State statute and the employer contribution rate is established and may be amended by the CalPERS Board of Administration.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

In addition to the annual contribution, the RWA Board approved paying off the CalPERS negative side fund (“side fund”) during the year ending June 30, 2013. The side fund was created when RWA became part of the Miscellaneous 2% at 55 Risk Pool (“Risk Pool”). This side fund accounts for the difference between the funded status of the Risk Pool and the funded status of RWA’s plan. This side fund was created even though RWA was fully funding its annual required contribution (“ARC”). This side fund was being amortized over nine remaining years as part of the ARC. Paying off this side fund early results in RWA saving an annual 7.5% interest charge. The side fund payment amounted to \$69,141 and was paid in June 2013.

Funded Status: RWA has fully paid the annual required contribution as required by CalPERS for each fiscal year. Beginning with the CalPERS Annual Valuation Report as of June 30, 2011 issued in October 2012, RWA can now report separate information as to funded status and funding progress of RWA’s pension plan.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA)	Unfunded Actuarial Accrued Liability (UAAL) (a-b)	Funded Ratio		Annual Covered Payroll
					AVA	MVA	
6/30/2011	\$1,454,090	\$1,259,325	\$1,127,264	\$194,765	86.6%	77.5%	\$482,205

When comparing the accrued liability to the market value of assets, RWA has an unfunded liability of \$326,826 on the market value basis. The ratio of UAAL to covered payroll is 40.4 percent. Since the previous two years of historical information about the funded status of RWA’s plan is unavailable, this information has not been disclosed herein or in the required supplementary information. For information on funded status and funding progress of the PERF as a whole, refer to the State of California’s separately issued financial statements. Copies of these financial statements may be obtained by calling (888) 225-7377, by writing to CalPERS, 400 Q Street Sacramento, CA 95811, or by logging on to the CalPERS website at www.calpers.ca.gov.

Deferred Compensation Plan

RWA offers its employees a deferred compensation plan (“Plan”) created in accordance with Internal Revenue Code Section 457 through CalPERS and is managed by ING. The Plan is available to all RWA employees and permits them to defer a portion of their salary until future years. The Plan deferred elections are not available to employees until termination, retirement, death or unforeseeable emergency. RWA does not contribute to the Plan on behalf of its employees. No unfunded accrued liabilities exist for this Plan.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

Other Post-Employment Benefits

Plan Description: RWA’s other post-employment health benefits (“OPEB”) 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. Each eligible employee hired before September 1, 2007 who is covered by CalPERS health insurance subject to age and service limitations, is covered by the retiree health benefits insurance contract under Resolution 1993-001. This retiree benefit also covers qualified dependents. RWA pays for the retiree health benefit coverage as approved under Resolution 1993-001 and may be amended from time to time.

For employees hired after September 1, 2007, an employee must be eligible to retire in accordance with the RWA’s CalPERS pension plan rules and have at least five years of credited service with RWA. Premiums are set annually by CalPERS for each retiree and eligible dependents. RWA’s annual required contribution toward health benefit coverage premiums for these employees will be calculated as a percentage of the total eligible cost of such coverage based on the retired employees’ total credited years of qualifying service under CalPERS’ service credit rules. These employees with less than 10 years total CalPERS’ service and/or less than five years credited service with the RWA will not be eligible for retiree health care coverage under RWA’s plan. Any additional health plan premiums not paid by RWA’s contribution toward the cost of the retiree’s health benefits coverage must be paid by the retired employee.

RWA participates as an agent multiple-employer in the California Employers’ Retiree Benefit Trust Fund (CERBT). CalPERS issues a separate comprehensive annual financial report of the CERBT which can be obtained from CalPERS, 400 Q Street, Sacramento, California 95811.

Actuarial methods and assumptions: Actuarial valuations involve estimates of value and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. RWA’s actuarial calculations of OPEB are based on the types of benefits provided under the terms of the plan at the time of valuation and on the pattern of sharing costs between RWA and plan members to the point of valuation. Actuarial calculations reflect a long-term perspective. The plan currently covers six active employees and three retirees.

RWA hires an independent actuary to compute the amount of the actuarial accrued liability (AAL) and actuarial value of plan assets. In calculating the AAL, the entry age normal cost, level percent of pay method is used. The actuarial assumptions include an investment return of 7.25% for the year ending June 30, 2013 and 7.50% for the years ending June 30, 2012 and 2011. Other assumptions include a health care inflation trend rate ranging from 9.0% to 4.5% as the ultimate rate in 2019 and beyond, and projected annual salary increases of 3.25%. RWA’s unfunded actuarial accrued liability or funding excess is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at June 30, 2013 is 10 years.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

Funding Policy: The RWA Board adopted a policy to fully fund the annual required contribution (ARC). The Board has the authority to change this policy, but has the obligation to contribute to the plan. The total ARC of \$38,236 and \$19,136 was paid for during the years ending June 30, 2013 and 2012.

Funding Progress and Funding Status: The most recent actuarial valuation dated July 1, 2011 includes an Actuarial Accrued Liability of \$614,139 and a funding excess of \$54,822. The historical schedule of funding progress shows whether actuarial value of plan assets as increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Required Supplementary Information
Schedule of Funding Progress

Year Ending	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2013	\$668,961	\$614,139	(\$54,822)	108.93%	\$531,881	-10.31%
June 30, 2012	\$627,174	\$552,007	(\$75,167)	113.62%	\$546,667	-13.75%
June 30, 2011	\$506,326	\$431,286	(\$75,040)	117.40%	\$486,034	-15.44%

Schedule of Funding Status

Year ending	Employer Annual Required Contribution	Annual Required Contribution (ARC) Paid to CERBT or Retirees	Percentage of ARC Contribution	Net OPEB Obligation
June 30, 2013	\$38,236	\$38,236	100%	-
June 30, 2012	\$19,136	\$19,136	100%	-
June 30, 2011	\$18,088	\$18,088	100%	-

NOTE 6 – RESTRICTED NET POSITION AND BOARD DESIGNATIONS

Restricted Net Position

A portion of net assets have been restricted based upon subscription contractual provisions. The restrictions by contract represent advances by participants in excess of program costs for the specific program. These funds are restricted for the intended program by contract. Expenses to administer these programs will use these restricted funds.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 6 – RESTRICTED NET POSITION AND BOARD DESIGNATIONS (CONTINUED)

<u>Restricted Net Position</u>	2013	2012
Water Efficiency Program	\$ 269,913	\$ 321,791
American River Basin Conjunctive Use Program	17,944	18,564
Integrated Regional Water Management Plan	87,692	-
Total by Contract	\$ 375,549	\$ 340,355

Board Designations

The Board establishes and approves the operating fund, membership dues, subscription program designation and OPEB target balances on an annual basis as part of the budget process and may modify these targets during the year so as to follow the Financial/Designation Reserve Policy No. 500.1. The operating fund is designed to ensure cash resources are available to fund daily administration and operations for RWA as well as a resource for matching funds for grant partnership opportunities. The operating fund target designation is four to six months of operating expenses. However, due to delayed receipt of year end cash reimbursements for shared expenses and grant awards, the operating fund at June 30, 2013 is temporarily at 2 months. The membership dues stabilization fund is fully funded and designed to supplement operating cash flow in the event a member does not renew and is targeted at 15% of membership dues. The subscription program revenue fund is designed to be used in the event subscription program revenue designed to support operating expenses does not materialize as planned. This fund is set at 10% of net subscription program support revenue.

The Pension plan accounting change is a partial set-aside designation in anticipation of paying the projected liability from implementing the Governmental Accounting Standards Board (“GASB”) pension plan accounting change, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (“GASB 68”) in fiscal year 2015. Even though RWA has been fully funding its annually required contribution, RWA will have an unfunded pension plan liability. The CalPERS report, dated June 30, 2011, reflects an approximate liability of \$330,000 when comparing projected benefits to the market value of assets.

NOTE 7 – DEFERRED INFLOWS - RENT

As part of the lease renegotiation in fiscal year 2012, RWA received a lease incentive of \$38,296 which was used to complete an office remodel and purchase board room chairs and tables. This lease incentive is considered a deferred inflow. The deferred rent is being amortized over the life of the lease and effectively reduces the annual lease expense on a pro-rata basis.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 – DEFERRED INFLOWS - RENT (CONTINUED)

The deferred inflow at June 30 is as follows:

<u>Balance</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>\$ 33,737</u>	<u>-</u>	<u>(5,471)</u>	<u>\$ 28,266</u>

<u>Balance</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>\$ -</u>	<u>38,296</u>	<u>(4,559)</u>	<u>\$ 33,737</u>

NOTE 8 – COMPENSATED ABSENCES

Compensated absences are comprised of unpaid vacation leave which is accrued and earned. RWA's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30 are as follows:

<u>Balance</u> <u>2012</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2013</u>	<u>Due Within One</u> <u>Year</u>
<u>\$ 44,277</u>	<u>39,872</u>	<u>32,060</u>	<u>\$ 52,089</u>	<u>\$ 36,500</u>

<u>Balance</u> <u>2011</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2012</u>	<u>Due Within One</u> <u>Year</u>
<u>\$ 49,340</u>	<u>34,575</u>	<u>39,638</u>	<u>\$ 44,277</u>	<u>\$ 31,000</u>

NOTE 9 – INSURANCE

RWA participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general liability, public officials' liability, property damage, fidelity insurance, workers' compensation and employer's liability. ACWA/JPIA provides insurance through the pool up to a certain level.

RWA pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate ACWA/JPIA.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 9 – INSURANCE (CONTINUED)

RWA’s deductibles and maximum coverage are as follows:

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability	\$ 2,000,000	\$ 58,000,000	None
Public Officials Liability	2,000,000	58,000,000	None
Property Damage	100,000	100,000,000	\$1,000 - \$25,000
Fidelity Insurance	100,000	-	\$1,000
Workers' Compensation Insurance	2,000,000	Statutory	None

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 – CONTINGENCIES

Grant Awards and Payments

RWA participates in numerous 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, 2013 and 2012 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), five to ten percent 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 grant award revenue and the related liability to program participants is estimated at \$250,751 and \$165,129 at June 30, 2013 and 2012 and is not currently reflected in the financial statements.

Pension Benefits

In March 2013, RWA was selected for a routine compliance audit by CalPERS’ Office of Audit Services (“OAS”) to determine pensionable payroll reporting compliance and member

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 – CONTINGENCIES (CONTINUED)

enrollment processes for the period of April 1, 2010 to March 31, 2013. RWA reported all pensionable compensation to CalPERS for RWA's employees. However, OAS' draft compliance audit report, dated June 12, 2013, currently suggests RWA has erroneously reported staff time to administering SGA as RWA pensionable compensation. Instead, OAS believes that the time administering SGA should be pensionable time for SGA. The draft report further noted that SGA is not a CalPERS contracting agency and as a result, RWA employees' time serving SGA cannot be creditable service reportable to CalPERS under the RWA contract. RWA strenuously disagrees with OAS' finding as contrary to existing legal authority and sent a response letter to OAS on July 2, 2013. OAS has not responded to RWA or final finding as of this report. RWA has not recorded a liability for this contingency because the amount of any liability that might result cannot be estimated if OAS does not change its findings or if CalPERS' or Board of Administration does not reject the finding.

NOTE 11 – ECONOMIC DEPENDENCIES

RWA incurs common administrative expenses to operate both RWA and SGA. RWA relies upon reimbursement of these expenses by SGA. As discussed in note 1, summary of significant accounting policies, SGA reimbursed \$457,655 and \$415,391 for the years ending June 30, 2013 and 2012 which represents 40% and 39%, respectively of RWA's total administrative expenses. The supplementary information section details how these costs are allocated to SGA and the subscription programs.

SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDING JUNE 30, 2013

	Agency Core Program	Water Efficiency Program	ARBCUP	IRWMP	PROP 50 \$25 M Grant	PROP 84	PR Program	Regional Tools Assessment	USBR /CALFED Meter	TOTAL RWA
Operating Revenues										
Assessment Income	\$ 475,793	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	475,793
Subscription Program Fees		403,859		92,453	22,685	24,092	110,157	6,247	3,326	662,819
Incentives and Grant Revenues	-	609,395	-	258,016	210,984	545,501	-	10,807	-	1,634,703
Other Income	6,433	-	-	-	-	-	-	-	-	6,433
Total Operating Revenues	482,226	1,013,254	0	350,469	233,669	569,593	110,157	17,054	3,326	2,779,748
Operating Expenses										
Administrative Expenses	469,571	178,703	620	2,661	7,930	11,390	-	-	1,950	672,825
Subscription Program Direct Expenses	-	323,616	-	260,116	14,747	1,500	110,158	17,054	446	727,637
Refund of Subscription Program Fees		5,772								5,772
Grant Awards	-	557,041		-	210,992	545,501	-	-	-	1,313,534
Total Operating Expenses	469,571	1,065,132	620	262,777	233,669	558,391	110,158	17,054	2,396	2,719,768
Net Operating Income	12,655	(51,878)	(620)	87,692	0	11,202	(1)	0	930	59,980
Other Income										
Interest Income	3,721	-	-	-	-	-	-	-	-	3,721
Net Other Income	3,721	-	-	-	-	-	-	-	-	3,721
Net Income	\$ 16,376	\$ (51,878)	\$ (620)	\$ 87,692	\$ -	\$ 11,202	\$ (1)	\$ -	\$ 930	63,701
Net Position, Beginning of the Year										864,193
Net Position, End of the Year										\$ 927,894

Note: The Statement of Revenues, Expenses, and Changes in Net Position By Program are net of cost reimbursements from SGA.
See the Schedule of Allocated Administrative Expenses in the Supplementary Information Section

REGIONAL WATER AUTHORITY
PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDING JUNE 30, 2012

	Agency Core Program	Water Efficiency Program	ARBCUP	IRWMP	PROP 50 \$25 M Grant	PROP 84	PR Program	USBR Meter	TOTAL RWA
Operating Revenues									
Assessment Income	\$ 471,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	471,123
Subscription Program Fees	-	408,794		13,587	26,284	\$ 11,662	\$ 138,394	5,358	604,079
Incentives and Grant Revenues	-	1,172,061		226,086	72,636	-	-	-	1,470,783
Other Income	6,921	-	-	-	-	-	-	-	6,921
Total Operating Revenues	478,044	1,580,855	0	239,673	98,920	11,662	138,394	5,358	2,552,906
Operating Expenses									
Administrative Expenses	404,552	212,347	1,530	3,586	7,800	13,962	-	1,094	644,871
Subscription Program Direct Expenses	-	282,066		236,087	18,484	8,902	138,394	4,264	688,197
Refund of Subscription Program Fees			10,311						10,311
Grant Awards	-	1,082,114		-	72,636	-	-	-	1,154,750
Total Operating Expenses	404,552	1,576,527	11,841	239,673	98,920	22,864	138,394	5,358	2,498,129
Net Operating Income	73,492	4,328	(11,841)	0	0	(11,202)	0	0	54,777
Other Income									
Interest Income	3,875	-	-	-	-	-	-	-	3,875
Net Other Income	3,875	-	-	-	-	-	-	-	3,875
Net Income	\$ 77,367	\$ 4,328	\$ (11,841)	\$ -	\$ -	\$ (11,202)	\$ -	\$ -	58,652
Net Position, Beginning of the Year									805,541
Net Position, End of the Year									\$ 864,193

Note: The Statement of Revenues, Expenses, and Changes in Net Position By Program are net of cost reimbursements from SGA.
See the Schedule of Allocated Administrative Expenses in the Supplementary Information Section

REGIONAL WATER AUTHORITY
SCHEDULES OF ALLOCATED ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDING JUNE 30, 2013

As discussed in Note 1 under shared expenses, RWA manages the SGA and SGA shares 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 SGA and the various subscription-based programs. The remaining net agency administrative expenses are expected to be paid for by member annual assessment dues or by designations.

The allocation of administrative expenses for the year ending June 30, 2013 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation and Amortization	Total Administrative Expenses
RWA Administrative Expenses	\$ 902,234	\$ 103,711	\$ 116,996	\$ 7,539	\$ 1,130,480
Allocated to Sacramento Groundwater Authority	(377,519)	(44,374)	(35,762)	-	(457,655)
Total RWA Administrative Expenses - Net of SGA allocation	<u>524,715</u>	<u>59,337</u>	<u>81,234</u>	<u>7,539</u>	<u>672,825</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(156,505)	(13,571)	(8,627)	-	(178,703)
American River Basin Conjunctive Use Program (ARBCUP)	(620)	-	-	-	(620)
Integrated Regional Water Management Plan (IRWMP)	(2,661)	-	-	-	(2,661)
Proposition 50 - \$25 Million Grant	(7,930)	-	-	-	(7,930)
Prop 84 Grant Application	(11,390)	-	-	-	(11,390)
USBR Meter Program	(1,950)	-	-	-	(1,950)
Total Allocated Administrative Expenses - Subscription Programs	<u>(181,056)</u>	<u>(13,571)</u>	<u>(8,627)</u>	<u>-</u>	<u>(203,254)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 343,659</u>	<u>\$ 45,766</u>	<u>\$ 72,607</u>	<u>\$ 7,539</u>	<u>\$ 469,571</u>

REGIONAL WATER AUTHORITY
SCHEDULES OF ALLOCATED ADMINISTRATIVE EXPENSES, CONTINUED
FOR THE YEAR ENDING JUNE 30, 2012

The allocation of administrative expenses for the year ending June 30, 2012 is:

	<u>Staff Expenses</u>	<u>Office Expenses</u>	<u>Professional Fees</u>	<u>Depreciation and Amortization</u>	<u>Total Administrative Expenses</u>
RWA Administrative Expenses	\$ 812,109	\$ 113,400	\$ 127,158	\$ 7,595	\$ 1,060,262
Allocated to Sacramento Groundwater Authority	(330,895)	(49,920)	(34,576)	-	(415,391)
Total RWA Administrative Expenses - Net of SGA allocation	<u>481,214</u>	<u>63,480</u>	<u>92,582</u>	<u>7,595</u>	<u>644,871</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(186,478)	(14,494)	(11,375)	-	(212,347)
American River Basin Conjunctive Use Program (ARBCUP)	(1,530)	-	-	-	(1,530)
Integrated Regional Water Management Plan (IRWMP)	(3,586)	-	-	-	(3,586)
Proposition 50 - \$25 Million Grant	(7,800)	-	-	-	(7,800)
Prop 84 Grant Application	(13,962)	-	-	-	(13,962)
USBR Meter Program	(1,094)	-	-	-	(1,094)
Total Allocated Administrative Expenses - Subscription Programs	<u>(214,450)</u>	<u>(14,494)</u>	<u>(11,375)</u>	<u>-</u>	<u>(240,319)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 266,764</u>	<u>\$ 48,986</u>	<u>\$ 81,207</u>	<u>\$ 7,595</u>	<u>\$ 404,552</u>

OTHER REPORT

Richardson & Company

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
FAX: (916) 564-8728

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

To the Board of Directors
Regional Water Authority
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Regional Water Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 2, 2013.

Internal Control Over Financial Reporting

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

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

To the Board of Directors
Regional Water Authority

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company

December 2, 2013