

**REGIONAL WATER AUTHORITY**  
**INDEPENDENT AUDITOR'S REPORT**  
**and**  
**FINANCIAL STATEMENTS**

**June 30, 2010 and 2009**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Regional Water Authority as of and for the years ended June 30, 2010 and 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Water Authority as of June 30, 2010 and 2009 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010, on our consideration of Regional Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and funded status of other post employment benefits ("OPEB") on page 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The program statements of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The program statements of revenues, expenses and changes in net assets for the years ended June 30, 2010 and 2009 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cook CPA Group*

Roseville, California  
December 2, 2010

## 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, 2010 and 2009. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 12 to 28 of this report.

### **Description of Basic Financial Statements**

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

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

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

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

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 16 to 28 of this report.

## Condensed Financial Information

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

	<u>2010</u>	<u>2009</u>
Current Assets	\$1,182,338	\$2,352,679
Capital Assets	<u>5,691</u>	<u>6,992</u>
Total Assets	<u>\$ 1,188,029</u>	<u>\$2,359,671</u>
Current Liabilities	\$564,274	\$1,778,336
Net Assets:		
Invested in capital assets	5,691	6,992
Unrestricted	<u>618,064</u>	<u>574,343</u>
Total net assets	<u>\$ 623,755</u>	<u>\$ 581,335</u>

### *Current Assets*

Current assets consisted of cash, grants receivable, accounts receivable, interest receivable, prepaid expenses and amounts due from the Sacramento Groundwater Authority (SGA), a related party. Total assets have decreased \$1,171,642 from the previous year mainly from a decline in grants receivables. Grants receivables have decreased by \$1,266,784 from the prior year reflecting payments made by grantors during the year ending June 30, 2010. As of June 30, 2010, an amount of \$138,634 is reflected as a grant receivable reflecting amounts earned from the California Department of Water Resources (DWR) for fulfillment of grant obligations from the Proposition 50 Toilet Replacement Program. Additionally, grant receivables also include amounts due from the Sacramento Regional County Sanitation District (SRCSD) Clothes Washer Replacement Incentives Program and from the County of Sacramento as a sub-recipient for the Homeland Security Grant. Amounts due from grants 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 grant obligations.

For fiscal year 2010, cash and cash equivalents of \$841,026 includes \$574,214 which is restricted for subscription programs by contract. Total cash reflects an overall increase from the previous fiscal year of \$101,072 mainly due to receiving grant receipts for grant retention which reimburses RWA for prior expenses incurred.

### *Capital Assets*

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

### *Current Liabilities*

Current liabilities due within one year include amounts due to vendors and accrued liabilities, amounts due to SGA, grants payable to program participants, subscription program advances, and unearned revenue. There was a \$1,214,062 decrease in liabilities in fiscal year 2010 largely due to payments made to program participants for fulfillment of grant obligations. These amounts paid to program participants for grant payments closely correlate to the amounts received from grantors.

Other changes in liabilities include a decrease from the previous year in unearned revenue of \$38,771 for receiving fewer fiscal year 2011 annual assessment revenues by June 30, 2010. Accounts payable of \$10,160 decreased due to timing of vendor payments.

### *Net Assets Invested in Capital Assets*

Investment in capital assets net of accumulated depreciation totaled \$5,691 and decreased a net \$1,301 over the prior year due to depreciation and amortization of \$2,420 offset by \$1,119 in office equipment purchases.

### *Unrestricted Net Assets*

Unrestricted net assets consisted of net assets that did not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net assets of \$618,064 reflect an increase of \$43,721 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.

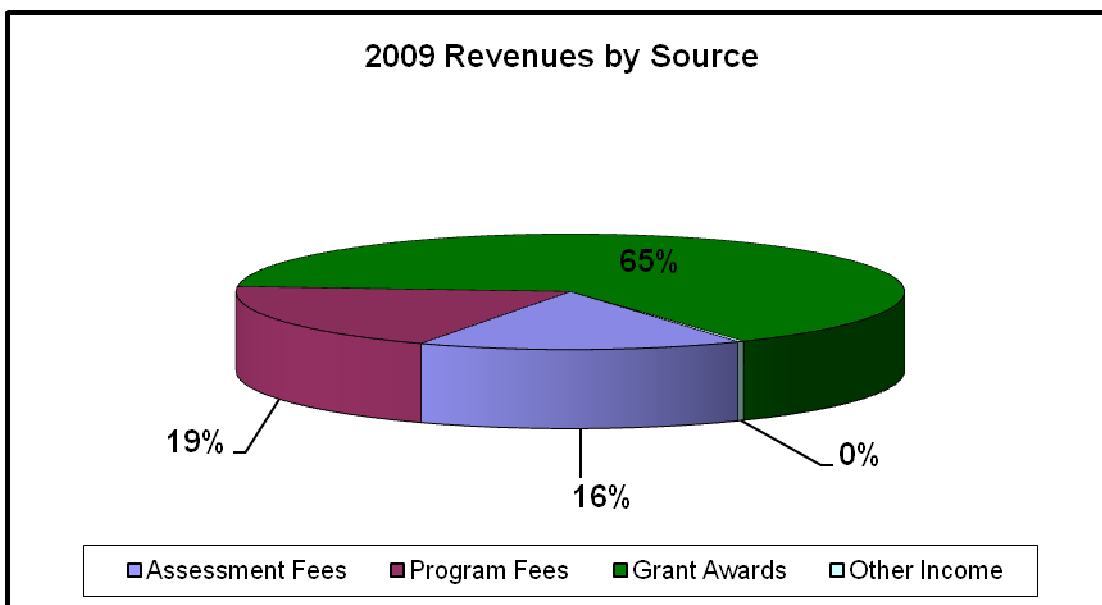
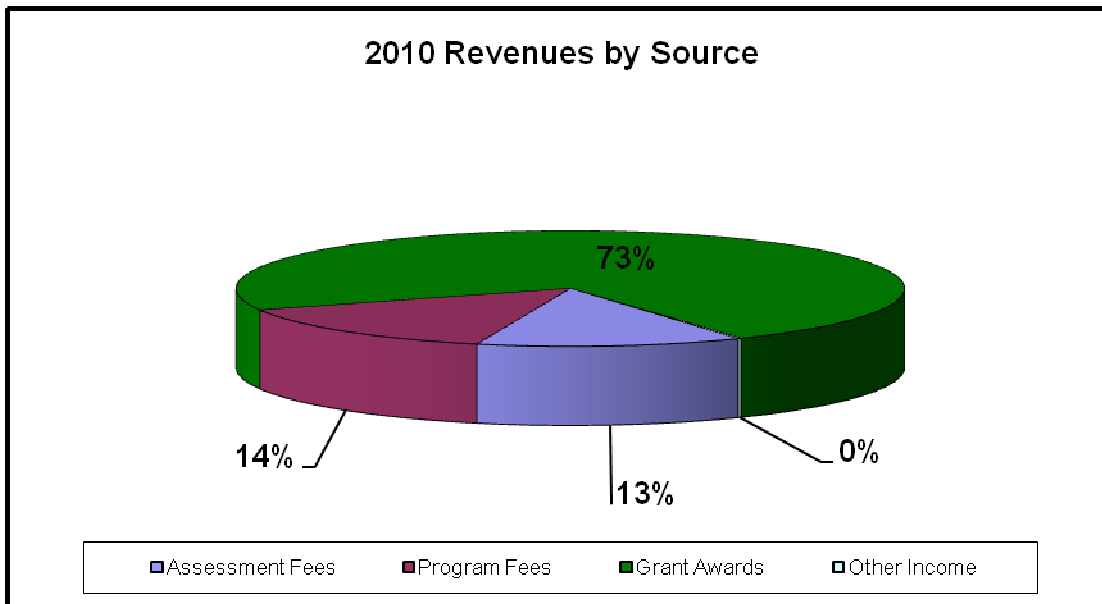
Certain amounts of the unrestricted net assets have been designated for purposes authorized by the Board. According to contractual provisions, \$267,869 has been designated for future program expenses. Approximately \$266,800 of unrestricted net assets has been designated as fee stabilization funds and an operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses.

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

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Assessment Income	\$ 408,351	\$ 381,245
Subscription Program Fees	458,295	465,473
Incentives and Grants	2,309,559	1,576,272
Other Income	<u>6,203</u>	<u>7,835</u>
Total Operating Revenues	3,182,408	2,430,825
Non-operating income	<u>5,384</u>	<u>25,254</u>
Total Revenues	<u>3,187,792</u>	<u>2,456,079</u>
Operating Expenses:		
Administrative Expenses	543,704	783,089
Subscription Program		
Direct Expenses	616,753	458,412
Grant Awards	<u>1,984,915</u>	<u>1,470,079</u>
Total Operating Expenses	<u>3,145,372</u>	<u>2,711,580</u>
Increase (Decrease) in Net Assets	42,420	(255,501)
Net Assets July 1	<u>581,335</u>	<u>836,836</u>
Net Assets June 30	<u>\$623,755</u>	<u>\$581,335</u>

### Operating Revenues

RWA's operating revenues are substantially derived from assessment fees, program fees, and grant awards. Annual assessment fees are paid by members and are designed to fund the core RWA activities. Program fees are derived from additional one-time or ongoing subscription-based programs for services or products available in addition to the core RWA activities. Revenues charged for these products and services are designed to cover the costs of the additional services offered beyond the basic membership level. Grants 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 \$3,182,408 or \$751,583 higher than in the previous year. The increase is substantially due to earning more net grant income in the current year.

Assessment fees: Of the \$27,106 assessment fee income increase, \$17,900 was due to a 5% increase in assessment fees as planned and budgeted. The remaining increase is due to non-member fees surcharge generated by the Water Efficiency Program (WEP). At its June 24, 2009 meeting the Executive Committee approved a new WEP subscription fee policy that specified that the 20% surcharge for WEP participants who are not RWA members now be allocated to the RWA general fund.

Subscription Program Fees: Except for the core Water Efficiency Program (WEP), program fees will vary from year to year as these projects are limited in scope and costs are not expected to be comparable from year to year. In fiscal year 2010, the program fees are derived from the following programs:

- 1) Total WEP revenues decreased by a net \$16,950. The regular annual dues stayed the same as in the previous year. The decrease was due to non participation of one member plus the non-member fees being allocated to the RWA general fund.
- 2) The IRWMP Program began in fiscal year ending June 30, 2004 as a five-year effort to identify the facilities and partnerships to bolster water supply reliability in the Sacramento region. It has now become a regular program with varying activity from year to year. Revenues recognized for the current fiscal year's commitments decreased by \$3,356 and are designed to correspond with current year expenses related to the planning grant but not paid for by grant funds. The IRWMP did receive advances from program participants for expenses not paid for by the grant and the amount in excess of expenses is reflected as subscription program advances on the balance sheet.
- 3) The Prop 50 Grant (Prop 50) revenues decreased by \$1,706 and are designed to closely match the expenses of the program not paid for by grant funds. The Prop 50 program evolved into a joint application with the Freeport Regional Water Authority (FRWA), for \$25 million in Proposition 50 grant funds for a package of integrated regional water management projects. The final application included 14 projects expanding regional conjunctive use facilities (surface water diversions/treatment plants, groundwater wells, and pipelines), expanding the use of recycled water, and habitat/recreation improvement.
- 4) A new United States Bureau of Reclamation (USBR) Meter Acceleration Program began this fiscal year. In August 2009, Sacramento Suburban Water District (SSWD) was notified that it was successful in its application for a \$5 million grant from the USBR's Challenge Grant Program funded through the American Recovery and Reinvestment Act. RWA staff helped develop the conceptual project and grant application on behalf of SSWD and four collaborating agencies. During the application, RWA was determined ineligible to apply. SSWD acted as the lead applicant and is the signatory to the funding agreement. However, the project participants have chosen to use RWA as the administrator for the grant. All funds for administration of the grant are collected from the project participants and amounts in excess of expenses are recognized as subscription program advances.

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

- 1) As of June 30, 2009, The American River Basin Conjunctive Use Program (ARBCUP) is complete and therefore no additional grant revenues are expected. The ARBCUP grant, which was awarded in fiscal year ending June 2003, totaled \$21.67 million dollars in grant awards.
- 2) Water Efficiency Program (WEP) grants and incentives decreased a net \$27,977 from the previous year. There was a decrease in revenues for the SRCSD clothes washer and toilet incentive program. These 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.
- 3) The Integrated Regional Water Master Plan (IRWMP) Program increased \$135,705 from the previous year. The increase is mainly due to receiving grant awards during the fiscal year. Activity has increased on this program since the release of new guidelines for IRWMPs from DWR.
- 4) The \$25 million Proposition 50 grant revenue increased by \$843,863 reflecting the restart of grant activity after the state budget problems. The eligible grant period continues through December 31, 2014.

#### *Non-operating revenue*

Non-operating revenue of \$5,384 represents interest income and reflects a decrease of \$19,870, reflecting lower interest rates even and declining average cash balances from the previous year.

#### *Operating expenses*

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

#### *Analysis Review of Operating Expenses*

The operating expenses totaled \$3,145,372 and are \$433,792 higher than the previous year. The increase in expenses is the result of increased grant award and program expenses in parallel with the increase in grant award income.

Administrative Expenses: As illustrated in Note 7 on page 26 of the financial statements, overall administrative expenses incurred by RWA decreased from the previous year by \$420,097 mainly due to early implementation of Governmental Accounting Principles Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) in the fiscal year ending 2009.

RWA hired an actuary to calculate its OPEB unfunded actuarially accrued liability (UAAL) as of July 1, 2008. While RWA implemented the OPEB accounting requirement as of July 1, 2008, it also elected to amortize the unfunded actuarial accrued liability (UAAL) over one year, resulting in a one-time large payment of \$425,984 made in June 2009 to the California Employer's Retirement Benefit Trust Fund (CERBT). On a go forward basis, based upon the current staffing, RWA will be expected to pay an annual normal cost, which is estimated at approximately \$33,700 and is assumed to increase approximately 3.5% annually. The annual payment will be re-evaluated every two years as required by CERBT.

RWA also manages the Sacramento Groundwater Authority (SGA). Under an administrative services agreement, SGA reimburses RWA for 50% of the common costs to administer the organizations. Examples of these costs include but are not limited to rent, administrative staff, OPEB and office costs. Staffing costs are allocated based upon time spent to administer SGA. The reimbursements invoiced due from SGA of \$385,257 and \$565,969 for the years ending June 30, 2010 and 2009, respectively are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Assets.

As detailed in Note 7, the amount of administrative expenses allocated to RWA decreased by \$239,385 from the prior year, mainly due to the OPEB expense, offset by a decrease in SGA reimbursement related to OPEB. The net amount of administrative costs allocated to RWA in total can vary based upon the work required for SGA. RWA also allocates staffing costs to the subscription based programs for administering these programs.

Subscription Program Direct Expenses: These expenses typically consist of program related legal fees, outside consulting assistance for program execution, as well as communication and print material deliverables. These expenses will closely track with the subscription based revenues in any given year as the costs of the projects are funded by special assessments paid for by program participants who benefit from the program and 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 2010, there are five major subscription programs as previously discussed.

- 1) WEP: The WEP program decreased direct costs of \$10,159 mainly due to the hiring of a new WEP Program Manager. The decision to hire a program manager has reduced the use of consulting services.
- 2) ARBCUP: The ARBCUP expenses decreased by \$18,891, reflecting the completion of this grant. The revenues to pay for the direct expenses were invoiced, earned, and collected in the fiscal year ending June 30, 2003. Contractually, \$30,405 in previously earned revenues is remaining at June 30, 2010 and has been designated for the continued grant administration. See Note 6, Board designations.
- 3) IRWMP: The IRWMP expenses are \$101,600 higher than in the previous year and partially correlate with the increase in grant revenues. RWA has incurred reimbursable costs and DWR has withheld 10% of these eligible reimbursable costs until project completion.

- 4) Prop 50: The Prop 50 expenses are \$2,186 lower than in the prior year and total expenses track with the current year earned revenue.
- 5) USBR Meter: As the administrator for this new USBR Meter Acceleration Program, these expenses correlated to the administration of the grant and are funded by subscription based revenue.

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 should closely parallel grant award revenues and are detailed below.

- 1) WEP: Included in the total of \$502,052 that was earned by program participants during fiscal year 2010, there was a decrease of \$28,889 in the grant awards for incentives program through SRCSD.
- 2) ARBCUP: This program was completed as of June 30, 2009.
- 3) Prop 50: There was an increase of \$843,863 in grant awards from the previous year. Grant award payments match the grant revenues. The grant revenues earned by RWA are then paid out to the eligible participants who incurred the costs.

### **Capital Assets**

Capital asset investment includes office furniture, equipment and leasehold improvements as of June 30, 2010 and amounts to \$5,691 net of accumulated depreciation. RWA's asset acquisition consisted of office equipment while also disposing of a piece of office equipment. Capital asset acquisitions are co-owned with SGA and each authority pays 50% of the acquisition cost. Additional information on the furniture and equipment can be found in Note 3 on page 21 of this report.

	<u>2010</u>	<u>2009</u>
Furniture	\$14,464	\$14,464
Equipment	28,480	35,101
Leasehold Improvements	<u>3,165</u>	<u>3,165</u>
Gross Capital Assets	46,109	52,730
Less Accumulated Depreciation and Amortization	<u>(40,418)</u>	<u>(45,738)</u>
Net Capital Assets	<u>\$ 5,691</u>	<u>\$ 6,992</u>

## **Economic factors and assumptions for fiscal year June 30, 2011**

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 factor and assumptions affected the budget for fiscal year June 30, 2011.

- 1) In light of continued economic difficulties experienced by members, the fiscal year 2011 budget proposal was developed with no rate increase.
- 2) Revenue projections assume the membership base will remain unchanged.
- 3) RWA's total planned expenses exceed planned revenues in the new fiscal year by \$33,380. The major portion of expenses in excess of revenues of \$143,000 is caused by the subscription based programs. The subscription based programs collect revenues in advance of expenses and often straddle several years prior to completion. The funds are held in a designated restriction until the expenses are incurred. The expenses in excess of revenues will be funded by carryover designations and restrictions specific to these subscription based programs.
- 4) Subscription revenue and subscription cash contribute approximately 15% towards RWA expenses.
- 5) Forecasted subscription revenues include the WEP, Prop 50 grant awards, ARBCUP grant implementation and the IRWMP program.
- 6) General expenses are expected to increase 3%. Salary reflects a 4% budgeted increase at the discretion of the Executive Director which is lower than historical trends (6%), which includes COLA. Health care is budgeted to increase by 7%. An annual OPEB expense is now included in the budgets of approximately \$33,700.
- 7) RWA will continue to manage the Sacramento Groundwater Authority (SGA). Common costs for staffing, office, professional fees, and other expenses are shared with SGA at a 50/50 split. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2010 is \$433,320 which includes the annual OPEB shared cost.
- 8) The Senior Project Manager is budgeted at 50% to RWA. RWA's full time equivalent employees are 3 people.
- 9) Approximately \$143,000 of the subscription program expenses are expected to be funded using program cash designations collected in current or previous fiscal years.

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2011.

## **Requests for Information**

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

**REGIONAL WATER AUTHORITY**  
**BALANCE SHEETS**  
**JUNE 30, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Current Assets		
Cash and Investments	\$ 266,812	\$ 254,989
Restricted Cash	574,214	484,965
Grants/Incentives Receivable	274,168	1,540,952
Accounts Receivable	7,650	-
Receivable from Sacramento Groundwater Authority	44,600	43,991
Interest Receivable	832	3,440
Other Assets	14,062	24,342
Total Current Assets	1,182,338	2,352,679
Furniture and Equipment, Net	5,691	6,992
<b>Total Assets</b>	<b>\$ 1,188,029</b>	<b>\$ 2,359,671</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 79,142	\$ 89,302
Due to Sacramento Groundwater Authority	50	1,572
Unearned Revenue	38,710	77,481
Grants Payable to Member Agencies	268,499	1,436,343
Subscription Program Advances	177,873	173,638
Total Current Liabilities	564,274	1,778,336
Net Assets		
Investment in Furniture and Equipment	5,691	6,992
Unrestricted	618,064	574,343
Total Net Assets	623,755	581,335
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,188,029</b>	<b>\$ 2,359,671</b>

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>		
Assessment Income	\$ 408,351	\$ 381,245
Subscription Program Fees	458,295	465,473
Incentives and Grants	2,309,559	1,576,272
Other Income	6,203	7,835
Total Operating Revenues	3,182,408	2,430,825
<b>Operating Expenses</b>		
Administrative Expenses	543,704	783,089
Subscription Program Direct Expenses	616,753	458,412
Grant Awards	1,984,915	1,470,079
Total Operating Expenses	3,145,372	2,711,580
<b>Operating Income (Loss)</b>	37,036	(280,755)
<b>Other Income</b>		
Interest Income	5,384	25,254
Total Other Income	5,384	25,254
<b>Net Income (Loss)</b>	42,420	(255,501)
Net Assets, Beginning of Year	581,335	836,836
Net Assets, End of Year	\$ 623,755	\$ 581,335

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS PROVIDED (USED)</b>		
<b>BY OPERATING ACTIVITIES:</b>		
Cash received from members and participants	\$ 824,460	\$ 916,735
Cash received from SGA	383,151	574,836
Cash received from grants and other sources	3,582,546	9,971,218
Cash paid to employees and related benefits and taxes	(689,990)	(667,089)
Cash paid to fund Other Post Employment Benefits	(32,600)	(425,984)
Cash paid to suppliers	(820,609)	(739,688)
Cash paid to subscription program participants	<u>(3,152,759)</u>	<u>(9,975,327)</u>
Net cash provided (used) by operating activities	94,199	(345,299)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on cash	<u>7,992</u>	<u>30,227</u>
Net cash provided by investing activities	7,992	30,227
 <b>CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of office equipment	<u>(1,119)</u>	<u>(1,918)</u>
Net cash used by financing activities	(1,119)	(1,918)
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 101,072	 (316,990)
 <b>CASH AND CASH EQUIVALENTS, beginning of year</b>	 <u>739,954</u>	 <u>1,056,944</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 841,026</u></u>	<u><u>\$ 739,954</u></u>



**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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

Operating income (loss)	\$ 37,036	\$ (280,755)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	2,420	3,955
Change in operating assets and liabilities:		
Grants Receivable	1,266,784	8,387,111
Receivable from SGA	(609)	7,419
Accounts Receivable	(7,650)	51,167
Other assets	10,280	(5,764)
Accounts payable and accrued liabilities	(10,160)	-
Payable to SGA	(1,522)	1,448
Payable to member agencies	(1,167,844)	(8,505,248)
Member advances payable	4,235	(17,181)
Unearned revenue	(38,771)	36,031
	<u>                    </u>	<u>                    </u>
Net cash provided by (used in) operating activities	<u>\$ 94,199</u>	<u>\$ (321,817)</u>

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of reporting entity** – Regional Water Authority (RWA) was formed under a Joint Exercise of Powers Agreement on March 20, 1990 and was previously named the Sacramento Metropolitan Water Authority. The members of RWA are governmental units in and around the greater Sacramento area of the State of California. The mission of RWA is to present a unified voice on regional water resource issues for member agencies on area water policy and management issues. 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. 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.

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

**Implementation of New Governmental Accounting Standards Board (GASB) Statements** – During the year ended June 30, 2009, RWA prospectively adopted GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (Statement No. 45). This statement establishes standards for the measurement, recognition, and display of Other Post Employment Benefits (OPEB) expenses and related liabilities or assets, note disclosures, and if applicable, required supplementary information in the financial reports of state and local government employers. See Note 5 for further details.

During the year ended June 30, 2010, RWA adopted Governmental Accounting Standards Board (“GASB”) Statement No. 51, “Accounting and Financial Reporting of Intangible Assets”. This Statement addresses accounting and financial reporting standards to clarify whether and when intangible assets should be considered capital assets. RWA believes there is no material impact to their financial statements as of June 30, 2010.

**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.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Based on information obtained from LAIF, the investment in LAIF has been recorded at fair value.

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

**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 are then returned to participants.

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

	2010	2009
IRWMP	\$ 122,492	\$ 130,360
Prop. 50 - Implementation	22,204	29,717
USBR Meter	25,699	-
Water Efficiency Program Category 2	7,478	13,561
Total	\$ 177,873	\$ 173,638

**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. The unearned revenue of \$38,710 and \$77,481 will be recognized as assessment income during the year subsequent to the balance sheet date of June 30, 2010 and 2009, respectively.

**Net Assets** – RWA’s net assets are classified into the following categories as follows:

Invested in furniture and equipment: Capital assets, net of accumulated depreciation.

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.

**REGIONAL WATER AUTHORITY**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 2010, the minimum assessment was \$4,406 and a maximum assessment was \$34,365. Non-voting associate members pay an annual fee equal to 0.1% of the entities annual operating budget, rounded to the next even thousand dollars, with a maximum annual fee of \$10,000 per year, subject to adjustments from time to time by the RWA Board.

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

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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Related Party Shared expenses** – RWA manages the Sacramento Groundwater Authority (SGA) using shared staff resources. SGA was created in 1998 under another Joint Exercise of Powers Agreement. Many of the member agencies of RWA are also member agencies of SGA. Under an Administrative Services Agreement, SGA and RWA are equally responsible for all costs incurred to operate the joint office. Expenses paid on SGA’s behalf by RWA were \$385,257 and \$565,969 for 2010 and 2009, respectively. The Statement of Revenues, Expenses, and Changes in Net Assets 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. Note 8 reflects the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription based programs. See Note 7 for the shared expenses and cost allocations.

**Reclassifications** – Certain amounts in the financial statements for the year ended June 30, 2009 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2010. Such reclassifications had no effect on net assets at June 30, 2009 or loss in net assets for the year then ended.

**NOTE 2 – CASH AND INVESTMENTS**

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

	<u>2010</u>	<u>2009</u>
Deposits with financial institutions	\$ 243,857	\$ 105,777
Investments in LAIF	597,169	634,177
Total cash and investments	<u>\$ 841,026</u>	<u>\$ 739,954</u>

**Investments Authorized by RWA’s Investment Policy**

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

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investments sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments contained in the LAIF investment pool on June 30, 2010 and 2009 was approximately 203 and 235 days, respectively.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to Credit Risk**

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

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and RWA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as LAIF.

At June 30, 2010 and 2009, RWA's bank balances were \$362,685 and \$204,102, respectively. RWA maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. RWA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Investment in State Investment Pool**

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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Restricted Cash**

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

	2010	2009
Water Efficiency Program - Category 1 & 2	\$ 373,414	\$ 294,063
American River Basin Conjunctive Use Program	30,405	30,825
Integrated Regional Water Master Plan	122,492	130,360
Proposition 50 Grant Administration	22,204	29,717
USBR Meter Acceleration	25,699	-
Total Restricted Cash	<u>\$ 574,214</u>	<u>\$ 484,965</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Fixed assets, consisting of furniture and equipment purchases of \$500 or greater, with useful lives of more than one year are stated at historical cost and are included in the financial statements. Acquired assets are owned 50% by RWA and 50% by SGA.

RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is five years. Leasehold improvements are amortized over the contractual period of the lease agreement.

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

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Equipment	35,101	1,119	(7,740)	28,480
Leasehold Improvements	3,165	-	-	3,165
Total	<u>52,730</u>	<u>1,119</u>	<u>(7,740)</u>	<u>46,109</u>
Less accumulated depreciation	<u>(45,738)</u>	<u>(2,420)</u>	<u>7,740</u>	<u>(40,418)</u>
Fixed Assets, Net	<u>\$ 6,992</u>	<u>\$ (1,301)</u>	<u>\$ -</u>	<u>\$ 5,691</u>

**REGIONAL WATER AUTHORITY**  
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**NOTE 4 – OPERATING LEASE COMMITMENTS**

**Office Lease**

RWA is obligated under an operating lease agreement for office space of which SGA pays 50% of this cost under the administrative services agreement. This lease will expire in February 2011. ACWA JPIA has made a decision to move their offices to Roseville. Accordingly, RWA staff will explore various alternatives for office space over the next several months. RWA’s rental expense was \$24,960 for the years ended June 30, 2010 and 2009, respectively. Minimum lease payments for the year ending June 30, 2011 will be \$16,640.

**Copier Lease**

RWA entered into an operating lease agreement during fiscal year 2010 for a copier which SGA pays 50% of this cost under the administrative services agreement. This lease expires March 2015. The monthly lease payment is \$241, including taxes. RWA incurred \$732 in rental expense for the year ending June 30, 2010. Minimum lease payments are as follows:

Year Ending June 30,		
	2011	\$ 2,892
	2012	2,892
	2013	2,892
	2014	2,892
	2015	2,160
		<hr/>
Total minimum lease payments		\$ 13,728
		<hr/> <hr/>

**NOTE 5 – EMPLOYEE BENEFIT PLANS**

**California Public Employees’ Retirement System**

**Plan Description:** CalPERS is an agent 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 necessary to fund the benefits for its staff members. Additionally, RWA elects to contribute the employees’ portion on their behalf. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ending June 30, 2010 for the State Miscellaneous 2% at 55 was 11.545%. The contribution requirements of the plan members are 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**  
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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Annual Pension Cost:** For the fiscal year ended June 30, 2010, RWA's annual pension cost was approximately \$88,104. The annual pension cost is equal to the required contributions, all of which were paid for the year ended June 30, 2010. The required contribution for year ended June 30, 2010 was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.55% 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 smoothes 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.

**Funded Status:** Separate information as to funded status and funding progress is not separately determined for RWA by CalPERS. Accordingly, such information has not been disclosed herein. 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 (916) 445-2636, by writing to California State Controller, P.O. Box 942850, Sacramento, CA 94250, or by logging on to the State Controller's website at [www.sco.ca.gov](http://www.sco.ca.gov).

**Deferred Compensation Plan**

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

RWA provides a deferred compensation plan through both American International Group, Inc. (AIG) and ING. RWA does not contribute to the Deferred Compensation Plan on behalf of its employees. No unfunded accrued liabilities exist for this plan.

**Other Post Employment Benefits**

**Plan Description:** RWA's other post employment health benefits are provided in accordance with the California Public Employees' Retirement (CalPers) Law. The criteria to determine eligibility includes years of CalPers service, employee age, and disability due to line of duty. 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.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

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 employee's total credited years of qualifying service under CalPER's 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, P.O. Box 942715, Sacramento, California 94229-2715.

**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 five active employees and three retirees.

RWA hired an independent actuary to compute the amount of the actuarial accrued liability (AAL) as of July 1, 2008. In calculating the AAL at July 1, 2008, the entry age normal cost, level percent of pay method was used. The actuarial assumptions include an investment return of 7.75%, a health care inflation trend rate ranging from the initial rate of 10.0% to 4.5% as the ultimate rate in 2017 and beyond, and projected annual salary increases of 3.25%. This AAL as of July 1, 2008 of \$381,801 represented expected future and current retiree health benefit obligations based upon the employees past employment service. RWA elected to amortize this AAL over a one year period and include the entire AAL as part of the annual required contribution (ARC) for the year ending June 30, 2009.

**Funding Policy:** In accordance with the provisions of GASB Statement No. 45, the AAL is to be set at zero in the beginning of the transition (adopting) year. The RWA Board adopted a policy to fully fund the ARC and has the authority to change this policy but has the obligation to contribute to the plan. The total ARC of \$443,949 was paid for during the year ending June 30, 2009 and represented the AAL of \$381,801, the normal cost<sup>1</sup> of \$30,217, plus interest of \$31,931<sup>2</sup> on the AAL.

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<sup>1</sup> Annual normal costs represent health benefits earned by current employees for future retirement.

<sup>2</sup> Interest on the unpaid UAAL is calculated as of the valuation date of July 1, 2009 up through the assumed payment date of June 30, 2010. Since the ARC was paid in June 2009, interest costs are included in the ARC payment.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

Since RWA also shares staffing resources with SGA under the Administrative Services Agreement, an allocation of the ARC was made between the two agencies based upon historical staffing results. SGA’s allocated portion was calculated as \$183,654 and paid by SGA which represents 43% of the total ARC. On a go forward basis, the allocation of annual normal costs will be continue to be based upon current allocation of staffing expenses.

**Funded Status and Funding Progress:**

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, 2010	\$32,600	\$32,600	100%	-
June 30, 2009	\$443,949	\$443,949	100%	-

Schedule of Funding Progress

Year Ending	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$506,326	\$431,286	(\$75,040)	117.40%	\$481,080	-15.60%
June 30, 2009	\$425,624	\$443,949	\$18,325	95.90%	\$445,040	4.10%

The most recent actuarial valuation dated July 1, 2010 includes an AAL of \$431,286 and an UAAL of (\$75,040). 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.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 6 – BOARD DESIGNATIONS**

A portion of net assets have been designated by the Board based upon contraction provisions and board authorization.

The designations by contract represent advances by participants in excess of program costs for the specific program. These advances are restricted for the intended program by contract.

The Board approves the operating fund, membership dues, subscription program designation and OPEB target balances on an annual basis and follows the Financial/Designation Reserve Policy No. 500.1. The amounts as of June 30 are as follows:

	<b>2010</b>	<b>2009</b>
<u>Contractual Provision</u>		
Water Efficiency Program	\$ 229,985	\$ 280,608
Water Efficiency Category 2	7,479	6,960
American River Basin Conjunctive Use Program	30,405	30,825
Total by Contract	\$ 267,869	\$ 318,393
<u>Board Authorization</u>		
Operating Fund	\$ 187,000	\$ 187,900
Membership Dues	59,900	57,200
Subscription Programs	19,900	9,800
Total by Board Authorization	\$ 266,800	\$ 254,900

**NOTE 7 – OPERATING AND ADMINISTRATIVE EXPENSES**

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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 7 – OPERATING AND ADMINISTRATIVE EXPENSES (CONTINUED)**

The increase in SGA administrative expenses for the year ending June 30, 2009 is related to SGA’s allocated portion of Other Post Employment Benefits (OPEB). See Note 5 for additional information regarding OPEB.

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

	<u>2010</u>	<u>2009</u>
Administrative Expenses		
Staff expenses	\$ 746,245	\$ 687,703
OPEB Payment - Actuarial Accrued Liability Payment	-	425,984
Office Expenses	96,569	99,252
Professional Fees	83,729	132,164
Depreciation and Amortization Expense	2,418	3,955
Total Administrative Expenses	<u>928,961</u>	<u>1,349,058</u>
Allocated Administrative Expenses - Administrative Services Agreement		
Sacramento Groundwater Authority	<u>(385,257)</u>	<u>(565,969)</u>
Total RWA Administrative Expenses - Net of SGA allocation	543,704	783,089
Allocated Administrative Expenses to Subscription Programs		
Water Efficiency Program	(162,322)	(155,326)
American River Basin Conjunctive Use Program (ARBCUP)	(420)	(3,350)
Integrated Regional Water Management Plan (IRWMP)	(3,780)	(14,390)
Proposition 50	(3,080)	(2,600)
USBR Meter Program	(13,410)	-
Total Allocated Administrative Expenses - Subscription Programs	<u>(183,012)</u>	<u>(175,666)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 360,692</u>	<u>\$ 607,423</u>

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8 – CONTINGENCIES**

**Grant Awards and Payments**

RWA participates in numerous state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2010 and 2009 may be impaired. In the opinion of RWA's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

According to the voluntary grant agreements with the California Department of Water Resources (DWR), 10% of the eligible grant award payment is withheld until project completion. Project completion is considered an eligibility requirement. Since these retention payments are withheld until the project is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the project is complete. Once the retention is received, RWA will then pay the program participants for the eligible costs incurred. This contingent liability to program participants is estimated at \$89,669 at June 30, 2010 and is not currently reflected in the financial statements.

RWA participates in numerous state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2010 and 2009 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**REGIONAL WATER AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**JUNE 30, 2010**

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Funded Status of Other Post Employment Benefits (OPEB)

Year Ending	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$506,326	\$431,286	(\$75,040)	117.40%	\$481,080	-15.60%
June 30, 2009	\$425,624	\$443,949	\$18,325	95.90%	\$445,040	4.10%

Source: CERBT and BRS Draft Actuarial Valuation Report

Notes to Required Supplementary Information

1. This information is intended to help users assess the OPEB funding status on an on-going basis, assess progress made in accumulations assets to pay benefits when due, and make comparisons with other public employees.
2. 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.



## **SUPPLEMENTARY INFORMATION**

**REGIONAL WATER AUTHORITY**  
**PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2010**

	<u>Agency Core Program</u>	<u>Water Efficiency Program</u>	<u>ARBCUP</u>	<u>IRWMP</u>	<u>PROP 50</u>	<u>USBR Meter</u>	<u>TOTAL RWA</u>
<b>Operating Revenues</b>							
Assessment Income	\$ 408,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,351
Subscription Program Fees	-	417,068		7,869	18,524	14,834	458,295
Incentives and Grant Revenues	123,186	508,815	-	194,695	1,482,863	-	2,309,559
Other Income	6,203	-	-	-	-	-	6,203
<b>Total Operating Revenues</b>	<u>537,740</u>	<u>925,883</u>	<u>0</u>	<u>202,564</u>	<u>1,501,387</u>	<u>14,834</u>	<u>3,182,408</u>
<b>Operating Expenses</b>							
Administrative Expenses	360,692	162,322	420	3,780	3,080	13,410	543,704
Direct Project Expenses	123,186	312,092	-	164,607	15,444	1,424	616,753
Grant Awards	-	502,052	-	-	1,482,863	-	1,984,915
<b>Total Operating Expenses</b>	<u>483,878</u>	<u>976,466</u>	<u>420</u>	<u>168,387</u>	<u>1,501,387</u>	<u>14,834</u>	<u>3,145,372</u>
<b>Net Operating Income</b>	<u>53,862</u>	<u>(50,583)</u>	<u>(420)</u>	<u>34,177</u>	<u>0</u>	<u>0</u>	<u>37,036</u>
<b>Other Income</b>							
Interest Income	5,384	-	-	-	-	-	5,384
<b>Net Other Income</b>	<u>5,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,384</u>
<b>Net Income</b>	<u>\$ 59,246</u>	<u>\$ (50,583)</u>	<u>\$ (420)</u>	<u>\$ 34,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>42,420</u>
<b>Net Assets, Beginning of the Year</b>							<u>581,335</u>
<b>Net Assets, End of the Year</b>							<u>\$ 623,755</u>

Note: The Statement of Revenues, Expenses, and Changes in Net Assets By Program are net of cost reimbursements from SGA. See Footnote 7, Operating and Administrative Expenses for total expenses incurred by RWA.

**REGIONAL WATER AUTHORITY**  
**PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**JUNE 30, 2009**

	<u>Agency Core Program</u>	<u>Water Efficiency Program</u>	<u>ARBCUP</u>	<u>IRWMP</u>	<u>PROP 50</u>	<u>TOTAL RWA</u>
<b>Operating Revenues</b>						
Assessment Income	\$ 381,245	\$ -	\$ -	\$ -	\$ -	\$ 381,245
Subscription Program Fees	-	434,018		11,225	20,230	465,473
Incentives and Grant Revenues	36,633	536,792	304,857	58,990	639,000	1,576,272
Other Income	7,835	-	-	-	-	7,835
<b>Total Operating Revenues</b>	<u>425,713</u>	<u>970,810</u>	<u>304,857</u>	<u>70,215</u>	<u>659,230</u>	<u>2,430,825</u>
<b>Operating Expenses</b>						
Administrative Expenses	607,423	155,326	3,350	14,390	2,600	783,089
Direct Project Expenses	36,633	322,251	18,891	63,007	17,630	458,412
Grant Awards	-	526,222	304,857	-	639,000	1,470,079
<b>Total Operating Expenses</b>	<u>644,056</u>	<u>1,003,799</u>	<u>327,098</u>	<u>77,397</u>	<u>659,230</u>	<u>2,711,580</u>
<b>Net Operating Loss</b>	<u>(218,343)</u>	<u>(32,989)</u>	<u>(22,241)</u>	<u>(7,182)</u>	<u>-</u>	<u>(280,755)</u>
<b>Other Income</b>						
Interest Income	25,254	-	-	-	-	25,254
Gain on Disposition of Asset	-	-	-	-	-	-
<b>Net Other Income</b>	<u>25,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,254</u>
<b>Net Loss</b>	<u>\$ (193,089)</u>	<u>\$ (32,989)</u>	<u>\$ (22,241)</u>	<u>\$ (7,182)</u>	<u>\$ -</u>	<u>(255,501)</u>
<b>Net Assets, Beginning of the Year</b>						581,335
<b>Net Assets, End of the Year</b>						<u>\$ 325,834</u>

Note: The Statement of Revenues, Expenses, and Changes in Net Assets By Program are net of cost reimbursements from SGA.  
See Footnote 7, Operating and Administrative Expenses for total expenses incurred by RWA.

## **OTHER REPORT**

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

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

We have audited the financial statements of Regional Water Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Regional Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Regional Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regional Water Authority's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

We noted certain matters that we reported to management of Regional Water Authority in a separate letter dated December 2, 2010.

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

Cook CPA Group

Roseville, California  
December 2, 2010