

REGIONAL WATER AUTHORITY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

June 30, 2011 and 2010

CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1 – 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 – 11
FINANCIAL STATEMENTS	
Balance Sheets	12
Statements of Revenues, Expenses and Changes in Net Assets	13
Statements of Cash Flows	14 – 15
Notes to Financial Statements	16 – 29
REQUIRED SUPPLEMENTARY INFORMATION	
Funded Status of Other Post Employment Benefits (“OPEB”)	31
SUPPLEMENTARY INFORMATION	
Program Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2011	33
Program Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010	34
OTHER REPORT	
Independent auditor’s report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	36 – 37

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Regional Water Authority, as of June 30, 2011 and 2010 and for the years then ended, which collectively comprise the Regional Water Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regional Water Authority's 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, 2011 and 2010 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 9, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and funded status of other post-employment benefits ("OPEB"), pages 3 through 11 and page 31, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Regional Water Authority's basic financial statements. The program statements of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cook CPA Group

Roseville, California
December 9, 2011

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, 2011 and 2010. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 12 to 29 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 29 of this report.

Condensed Financial Information

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

	<u>2011</u>	<u>2010</u>
Current Assets	\$ 1,901,689	\$ 1,182,338
Capital Assets	<u>17,465</u>	<u>5,691</u>
Total Assets	<u>\$ 1,919,154</u>	<u>\$ 1,188,029</u>
Current Liabilities	\$ 1,113,613	\$ 564,274
Net Assets:		
Invested in capital assets	17,465	5,691
Unrestricted	<u>788,076</u>	<u>618,064</u>
Total net assets	<u>\$ 805,541</u>	<u>\$ 623,755</u>

Current Assets

Current assets consisted of cash, grants receivable, accounts receivable, interest receivable, prepaid expenses and amounts due from related parties. Total assets have increased \$731,125 from the previous year mainly from an increase in grants receivables. Grants receivables have increased by \$575,759 from the prior year reflecting additional amounts due on grants for qualifying reimbursements for the year ending June 30, 2011. RWA has several ongoing grant awards with the California Department of Water Resources (DWR). The receivables reflect amounts earned for fulfillment of grant obligations from the Proposition 50 Toilet Replacement Program, Proposition 50 \$25 million Implementation grant and Proposition 50 Drought 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. A portion of current asset increase is also related to a related party receivable due from a member agency for grant activities in the amount of \$49,025.

For fiscal year 2011, cash and cash equivalents of \$898,027 includes \$421,708 which is restricted for subscription programs by contract. Total cash reflects an overall increase from the previous fiscal year of \$57,001 mainly due to the year-end timing of vendor payables.

Capital Assets

Net capital assets include office furniture, office equipment, website development, and leasehold improvements, net of accumulated depreciation. The overall increase in capital assets reflects capitalization of the Be Water Smart website development costs and net of annual depreciation and disposition of assets.

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 \$549,339 increase in liabilities in fiscal year 2011 largely due to grant payables to program participants for fulfillment of grant obligations. These amounts payable to program participants for grant awards closely correlate to the amounts due from grantors.

Other changes in liabilities include a decrease from the previous year in unearned revenue of \$38,710 as RWA did not receive fiscal year 2012 annual assessment revenues by June 30, 2011. Accounts payable increased by \$56,749 due to timing of vendor payments.

Net Assets Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$17,465 and increased a net \$11,774 over the prior year due to incurring website development costs and office equipment of \$15,474 which was offset by depreciation of \$3,700.

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 \$788,076 reflect an increase of \$170,012 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.

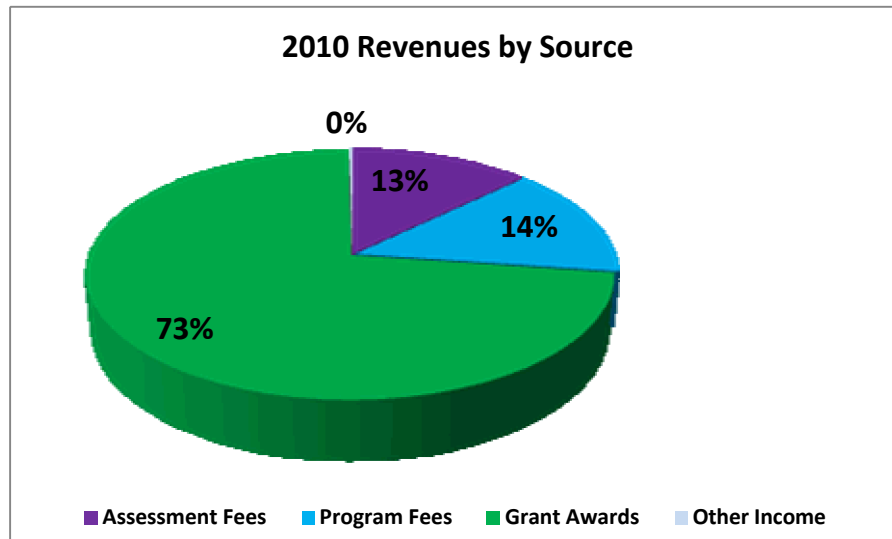
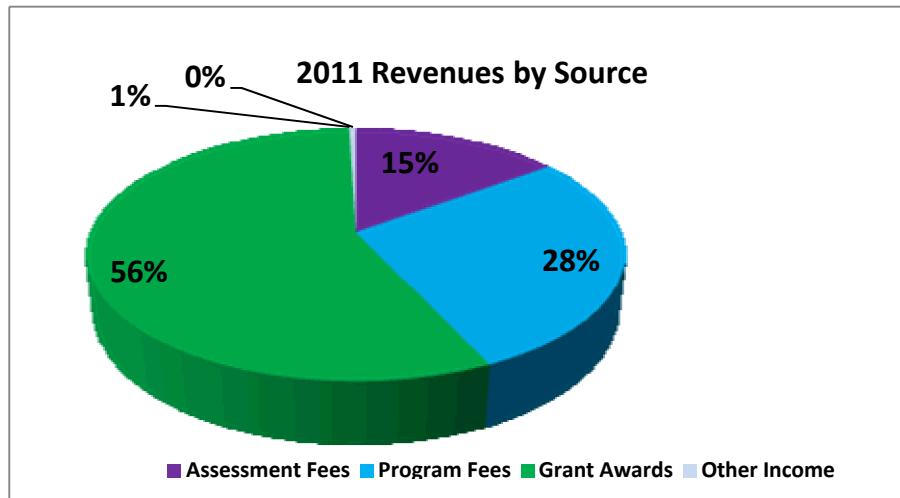
Certain amounts of the unrestricted net assets have been designated for purposes authorized by the Board. According to contractual provisions, \$347,867 has been designated for future program expenses. Approximately \$422,700 of unrestricted net assets has been designated as operating and fee stabilization funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses.

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

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Assessment Income	\$ 435,913	\$ 408,351
Subscription Program Fees	821,456	458,295
Incentives and Grants	1,647,003	2,309,559
Other Income	13,941	6,203
Total Operating Revenues	<u>2,918,313</u>	<u>3,182,408</u>
Non-operating income	<u>4,843</u>	<u>5,384</u>
Total Revenues	2,923,156	3,187,792
Operating Expenses:		
Administrative Expenses	564,650	543,704
Subscription Program		
Direct Expenses	654,455	616,753
Grant Awards	1,522,265	1,984,915
Total Operating Expenses	<u>2,741,370</u>	<u>3,145,372</u>
Increase (Decrease) in Net Assets	<u>181,786</u>	<u>42,420</u>
Net Assets July 1	<u>623,755</u>	<u>581,335</u>
Net Assets June 30	<u>\$ 805,541</u>	<u>\$ 623,755</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 \$2,918,313 and was \$264,095 lower than in the previous year. The decrease is due to lower grant and incentive earnings which are partially offset by increased subscription program fees in the current year.

Assessment fees: Assessment fee income increase by \$27,562 is due to a new member joining RWA. RWA did not assess a fee increase in fiscal year 2011.

Subscription Program Fees: Program fees will vary from year to year as the projects are often limited in scope. Program fees are not expected to be comparable from year to year. In fiscal year 2011, the program fees are derived from the following programs:

- 1) Total Water Efficiency Program (WEP) revenues decreased by a net \$10,076 from a decline of membership. The WEP program did not assess a fee increase in fiscal year 2011.
- 2) The Integrated Regional Water Management Plan (IRWMP) Program revenues increased in by \$54,582 due to increased work activity on the project. The revenues are designed to correspond with current year expenses related to the planning grant activities which are 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 \$25 million grant (Prop 50) revenues increased slightly by \$3,762 and are designed to closely match the expenses of the program not paid for by grant funds. This grant is 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. The final application included 14 projects expanding regional conjunctive use facilities, expanding the use of recycled water, and habitat/recreation improvement.
- 4) The United States Bureau of Reclamation Meter Acceleration Program (USBR Meter) began in fiscal year 2010 and subscription fees increased by \$5,507. The project participants representing five collaborating member agencies 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.
- 5) Proposition 84 subscription fees represent fees from participating members to compile a new grant application. RWA facilitated the grant application process. Subsequent to June 30, 2011, RWA has been notified that the grant application was successful.
- 6) During fiscal year 2011, RWA launched a subscription based public relations legislative advocacy program. The intent of the program is to educate and inform the public, legislators, and others while building a broad coalition of support from the region to enhance RWA's ability to advocate on behalf of the region's water resources needs and concerns. The subscription fees pay for public relation consulting services.

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) Water Efficiency Program (WEP) grants and incentives increased a net \$160,110 from the previous year. Grants and incentives for WEP are a result of three main programs: DWR's Prop 50 toilet replacement grant, DWR's Prop 50 Drought grant, and Sacramento Regional County Sanitation District (SRCSD) appliance/toilet incentive grant. The DWR toilet replacement grant and 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 Prop 50 Drought grant is designed to accelerate installation of 1,000 more meters, provide incentives for high-efficiency washers, and to expand promotion of commercial industrial water saving devices.
- 2) The Integrated Regional Water Master Plan (IRWMP) Program grant award for fiscal year 2011 represents costs reimbursements from member agency San Juan Water District (SJWD). SJWD signed up as the grantee with the USBR grant for a regional water system optimization review grant. RWA prepared the grant application but was unable to apply as the grantee since RWA was not a water purveyor, 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 has agreed to reimburse these costs once grant funds are received from USBR.
- 3) The \$25 million Proposition 50 grant revenue decreased by \$553,810 reflecting the variable nature of grant activity and cost reimbursement. The eligible grant period continues through December 31, 2014 and is approximately 75% complete at June 30, 2011.

Non-operating revenue

Non-operating revenue of \$4,843 represents interest income and reflects a decreased slightly from prior year, reflecting the low interest rates even as cash balances have slightly increased 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 grants for program participants for completion of grant eligibility requirements.

Analysis Review of Operating Expenses

The operating expenses totaled \$2,741,370 and are \$404,002 lower than the previous year. The decrease in expenses is the result of decreased grant award and program expenses in parallel with the decrease in grant award income.

Administrative Expenses: As illustrated in Note 7 on page 28 of the financial statements, overall administrative expenses incurred by RWA increased from the previous year by \$21,302 mainly due to increases in office expenses and professional fees offset by a decrease in staff expenses.

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, professional fees, and office costs. Staffing costs are allocated based upon time spent to administer SGA. The reimbursements invoiced due from SGA of \$385,613 and \$385,257 for the years ending June 30, 2011 and 2010, respectively are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Assets.

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 2011, there are six major subscription programs as previously discussed.

- 1) WEP: The WEP program decreased direct costs of \$88,239 due to spending less on public outreach and school education and less use of program management consulting.
- 2) IRWMP: The IRWMP expenses are \$53,411 lower than in the previous year reflecting less consulting activity than prior year. RWA has incurred reimbursable costs and SJWD is expected to reimburse \$49,025 of these costs.
- 3) Prop 50 \$25 million grant: The Prop 50 \$25M grant expenses are \$1,522 higher and will fluctuate based upon activity. These costs represent program management costs.
- 4) Proposition 84: These costs are new consulting related costs for compiling a DWR grant application. The participants have been notified their application has been selected for grant funding.
- 5) Public Relations Program: The new PR program costs represent hired consulting services to execute the objective of this program.
- 6) USBR Meter: As the administrator for this USBR Meter Acceleration Program, these expenses correlated to the administration of the grant and are funded by subscription based revenue. Direct expenses are higher by \$6,470 due to additional 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 should closely parallel grant award revenues and are detailed below.

- 1) WEP: The fiscal year 2011 WEP grant awards to participants totaling \$593,212 include DWR’s Prop 50 Toilet Incentive Grant for \$289,959, DWR’s Prop 50 Drought Grant for \$215,503 and SRCSD’s incentives program for \$87,750. Fiscal year 2010 grant awards included DWR’s Prop 50 Toilet Incentive Grant for \$389,327 and SRCSD’s incentives program for \$107,725. Both the Prop 50 Toilet Incentive Grant and the SRCSD’s incentive program are nearing completion.
- 2) Prop 50 \$25 million grant: The \$553,810 decrease in grant awards from the previous year matches the decrease in grant revenues. The activity and payments vary on these grants and year to year comparability is not expected.

Capital Assets

Capital asset investment includes office furniture, equipment, website development and leasehold improvements as of June 30, 2011 and amounts to \$17,465 net of accumulated depreciation. RWA’s asset acquisition consisted of office equipment and WEP website development costs while also disposing of a piece of office equipment and some old software. 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 entity. Additional information on the furniture and equipment can be found in Note 3 on page 22 of this report.

	2011	2010
Furniture	\$ 14,464	\$ 14,464
Equipment	27,163	28,480
Website Development	13,104	-
Leasehold Improvements	3,165	3,165
Gross Capital Assets	57,896	46,109
Less Accumulated Depreciation and Amoritization	(40,431)	(40,418)
Net Capital Assets	\$ 17,465	\$ 5,691

Economic factors and assumptions for fiscal year June 30, 2012

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, 2012.

- 1) The fiscal year 2012 budget was developed with a 6% rate increase.
- 2) Revenue projections assume the membership base will remain unchanged.
- 3) RWA's total planned revenues exceed planned expenses in the new fiscal year by \$18,450. The subscription based programs continue to help pay for core program administrative activities, such as staffing and office costs.
- 4) Subscription revenue and subscription cash contribute approximately 17% towards RWA expenses.
- 5) Forecasted subscription revenues include the WEP, Prop 50 \$25 million grant awards, IRWMP program, and the public relations program.
- 6) General expenses are expected to increase 3%. Staffing expenses include the addition of a full-time staff person to replace the temporary part-time position to help support the growing monitoring and reporting of subscription based programs. Salary expenses include a 2% employee recognition pool for one-time bonus awards. Health care is budgeted to increase by 10%.
- 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, 2012 is \$455,350.
- 8) The Senior Project Manager is budgeted at 50% to RWA. With the addition of the new staff, RWA's full time equivalent employees are projected to be 3.7 people.
- 9) Approximately \$190,605 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, 2012.

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
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Investments	\$ 476,319	\$ 266,812
Restricted Cash	421,708	574,214
Grants/Incentives Receivable	849,927	274,168
Accounts Receivable	41,209	7,650
Receivable from San Juan Water District	49,025	-
Receivable from Sacramento Groundwater Authority	51,196	44,600
Interest Receivable	1,067	832
Other Assets	11,238	14,062
Total Current Assets	1,901,689	1,182,338
Furniture and Equipment, Net	17,465	5,691
Total Assets	\$ 1,919,154	\$ 1,188,029
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 135,891	\$ 79,142
Due to Sacramento Groundwater Authority	73	50
Unearned Revenue	-	38,710
Grants Payable to Member Agencies	777,772	268,499
Subscription Program Advances	199,877	177,873
Total Current Liabilities	1,113,613	564,274
Net Assets		
Investment in Furniture and Equipment	17,465	5,691
Unrestricted	788,076	618,064
Total Net Assets	805,541	623,755
Total Liabilities and Net Assets	\$ 1,919,154	\$ 1,188,029

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues		
Assessment Income	\$ 435,913	\$ 408,351
Subscription Program Fees	821,456	458,295
Incentives and Grants	1,647,003	2,309,559
Other Income	13,941	6,203
Total Operating Revenues	2,918,313	3,182,408
Operating Expenses		
Administrative Expenses	564,650	543,704
Subscription Program Direct Expenses	654,455	616,753
Grant Awards	1,522,265	1,984,915
Total Operating Expenses	2,741,370	3,145,372
Operating Income	176,943	37,036
Other Income		
Interest Income	4,843	5,384
Total Other Income	4,843	5,384
Net Income	181,786	42,420
Net Assets, Beginning of Year	623,755	581,335
Net Assets, End of Year	\$ 805,541	\$ 623,755

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS PROVIDED		
BY OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 1,158,079	\$ 824,460
Cash received from SGA	379,040	383,151
Cash received from grants and other sources	1,085,185	3,582,546
Cash paid to employees and related benefits and taxes	(726,654)	(722,590)
Cash paid to suppliers	(814,791)	(820,609)
Cash paid to subscription program participants	(1,012,992)	(3,152,759)
Net cash provided by operating activities	67,867	94,199
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	4,608	7,992
Net cash provided by investing activities	4,608	7,992
 CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of office equipment	(15,474)	(1,119)
Net cash used by financing activities	(15,474)	(1,119)
 NET INCREASE IN CASH AND CASH EQUIVALENTS		
	57,001	101,072
 CASH AND CASH EQUIVALENTS, beginning of year	841,026	739,954
CASH AND CASH EQUIVALENTS, end of year	\$ 898,027	\$ 841,026

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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

Operating income	\$ 176,943	\$ 37,036
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	3,700	2,420
Purchase of capital asset		
Change in operating assets and liabilities:		
Grants receivable	(575,759)	1,266,784
Receivable from SGA	(6,596)	(609)
Receivable from San Juan Water District	(49,025)	-
Accounts receivable	(33,559)	(7,650)
Other assets	2,824	10,280
Accounts payable and accrued liabilities	56,749	(10,160)
Payable to Sacramento Groundwater Authori	23	(1,522)
Payable to member agencies	509,273	(1,167,844)
Member advances payable	22,004	4,235
Unearned revenue	(38,710)	(38,771)
Net cash provided by operating activities	<u>\$ 67,867</u>	<u>\$ 94,199</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 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. 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.

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

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

Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions

The provisions of this statement should be applied retroactively by restating fund balance for all periods presented. This pronouncement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting information in reporting fund balance information is indentifying amounts that are considered non-spendable, such as fund balances associated with inventories. This statement also provided for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific accounts can be spent. The Regional Water Authority has no governmental funds at June 30, 2011.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

The provisions of this statement related to the use and reporting of the alternative measurement methods are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. This Statement amends Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Regional Water Authority will likely continue with the use of an external actuary firm to prepare the OPEB actuarial valuation.

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

Furniture and Equipment – Fixed assets, consisting of furniture, website development costs, 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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	2011	2010
IRWMP	\$ 106,041	\$ 122,492
Prop. 50 - Implementation	59,914	22,204
USBR Meter	5,358	25,699
Water Efficiency Program Category 2	5,087	7,478
Public Relations	23,114	-
Prop. 84	363	-
Total	<u>\$ 199,877</u>	<u>\$ 177,873</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. The unearned revenue of \$38,710 as of June 30, 2010 was recognized as assessment income during the fiscal year of June 30, 2011.

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.

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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2011, 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, 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 requests 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 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.

Related Parties – 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 \$385,613 and \$385,257 for 2011 and 2010, 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 7 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 Note 7 for the shared expenses and cost allocations.

During fiscal year ending June 30, 2011, 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 will receive reimbursement from SJWD. A total of \$49,025 of reimbursable costs has been incurred by RWA by June 30, 2011 and is due from SJWD.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications – Certain amounts in the financial statements for the year ended June 30, 2010 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2011. Such reclassifications had no effect on net assets at June 30, 2010 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>2011</u>	<u>2010</u>
Deposits with financial institutions	51,250	\$ 243,857
Investments in LAIF	<u>846,777</u>	<u>597,169</u>
Total cash and investments	<u>\$ 898,027</u>	<u>\$ 841,026</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, 2011 and 2010 was approximately 237 and 203 days, respectively.

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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, 2011 and 2010, RWA’s bank balances were \$191,847 and \$362,685, 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.

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:

	2011	2010
Water Efficiency Program - Category 1 & 2	\$ 275,760	\$ 373,414
American River Basin Conjunctive Use Program	30,405	30,405
Integrated Regional Water Master Plan	57,015	122,492
Proposition 50 Grant Administration	45,056	22,204
Public Relations	8,114	-
USBR Meter Acceleration	5,358	25,699
Total Restricted Cash	\$ 421,708	\$ 574,214

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets, consisting of furniture, equipment purchases and website development costs 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, unless the asset specifically benefits only one agency.

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, 2010	Increases	Decreases	Balance June 30, 2011
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Equipment	28,480	2,370	(3,687)	27,163
Website Development	-	13,104	-	13,104
Leasehold Improvements	3,165	-	-	3,165
Total	<u>46,109</u>	<u>15,474</u>	<u>(3,687)</u>	<u>57,896</u>
Less accumulated depreciation	<u>(40,418)</u>	<u>(3,700)</u>	<u>3,687</u>	<u>(40,431)</u>
Fixed Assets, Net	<u>\$ 5,691</u>	<u>\$ 11,774</u>	<u>\$ -</u>	<u>\$ 17,465</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 expired in February 2011 and continued on a month to month basis while under lease re-negotiation. RWA re-negotiated a five year lease subsequent to June 30, 2011. See Note 9 – Subsequent Events. RWA’s rental expense was \$24,967 for the years ended June 30, 2011 and 2010.

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 \$244, including taxes. RWA incurred \$2,940 in rental expense for the year ending June 30, 2011. Minimum lease payments are as follows:

Year Ending June 30,		
	2012	\$ 2,892
	2013	2,892
	2014	2,892
	2015	2,196
Total minimum lease payments		<u>\$ 10,872</u>

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, 2011 for the State Miscellaneous 2% at 55 was 12.761%. 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
JUNE 30, 2011 AND 2010

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Annual Pension Cost: For the fiscal year ended June 30, 2011, 2010, and 2009, RWA’s annual pension cost was approximately \$94,864, \$88,104, and \$83,107, respectively. The annual pension cost is equal to the required contributions, all of which were paid for the year ended June 30, 2011, 2010, and 2009. The required contribution for year ended June 30, 2011 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 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 3.25% 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.

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
JUNE 30, 2011 AND 2010

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 hires an independent actuary to compute the amount of the actuarial accrued liability (AAL). In calculating the AAL, the entry age normal cost, level percent of pay method is used. The actuarial assumptions include an investment return of 7.75%, a health care inflation trend rate ranging from the initial rate of 9.0% to 4.5% as the ultimate rate in 2018 and beyond, and projected annual salary increases of 3.25%.

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 \$18,088 and \$32,600 was paid for during the year ending June 30, 2011 and 2010.

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 actual staffing results. SGA's allocated portion was calculated as \$8,222 and paid by SGA, which represents 45% of the total ARC. The allocation of annual normal costs will continue to be based upon current allocation of staffing expenses.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2011	\$18,088	\$18,088	100%	-
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, 2011	\$547,117	\$472,771	(\$74,346)	115.73%	\$486,034	-15.30%
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 \$472,771 and an unfunded actuarial accrued liability (UAAL) of (\$74,346)¹. 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.

¹ A negative unfunded actuarial accrued liability represents an asset since the plan assets are greater than the actuarial determined liability.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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:

	<u>2011</u>	<u>2010</u>
<u>Contractual Provision</u>		
Water Efficiency Program	\$ 317,462	\$ 229,985
American River Basin Conjunctive Use Program	30,405	30,405
	<u>\$ 347,867</u>	<u>\$ 260,390</u>
 <u>Board Authorization</u>		
Operating Fund	\$ 337,200	\$ 241,800
Membership Dues	65,400	59,900
Subscription Programs	20,100	19,900
	<u>\$ 422,700</u>	<u>\$ 321,600</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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.

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

	<u>2011</u>	<u>2010</u>
Administrative Expenses		
Staff expenses	\$ 742,896	\$ 746,245
Office Expenses	108,038	96,569
Professional Fees	95,629	83,729
Depreciation and Amortization Expense	3,700	2,418
Total Administrative Expenses	<u>950,263</u>	<u>928,961</u>
Allocated Administrative Expenses - Administrative Services Agreement		
Sacramento Groundwater Authority	<u>(385,613)</u>	<u>(385,257)</u>
Total RWA Administrative Expenses - Net of SGA allocation	564,650	543,704
Allocated Administrative Expenses to Subscription Programs		
Water Efficiency Program	(158,271)	(162,322)
American River Basin Conjunctive Use Program (ARBCUP)	-	(420)
Integrated Regional Water Management Plan (IRWMP)	(280)	(3,780)
Proposition 50	(5,320)	(3,080)
Prop 84 Grant Application	(14,840)	
USBR Meter Program	<u>(12,447)</u>	<u>(13,410)</u>
Total Allocated Administrative Expenses - Subscription Programs	<u>(191,158)</u>	<u>(183,012)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 373,492</u>	<u>\$ 360,692</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010 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 \$51,968 and \$89,669 at June 30, 2011 and 2010 and is not currently reflected in the financial statements.

NOTE 9 – SUBSEQUENT EVENTS

On September 1, 2011, RWA renegotiated a seven year lease for the existing office space beginning September 1, 2011 through August 31, 2018. The monthly lease obligation is \$2,081. No option to renew or extend the lease is contemplated.

REQUIRED SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2011

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, 2011	\$547,117	\$472,771	(\$74,346)	115.73%	\$486,034	-15.30%
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 Actuarial Valuation Final Report, dated July 1, 2010.

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, 2011

	<u>Agency Core Program</u>	<u>Water Efficiency Program</u>	<u>IRWMP</u>	<u>PROP 50</u>	<u>PROP 84</u>	<u>PR Program</u>	<u>USBR Meter</u>	<u>TOTAL RWA</u>
Operating Revenues								
Assessment Income	\$ 435,913	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 435,913
Subscription Program Fees	-	406,992	62,451	22,286	235,000	74,386	20,341	821,456
Incentives and Grant Revenues	-	668,925	49,025	929,053	-	-	-	1,647,003
Other Income	13,941	-	-	-	-	-	-	13,941
Total Operating Revenues	<u>449,854</u>	<u>1,075,917</u>	<u>111,476</u>	<u>951,339</u>	<u>235,000</u>	<u>74,386</u>	<u>20,341</u>	<u>2,918,313</u>
Operating Expenses								
Administrative Expenses	373,492	158,271	280	5,320	14,840	-	12,447	564,650
Direct Project Expenses	-	223,853	111,196	16,966	220,160	74,386	7,894	654,455
Grant Awards	-	593,212	-	929,053	-	-	-	1,522,265
Total Operating Expenses	<u>373,492</u>	<u>975,336</u>	<u>111,476</u>	<u>951,339</u>	<u>235,000</u>	<u>74,386</u>	<u>20,341</u>	<u>2,741,370</u>
Net Operating Income	<u>76,362</u>	<u>100,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,943</u>
Other Income								
Interest Income	4,843	-	-	-	-	-	-	4,843
Net Other Income	<u>4,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,843</u>
Net Income	<u>\$ 81,205</u>	<u>\$ 100,581</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>181,786</u>
Net Assets, Beginning of the Year								<u>623,755</u>
Net Assets, End of the Year								<u>\$ 805,541</u>

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>
Operating Revenues							
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
Total Operating Revenues	<u>537,740</u>	<u>925,883</u>	<u>-</u>	<u>202,564</u>	<u>1,501,387</u>	<u>14,834</u>	<u>3,182,408</u>
Operating Expenses							
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
Total Operating Expenses	<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>
Net Operating Income	<u>53,862</u>	<u>(50,583)</u>	<u>(420)</u>	<u>34,177</u>	<u>-</u>	<u>-</u>	<u>37,036</u>
Other Income							
Interest Income	5,384	-	-	-	-	-	5,384
Net Other Income	<u>5,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,384</u>
Net Income	<u>\$ 59,246</u>	<u>\$ (50,583)</u>	<u>\$ (420)</u>	<u>\$ 34,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>42,420</u>
Net Assets, Beginning of the Year							<u>581,335</u>
Net Assets, End of the Year							<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.

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, 2011, and have issued our report thereon dated December 9, 2011. 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 9, 2011.

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 9, 2011