

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

**June 30, 2012 and 2011**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Regional Water Authority  
Sacramento, California

We have audited the accompanying basic financial statements of the Regional Water Authority (the Authority) as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2011 were audited by other auditors whose report dated December 9, 2011, express an unqualified opinion on those statements.

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

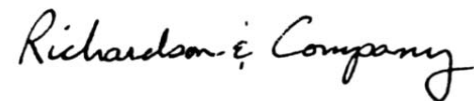
In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

To the Board of Directors  
Regional Water Authority

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 the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting in placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Richardson & Company". The signature is written in dark ink and is positioned to the right of the main body of text.

November 15, 2012

## 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, 2012 and 2011. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 13 to 31 of this report.

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

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

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

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

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

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 17 to 31 of this report.

## Condensed Financial Information

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

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 2,195,430	\$ 1,901,616
Non-Current Assets	14,133	-
Capital Assets	<u>29,616</u>	<u>17,465</u>
Total Assets	<u><u>\$ 2,239,179</u></u>	<u><u>\$ 1,919,081</u></u>
Current Liabilities	\$ 1,333,443	\$ 1,093,800
Long-Term Liabilities	<u>41,543</u>	<u>19,740</u>
Total Liabilities	<u>1,374,986</u>	<u>1,113,540</u>
Net Assets:		
Invested in capital assets	29,616	17,465
Restricted	340,355	347,867
Unrestricted	<u>494,222</u>	<u>440,209</u>
Total net assets	<u><u>\$ 864,193</u></u>	<u><u>\$ 805,541</u></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 \$320,098 from the previous year mainly from grant reimbursements checks in the amount of \$615,400 that were received just prior to year end. The related payments to participants for the drought and ET controller grants were made subsequent to June 30, 2012 awaiting two check signors. Grants receivables have decreased by \$457,621 from the prior year, reflecting payment on prior year receivables and lower amounts for qualifying reimbursements than the year ending June 30, 2011. RWA has several ongoing grant awards and funding partnerships with the California Department of Water Resources (DWR), Sacramento County and Sacramento County Regional Sanitation District. The receivables reflect amounts earned for fulfillment of obligations from the Proposition 50 Drought Grant, the Proposition 84 Planning Grant and the Sacramento County Regional Sanitation District Appliance/Toilet rebate award. Amounts due from grants and partnerships can be expected to vary from year to year, depending upon the availability and grant awards, as well as the timing of the fulfillment of these obligations.

For fiscal year 2012, cash and cash equivalents of \$1,716,565 includes \$1,127,224 which is restricted for subscription programs by contract. Total cash reflects an overall increase from the previous fiscal year of \$818,538 mainly due to the year-end timing of grant awards received yet to be paid to participants and an increase in subscription program advances.

### *Non-Current Assets*

Non-current assets comprise a receivable due from Sacramento Groundwater Authority (SGA), a related party. This amount represents shared costs for the office remodel incurred during the year ending June 30, 2012, which will be amortized over the life of the lease agreement in the form of rental payments to RWA.

### *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 additional leasehold improvements due to the remodel of the RWA office, net of annual depreciation and disposition of assets.

### *Current Liabilities*

Current liabilities due within one year include amounts due to vendors and accrued liabilities, the current portion of compensated absences, grants payable to program participants, subscription program advances, and unearned revenue. There was a \$239,643 increase in current liabilities in fiscal year 2012 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 an increase from the previous year in unearned revenue of \$36,427 as RWA received fiscal year 2013 annual assessment revenues from one member by June 30, 2012. Accounts payable increased by \$13,196 due to timing of vendor payments.

### *Long-Term Liabilities*

RWA's long-term liability represents deferred rent incurred as a result of receiving a lease incentive in renegotiating the office lease during the year ending June 30, 2012. This deferred rent will be amortized over the life of the lease. See Note 7 for additional information. The long-term liability also includes the long-term portion of compensated absences. See Note 8 for additional information.

### *Net Assets Invested in Capital Assets*

Investment in capital assets net of accumulated depreciation totaled \$29,616 and increased a net \$12,151 over the prior year due to incurring website development costs, office equipment and leasehold improvements of \$19,746 which was offset by depreciation of \$7,308 and an asset disposition of \$287.

### *Restricted Net Assets*

Restricted net assets decreased slightly by \$7,512, reflecting use of restricted net assets of the Water Efficiency Program and American River Basin Conjunctive Use Program (ARBCUP). Funds have been contractually set aside for both of these programs.

### *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 \$494,222 reflect an increase of \$54,013 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. Approximately \$465,300 of unrestricted net assets has been designated as operating and fee stabilization funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 6 for additional information.

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

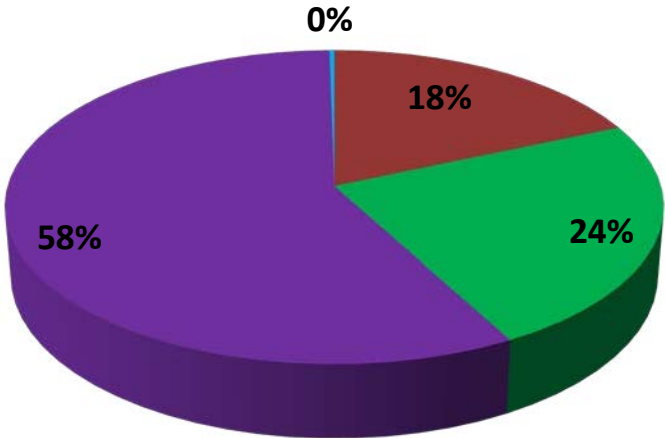
	<u>2012</u>		<u>2011</u>
Operating revenues:			
Assessment Income	\$ 471,123	\$	435,913
Subscription Program Fees	604,079		821,456
Incentives, Grants and Reimbursements	1,470,783		1,647,003
Other Income	6,921		13,941
Total Operating Revenues	<u>2,552,906</u>		<u>2,918,313</u>
Non-operating income	3,875		4,843
Total Revenues	<u>2,556,781</u>		<u>2,923,156</u>
Operating Expenses:			
Administrative Expenses	644,871		564,650
Subscription Program			
Direct Expenses	698,508		654,455
Grant Awards	1,154,750		1,522,265
Total Operating Expenses	<u>2,498,129</u>		<u>2,741,370</u>
Increase in Net Assets	58,652		181,786
Net Assets, July 1	<u>805,541</u>		<u>623,755</u>
Net Assets, June 30	<u>\$ 864,193</u>	\$	<u>805,541</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.

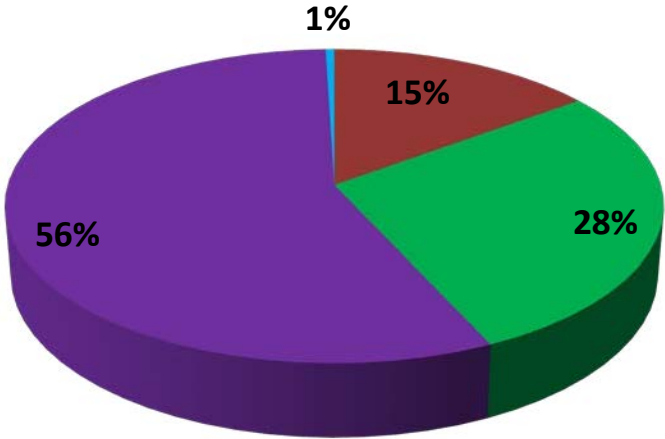


### 2012 Revenues by Source



■ Assessment Fees ■ Program Fees ■ Grant Awards ■ Other Income

### 2011 Revenues by Source



■ Assessment Fees ■ Program Fees ■ Grant Awards ■ Other Income

### *Analytical Review of Operating Revenues*

Operating revenues totaled \$2,552,906 and was \$365,407 lower than in the previous year. The decrease is due to lower grant and incentive earnings as well as lower subscription program fees in the current year.

Assessment fees: Of the \$35,210 assessment fee income increase, \$24,568 was due to a 6% increase in assessment fees as planned and budgeted. The remaining increase is due to Elk Grove Water District rejoining RWA.

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 2012, the program fees are derived from the following programs:

- 1) Total Water Efficiency Program (WEP) revenues increased by a net \$1,802 due to an increase in membership. The WEP program did not assess a fee increase in fiscal year 2012.
- 2) The Integrated Regional Water Management Plan (IRWMP) Program revenues decreased by \$48,864. The revenues are designed to correspond with current year expenses related to the planning grant activities which are not paid for by grant funds. During the year ending June 30, 2012, the IRWMP did not receive advances from program participants for expenses not paid for by the grant since sufficient advances were collected in the prior year to pay for expenses. 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 \$3,998 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 decreased by \$14,983. 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. This grant project was completed during the year ending June 30, 2012.
- 5) Proposition 84 subscription fees are \$223,338 less than the prior fiscal year and represent fees from participating agencies to compile a new grant application. RWA facilitated the grant application process and has been notified that the grant application was successful.
- 6) During fiscal year 2011, RWA launched a subscription-based public relations 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 increased by \$64,008 and pay primarily 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 \$503,136 from the previous year. Grants and incentives for WEP are a result of four main programs: DWR's Prop 50 Drought grant, the United States Bureau of Reclamation ET Controller grant, a County of Sacramento EPA grant for public outreach, and Sacramento Regional County Sanitation District (SRCSD) appliance/toilet incentive grant. 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. The USBR ET Controller grant is a collaborative project between four water supply agencies in the Sacramento region, with RWA acting as the lead applicant and program manager. The project will issue incentives to residential and commercial customers to install weather based irrigation controllers to achieve water savings. The EPA grant was a \$37,000 grant for expanding river friendly landscaping practices to reduce greenhouse gases. 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.
- 2) The Integrated Regional Water Management Plan (IRWMP) grant award for fiscal year 2012 had a net increase of \$177,061. This represents cost reimbursements received from both DWR as well as some grant reimbursement funds from member agency San Juan Water District (SJWD). SJWD is the grantee with the USBR for a regional water system optimization review grant. RWA prepared the grant application, but was unable to apply as the grantee since RWA 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 \$856,417 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, 2012.

#### *Non-operating revenue*

Non-operating revenue of \$3,875 represents interest income, which decreased slightly from prior year, reflecting the low interest rates even as cash balances have 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 \$2,498,129 and are \$243,241 lower than the previous year. The decrease in expenses is the result of decreased grant awards partially offset by increases in administrative expenses and subscription program direct expenses.

Administrative Expenses: As illustrated in the supplementary information section of the financial statements, overall administrative expenses incurred by RWA increased from the previous year by \$80,221 mainly due to increases in staff expenses, professional fees, and office expenses. Staff expenses increased due to adding a full-time staff person and eliminating a temporary part-time position. Increased legal and consulting fees contributed to increased professional fees.

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 \$415,391 and \$385,613 for the years ending June 30, 2012 and 2011, 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 2012, there are six major subscription programs as previously discussed.

- 1) WEP: The WEP program increased direct costs of \$58,213 due to spending more on public outreach, school education, and water conservation landscape training.
- 2) IRWMP: The IRWMP expenses are \$124,891 higher than in the previous year reflecting more consulting activity than prior year. These expenses have been paid for mostly from grant awards.
- 3) Prop 50 \$25 million grant: The Prop 50 \$25M grant expenses are \$1,518 higher and will fluctuate based upon activity. These costs represent program management costs.
- 4) Proposition 84: These costs are \$211,258 lower than the previous year as prior year costs were for completing a DWR grant application. The participants have been notified that their application has been selected for grant funding. Current year costs reflect staffing

and legal costs to begin managing the grant award in compliance with funding agreement requirements.

- 5) Public Relations Program: The PR program costs are \$64,008 higher and represent hired consulting services to execute the objectives of this program, which include educating and informing the public, legislators, and others on behalf of the region's water resources needs and concerns.
- 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 lower by \$3,630 due to less administrative work.

Grant Awards: These expenses reflect the amount of grant awards earned by program participants during the fiscal year. These grant award expenses are expected to fluctuate from year to year and typically parallel grant award revenues and are detailed below.

- 1) WEP: The fiscal year 2012 WEP grant awards to participants totaling \$1,082,114 include DWR's Prop 50 Drought Grant for \$902,566, ET Controller Grant for \$79,573 and SRCSD's incentives program for \$99,975.
- 2) Prop 50 \$25 million grant: The \$856,417 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. Since inception, RWA has reimbursed participants \$18,530,318 of the \$25,000,000 grant. Grant expenses are expected to continue through fiscal year 2014.

### Capital Assets

Capital asset investment includes office furniture, equipment, website development and leasehold improvements as of June 30, 2012 and amounts to \$29,616 net of accumulated depreciation. RWA's asset acquisition consisted of leasehold improvements, office equipment and WEP website development costs while also disposing of a piece of office equipment. Most capital asset acquisitions are co-owned with SGA and each authority pays 50% of the acquisition cost, unless specifically purchased for the benefit of an entity. Additional information on the furniture and equipment can be found in Note 3 on page 23 and 24 of this report.

	<u>2012</u>	<u>2011</u>
Furniture	\$ 14,464	\$ 14,464
Equipment	28,960	27,163
Website Development	15,604	13,104
Leasehold Improvements	<u>17,951</u>	<u>3,165</u>
Gross Capital Assets	76,979	57,896
Less Accumulated Depreciation and Amortization	<u>(47,363)</u>	<u>(40,431)</u>
Net Capital Assets	<u>\$ 29,616</u>	<u>\$ 17,465</u>

## **Economic factors and assumptions for fiscal year June 30, 2013**

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, 2013.

- 1) The fiscal year 2013 budget was developed with no rate increase.
- 2) Revenue projections assume the membership base would expand by one new member (Woodland-Davis Clean Water Agency).
- 3) RWA's total planned expenses exceed planned revenues in the new fiscal year by \$86,350. The expenses in excess of revenues are largely derived from subscription-based programs, which collect monies in advance to offset future expenses. Subscription advances will be used to fund the expenses in excess of revenues.
- 4) The subscription-based programs continue to help pay for core program administrative activities, such as staffing and office costs. Subscription revenue and subscription cash of approximately \$238,500 contribute approximately 20% towards RWA expenses.
- 5) Forecasted subscription revenues include the WEP, Prop 50 \$25 million grant award, IRWMP program, and the public relations program.
- 6) Grant award income is projected to come from the Prop 50 \$25 million grant and Prop 84 grant.
- 7) General expenses are expected to increase 3%. Staffing expenses include 6 full-time staff persons to help support the growing monitoring and reporting of subscription-based programs. Salary expenses are within ranges for each classification. Health care is budgeted to increase by 10%.
- 8) RWA will continue to manage the Sacramento Groundwater Authority (SGA). Common costs for staffing, office, professional fees, and other expenses are shared with SGA at a 50/50 split. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2013 is \$466,250.
- 9) The Senior Project Manager is budgeted at 50% to RWA. RWA's full time equivalent employees are projected to be 3.7 people.

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2013.

## **Requests for Information**

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

**REGIONAL WATER AUTHORITY**  
**BALANCE SHEETS**  
**JUNE 30, 2012 AND 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Current Assets		
Cash and Investments	\$ 589,341	\$ 471,232
Restricted Cash	1,127,224	426,795
Grants/Incentives Receivable	392,306	849,927
Accounts Receivable	7,074	41,209
Grant Receivable from San Juan Water District	8,238	49,025
Receivable from Sacramento Groundwater Authority	58,783	51,123
Other Assets	12,464	12,305
Total Current Assets	2,195,430	1,901,616
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	14,133	-
Furniture and Equipment, Net	29,616	17,465
Total Non-Current Assets	43,749	17,465
<b>Total Assets</b>	<b>\$ 2,239,179</b>	<b>\$ 1,919,081</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 104,810	\$ 86,551
Compensated Absences	31,000	29,600
Deferred Rent	5,471	-
Unearned Revenue	36,427	-
Grants Payable to Member Agencies	908,969	777,772
Subscription Program Advances	246,766	199,877
Total Current Liabilities	1,333,443	1,093,800
Long-term Liabilities		
Deferred Rent	28,266	-
Compensated Absences	13,277	19,740
Total Long-term Liabilities	41,543	19,740
Total Liabilities	1,374,986	1,113,540
Net Assets		
Investment in Furniture and Equipment	29,616	17,465
Restricted	340,355	347,867
Unrestricted	494,222	440,209
Total Net Assets	864,193	805,541
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,239,179</b>	<b>\$ 1,919,081</b>

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Assessment Income	\$ 471,123	\$ 435,913
Subscription Program Fees	604,079	821,456
Incentives, Grants, and Reimbursements	1,470,783	1,647,003
Other Income	6,921	13,941
Total Operating Revenues	2,552,906	2,918,313
<b>Operating Expenses</b>		
Administrative Expenses	644,871	564,650
Subscription Program Direct Expenses	688,197	654,455
Refund of Subscription Program Fees	10,311	-
Grant Awards	1,154,750	1,522,265
Total Operating Expenses	2,498,129	2,741,370
<b>Operating Income</b>	54,777	176,943
<b>Other Income</b>		
Interest Income	3,875	4,843
Total Other Income	3,875	4,843
<b>Net Income</b>	58,652	181,786
Net Assets, Beginning of Year	805,541	623,755
Net Assets, End of Year	\$ 864,193	\$ 805,541



**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS PROVIDED</b>		
<b>BY OPERATING ACTIVITIES:</b>		
Cash received from members and participants	\$ 1,233,440	\$ 1,158,079
Cash received from SGA	393,598	379,040
Cash received from grants and other sources	1,973,621	1,085,185
Cash paid to employees and related benefits and taxes	(793,266)	(722,595)
Cash paid to suppliers	(945,117)	(818,850)
Cash paid to subscription program participants	(1,028,112)	(1,012,992)
Net Cash Provided by Operating Activities	834,164	67,867
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on cash	4,120	4,608
Net Cash Provided by Investing Activities	4,120	4,608
 <b>CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of furniture and equipment	(19,746)	(15,474)
Net Cash Used by Financing Activities	(19,746)	(15,474)
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	818,538	57,001
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	898,027	841,026
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 1,716,565	\$ 898,027
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET</b>		
Cash and cash equivalents	589,341	471,232
Restricted cash and cash equivalents	1,127,224	426,795
	\$ 1,716,565	\$ 898,027

**REGIONAL WATER AUTHORITY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

Operating income	\$ 54,777	\$ 176,943
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	7,308	3,700
Disposition of assets	287	-
Change in operating assets and liabilities:		
Grants receivable	457,621	(575,759)
Receivable from SGA	(21,793)	(6,573)
Receivable from San Juan Water District	40,787	(49,025)
Accounts receivable	34,135	(33,559)
Other assets	(404)	2,824
Accounts payable and accrued liabilities	18,259	52,690
Compensated absences	(5,063)	4,059
Payable to member agencies	131,197	509,273
Member advances payable	46,889	22,004
Deferred rent	33,737	-
Unearned revenue	36,427	(38,710)
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 834,164</u>	<u>\$ 67,867</u>

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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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 under the previous name of the Sacramento Metropolitan Water Authority. The members of RWA are governmental units in and around the greater Sacramento area of the State of California. The mission of RWA is to serve and represent regional water supply interests and assist Regional Water Authority members with protecting and enhancing the reliability, availability, affordability and quality of water resources. RWA promotes regional cooperative projects that will provide reliable long-term water supplies in a cost-effective manner for the benefit of RWA’s membership, rate-payers and consumers.

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

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

Operating revenues and expenses are generated and funded through assessments from member agencies and subscription revenues from program participants on a cost reimbursement basis. Additionally, RWA may receive grant awards from federal, state or local agencies. Grants managed on behalf of program participants, administration and depreciation expenses are also considered operating activities. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Administrative expenses are allocated to subscription programs based upon budgeted allocation agreements and based upon staffing resources used.

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

During the year ended June 30, 2012, RWA early adopted Governmental Accounting Standards Board (“GASB”) Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) Pronouncements”. This statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements:

1. FASB Statements and Interpretations.
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.

This Statement supersedes GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,” thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. Prior to June 30, 2012, as permitted under

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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

GASB Statement No. 20, RWA had elected non-application of all FASB Statements and Interpretations issued after November 30, 1989. Adopting GASB No. 62 had no effect on total net assets at June 30, 2011 or loss in net assets for the year then ended.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**Cash and Investments** – RWA participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities.

**Furniture and Equipment** – Fixed assets, consisting of furniture, website development costs and equipment, leasehold improvements of \$500 or greater through May 17, 2012 and \$2,500 or greater after May 17, 2012, 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 or over the lease term for leasehold improvements.

**Compensated Absences** – Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statement of Revenue, Expenses and Changes in Net Assets. RWA's policy provides vacation leave to employees at a rate of 12 days to 25 days per year based upon the number of years of employment and is considered earned on a pro-rata basis of each payroll period. Unused earned vacation leave is paid to employees upon separation. Total vacation hours are accrued and capped at 45 days. Vacation leave will resume accrual once the employee's accrued time is less than 45 days. Sick leave accrues at a rate of 8 hours per calendar month and is capped at 480 hours per employee. Upon termination of employment, the employee's remaining accrued but unused sick leave will be credited to additional service credit for the California Public Employee Retirement System program (CalPERS) to the extent permitted under the CalPERS-Authority contract and CalPERS law.

**Subscription Program Advances** – Program revenue received in advance of subscription-based program costs are recognized as advances. The purpose of these advances is to pay for subscription-based program costs not paid for by grant awards. These advances will be recognized as revenues as program costs are incurred over the life of the projects. Subscription-based programs often straddle multiple fiscal years. At the completion of the subscription-based program, any unused portion of these fees is then returned to participants.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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

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

	<u>2012</u>	<u>2011</u>
IRWMP	\$ 92,454	\$ 106,041
Prop. 50 - \$25 million grant	40,310	59,914
USBR Meter	-	5,358
Water Efficiency Program Category 2	5,532	5,087
Public Relations	108,470	23,114
Prop. 84	-	363
Total	<u>\$ 246,766</u>	<u>\$ 199,877</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 \$36,427 as of June 30, 2012 will be recognized as assessment income during the fiscal year ending June 30, 2013.

**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.

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

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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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

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 2012, the minimum assessment was \$3,091 and a maximum assessment was \$36,427. Non-voting associate members pay an annual fee equal to 0.1% of the entity’s annual operating budget, rounded to the next even thousand dollars, with a maximum annual fee of \$10,000 per year, subject to adjustments from time to time by the RWA Board.

**Subscription Program Fees** – On a subscription basis, RWA provides 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 request reimbursement for these expenses from RWA. RWA has administrative grant responsibilities and submits the grant reimbursement requests to the grantor. The grant reimbursements are recorded in the financial statements as grants revenue and grants receivable. The amounts payable to the program participants and the related expenses is presented in the financial statements as grant awards and grants payable to member agencies.

**Related Parties** – RWA 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 \$415,391 and \$385,613 for 2012 and 2011, 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. A supplementary schedule of shared administrative expenses outlines the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription-based programs. See the schedule of shared administrative expenses in the supplementary information.

If capital asset acquisitions benefit both organizations, the costs are shared 50/50 between both organizations. During the year, RWA incurred \$38,296 in office remodel costs, using lease incentives. The accounting treatment of the lease incentive is reflected as deferred rent for RWA (see note 9). RWA also recorded a receivable from SGA, allocated between current and non-current for 50% of the acquisition costs of the related office remodel. SGA owes 50% of the

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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

acquisition cost to RWA and RWA owes 50% of the lease incentive to SGA. RWA will amortize this SGA receivable over the life of the lease by offsetting deferred rent for SGA’s portion of the lease incentive.

During fiscal years ending June 30, 2012 and 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 \$28,522 of reimbursable costs has been incurred by RWA during the year ending June 30, 2012 of which \$8,238 is still due from SJWD. During the year ending June 30, 2011, \$49,025 of reimbursable costs has been incurred by RWA and was due from SJWD.

**Reclassifications** – Certain amounts in the financial statements for the year ended June 30, 2011 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2012. One reclassification had an effect of reclassifying \$347,867 of unrestricted net assets to restricted net assets for restrictions related to the Water Efficiency Program and the ARBCUP program. These amounts had been set aside and disclosed as designations in the prior year notes to the financial statements. Such reclassifications had no effect on total net assets at June 30, 2011 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:

	<b>2012</b>	<b>2011</b>
Deposits with financial institutions	\$ 795,669	\$ 51,250
Investments in LAIF	920,896	846,777
Total cash and investments	\$ 1,716,565	\$ 898,027

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

RWA’s investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). RWA is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, the Treasurer of the State of California serving as chairman. The fair value of RWA’s investment in this pool is reported in the Statements of Net Assets as a cash equivalent based upon the RWA’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

are recorded on an amortized cost basis. The total fair value of all public agencies invested in LAIF at June 30, 2012 and 2011 was \$60,588,253,603 and \$60,489,270,508, respectively.

The investment policy does not contain any specific provisions to limit RWA's exposure to interest rate risk, credit risk and concentration of credit risk.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment's sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments contained in the LAIF investment pool on June 30, 2012 and 2011 was approximately 268 and 237 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. RWA has 54% of its cash invested in LAIF.

**Custodial Credit Risk**

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

At June 30, 2012 and 2011, RWA's bank balances were \$906,071 and \$191,847, respectively. On June 29, 2012, RWA deposited \$629,710 of which \$588,480 represented grant awards. RWA also processed grant award payments to members at the same time, but due to the size of several payments, these checks were not signed and mailed until shortly after year end.

RWA bank balance is covered 100% by FDIC insurance, due to a temporary increase in insurance limits. Therefore, for the year ending June 30, 2012, RWA is not exposed to custodial credit risk.



**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Investment in State Investment Pool**

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

**Restricted Cash**

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

	<u>2012</u>	<u>2011</u>
Water Efficiency Program - Category 1 & 2	\$ 948,028	\$ 280,847
American River Basin Conjunctive Use Program	18,564	30,405
Integrated Regional Water Master Plan	10,144	57,015
Proposition 50 \$25 Million Grant Administration	40,310	45,056
Public Relations	108,470	8,114
Drought Project Management	1,708	-
USBR Meter Acceleration	-	5,358
Total Restricted Cash	<u>\$ 1,127,224</u>	<u>\$ 426,795</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Fixed assets, consisting of furniture, equipment purchases, website development costs and leasehold improvements of \$500 or greater through May 17, 2012 and \$2,500 or greater after May 17, 2012, 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.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

**NOTE 3 – PROPERTY AND EQUIPMENT (CONTINUED)**

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

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

	<b>Balance</b> <b>June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b> <b>June 30, 2011</b>
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office 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>

Depreciation and amortization expense is \$7,308 and \$3,700 for the years ending June 30, 2012 and 2011, respectively.

**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. RWA re-negotiated a seven year operating lease. As part of the lease renegotiation, RWA received a lease incentive of \$38,296, which was used to complete an office remodel. This lease incentive is reflected as deferred rent, allocated between the current and long-term portion and amortized over the life of the lease. See note 9 which allocates this lease incentive between the current and long-term portions.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 4 – OPERATING LEASE COMMITMENTS (CONTINUED)**

RWA’s rental expense was \$20,408 and \$24,967 for the years ended June 30, 2012 and 2011. Minimum lease payments are as follows:

Year Ending June 30,		
	2013	\$ 24,967
	2014	24,967
	2015	24,967
	2016	24,967
	2017	24,967
	2018-2019	29,129
Total minimum lease payments		\$ 153,964

**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 \$3,034 and \$2,940 in rental expense for the years ending June 30, 2012 and 2011, respectively. Minimum lease payments are as follows:

Year Ending June 30,		
	2013	\$ 2,928
	2014	2,928
	2015	2,196
Total minimum lease payments		\$ 8,052

**NOTE 5 – EMPLOYEE BENEFIT PLANS**

**California Public Employees’ Retirement System (CalPERS)**

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

**Funding Policy:** RWA is required to contribute the actuarially determined amounts necessary to fund the benefits for its staff members. Additionally, RWA elects to contribute the employees’ portion on their behalf. The amount paid by RWA on behalf of employees was \$34,470 during 2012 and \$32,841 during 2011.

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

For the fiscal years ended June 30, 2012, 2011 and 2010, RWA's annual contribution was \$100,274, \$94,864, and \$88,104, respectively and includes the employee portion. The annual pension cost is equal to the required contributions, all of which were paid for the years ended June 30, 2012, 2011 and 2010. The required employer contribution rate for the years ended June 30, 2012, 2011 and 2010 was 12.037%, 12.761%, and 11.545%, respectively. The required contribution for year ended June 30, 2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a level percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for miscellaneous members and (c) overall payroll growth of 3.25% compounded annually. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the PERF's assets was determined using a technique that 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. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirement of the plan members is established by State statute and the employer contribution rate is established and may be amended by the CalPERS Board of Administration.

**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 (888) 225-7377, by writing to CalPERS, 400 Q Street Sacramento, CA 95811, or by logging on to the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

RWA has fully paid the annual required contribution as required by CalPERS for each fiscal year.

**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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

eligibility includes years of CalPERS service, employee age, and disability due to line of duty. Each eligible employee hired before September 1, 2007 who is covered by CalPERS health insurance subject to age and service limitations, is covered by the retiree health benefits insurance contract under Resolution 1993-001. This retiree benefit also covers qualified dependents. RWA pays for the retiree health benefit coverage as approved under Resolution 1993-001 and may be amended from time to time.

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

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

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

RWA hires an independent actuary to compute the amount of the actuarial accrued liability (AAL) and actuarial value of plan assets. In calculating the AAL, the entry age normal cost, level percent of pay method is used. The actuarial assumptions include an investment return of 7.75%, 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%. RWA's unfunded actuarial accrued liability or funding excess is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at June 30, 2012 is 10 years.

**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 \$19,136 and \$18,088 was paid for during the year ending June 30, 2012 and 2011.

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 on actual

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

**NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

staffing results. SGA’s allocated portion was calculated as \$7,654 and paid by SGA, which represents 40% of the total ARC. The allocation of annual normal costs will 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, 2012	\$19,136	\$19,136	100%	-
June 30, 2011	\$18,088	\$18,088	100%	-
June 30, 2010	\$32,600	\$32,600	100%	-

**Required Supplementary Information**  
**Schedule of Funding Progress**

Year Ending	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2012	\$627,174	\$552,007	(\$75,167)	113.62%	\$546,667	-13.75%
June 30, 2011	\$506,326	\$431,286	(\$75,040)	117.40%	\$486,034	-15.44%
June 30, 2010	\$425,984	\$425,984	\$0	100.00%	\$481,080	0.00%

The most recent actuarial valuation dated July 1, 2011 includes an AAL of \$552,007 and a funding excess of \$75,167. 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.

**NOTE 6 – RESTRICTED NET ASSETS AND BOARD DESIGNATIONS**

Restricted Net Assets

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

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

**NOTE 6 – RESTRICTED NET ASSETS AND BOARD DESIGNATIONS (CONTINUED)**

	<b>2012</b>	<b>2011</b>
<u>Restricted Net Assets</u>		
Water Efficiency Program	\$ 321,791	\$ 317,462
American River Basin Conjunctive Use Program	18,564	30,405
Total by Contract	\$ 340,355	\$ 347,867

Board Designations

The Board establishes and approves the operating fund, membership dues, subscription program designation and OPEB target balances on an annual basis as part of the budget process and follows the Financial/Designation Reserve Policy No. 500.1. The operating fund is designed to ensure cash resources are available to fund daily administration and operations for RWA as well as a resource for matching funds for grant partnership opportunities. The operating fund target designation is four to six months of operating expenses and is fully funded at June 30, 2012. The membership dues stabilization fund is fully funded and designed to supplement operating cash flow in the event a member does not renew and is targeted at 15% of membership dues. The subscription program revenue fund is designed to be used in the event subscription program revenue designed to support operating expenses does not materialize as planned. This fund is set at 10% of net subscription program support revenue. The amounts as of June 30 are as follows:

<u>Board Designations</u>	<b>2012</b>	<b>2011</b>
Operating Fund	\$ 368,900	\$ 337,200
Membership Dues	70,700	65,400
Subscription Programs	25,700	20,100
Total by Board Authorization	\$ 465,300	\$ 422,700

**NOTE 7 – DEFERRED RENT**

As part of the lease renegotiation, RWA received a lease incentive of \$38,296 which was used to complete an office remodel and purchase board room chairs and tables. This lease incentive is considered deferred rent and is allocated between current and long-term liabilities. The deferred rent is being amortized over the life of the lease and effectively reduces the annual lease expense on a pro-rata basis. The deferred rent at June 30 is as follows:

<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
<b>June 30, 2011</b>			<b>June 30, 2012</b>
\$ -	\$ 38,296	\$ (4,559)	\$ 33,737
	Current portion of deferred rent		(5,471)
	Long-term portion		\$ 28,266

**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

**NOTE 8 – COMPENSATED ABSENCES**

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

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

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

<b>Balance 2010</b>	<b>Earned</b>	<b>Used</b>	<b>Balance 2011</b>	<b>Due Within One Year</b>
\$ 45,281	\$ 32,860	\$ 28,801	\$ 49,340	\$ 29,600

**NOTE 9 – INSURANCE**

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

RWA pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate ACWA/JPIA. RWA's deductibles and maximum coverage are as follows:

<b>Coverage</b>	<b>ACWA/JPIA</b>	<b>Commercial Insurance</b>	<b>Deductible</b>
General and Auto Liability	\$ 2,000,000	\$ 58,000,000	None
Public Officials Liability	2,000,000	58,000,000	None
Property Damage	50,000	100,000,000	\$1,000 - \$25,000
Fidelity Insurance	100,000	-	\$1,000
Workers' Compensation Insurance	2,000,000	Statutory	None

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



**REGIONAL WATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011 (CONTINUED)**

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**NOTE 10 – CONTINGENCIES**

**Grant Awards and Payments**

RWA participates in numerous state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 and 2011 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 \$165,129 and \$51,968 at June 30, 2012 and 2011 and is not currently reflected in the financial statements.

As discussed in note 5, RWA participates as an agent multiple-employer in the California Employers' Retiree Benefit Trust Fund (CERBT). The CERBT changed the asset allocation methodology in determining Other Post Employment Benefit (OPEB) liabilities, allowing employers three asset allocation strategies, each yielding an expected investment rate of return over the long-term. An asset allocation strategy is a planned investment designed to earn a long-term expected rate of return at a given level of risk. CERBT also allowed employers to downward adjust the expected investment rate of return. RWA elected to participate in Strategy 1 which was most similar to the current asset allocations strategy. RWA also elected to downward adjust the discount rate. Effectively, the investment rate of return assumption changed from 7.75% to 7.25%. This change is effective beginning July 1, 2013 and increases the OPEB payment to \$38,236.

**NOTE 11 – ECONOMIC DEPENDENCIES**

RWA incurs common administrative expenses to run both RWA and SGA. RWA relies upon reimbursement of these expenses by SGA. As discussed in note 1, summary of significant accounting policies, SGA reimbursed \$415,391 and \$385,613 for the years ending June 30, 2012 and 2011, respectively, which represents 39% and 40% of RWA's total administrative expenses.

## **SUPPLEMENTARY INFORMATION**

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

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

**REGIONAL WATER AUTHORITY**  
**PROGRAM STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDING JUNE 30, 2011**

	<b>Agency Core Program</b>	<b>Water Efficiency Program</b>	<b>IRWMP</b>	<b>PROP 50 \$25 M Grant</b>	<b>PROP 84</b>	<b>PR Program</b>	<b>USBR Meter</b>	<b>TOTAL RWA</b>
<b>Operating Revenues</b>								
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
<b>Total Operating Revenues</b>	<b>449,854</b>	<b>1,075,917</b>	<b>111,476</b>	<b>951,339</b>	<b>235,000</b>	<b>74,386</b>	<b>20,341</b>	<b>2,918,313</b>
<b>Operating Expenses</b>								
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
<b>Total Operating Expenses</b>	<b>373,492</b>	<b>975,336</b>	<b>111,476</b>	<b>951,339</b>	<b>235,000</b>	<b>74,386</b>	<b>20,341</b>	<b>2,741,370</b>
<b>Net Operating Income</b>	<b>76,362</b>	<b>100,581</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>176,943</b>
<b>Other Income</b>								
Interest Income	4,843	-	-	-	-	-	-	4,843
<b>Net Other Income</b>	<b>4,843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,843</b>
<b>Net Income</b>	<b>\$ 81,205</b>	<b>\$ 100,581</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>181,786</b>
<b>Net Assets, Beginning of the Year</b>								<b>623,755</b>
<b>Net Assets, End of the Year</b>								<b>\$ 805,541</b>

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

**REGIONAL WATER AUTHORITY**  
**SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES**  
**JUNE 30, 2012**

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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>2012</u>	<u>2011</u>
Administrative Expenses		
Staff expenses	\$ 812,109	\$ 742,896
Office Expenses	113,400	108,038
Professional Fees	127,158	95,629
Depreciation and Amortization Expense and Loss on Disposition	7,595	3,700
	<hr/>	<hr/>
Total Administrative Expenses	1,060,262	950,263
Allocated Administrative Expenses - Administrative Services Agreement		
Sacramento Groundwater Authority	(415,391)	(385,613)
	<hr/>	<hr/>
Total RWA Administrative Expenses - Net of SGA allocation	644,871	564,650
Allocated Administrative Expenses to Subscription Programs		
Water Efficiency Program	(212,347)	(158,271)
American River Basin Conjunctive Use Program (ARBCUP)	(1,530)	-
Integrated Regional Water Management Plan (IRWMP)	(3,586)	(280)
Proposition 50 - \$25 Million Grant	(7,800)	(5,320)
Prop 84 Grant Application	(13,962)	(14,840)
USBR Meter Program	(1,094)	(12,447)
	<hr/>	<hr/>
Total Allocated Administrative Expenses - Subscription Programs	(240,319)	(191,158)
	<hr/>	<hr/>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 404,552</u>	<u>\$ 373,492</u>

## **OTHER REPORT**

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

To the Board of Directors  
Regional Water Authority  
Sacramento, California

We have audited the basic financial statements of the Regional Water Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 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

To the Board of Directors  
Regional Water Authority

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 the 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*.

This report is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

*Richardson & Company*

November 15, 2012