

REGIONAL WATER AUTHORITY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Regional Water Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Water Authority (the Authority) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Regional Water Authority

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors
Regional Water Authority

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Richardson & Company, LLP

November 26, 2014

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, 2014 and 2013. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 17 to 37 of this report.

Description of Basic Financial Statements

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

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

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

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 21 to 37 of this report.

Condensed Financial Information

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

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,370,389	\$ 2,130,519
Capital Assets	20,295	22,077
Non-Current Assets	<u>8,662</u>	<u>11,398</u>
Total Assets	<u>\$ 2,399,346</u>	<u>\$ 2,163,994</u>
Current Liabilities	\$ 1,445,936	\$ 1,193,745
Non-Current Liabilities	<u>16,259</u>	<u>14,089</u>
Total Liabilities	<u>\$ 1,462,195</u>	<u>\$ 1,207,834</u>
Deferred Inflows	<u>\$ 22,795</u>	<u>\$ 28,266</u>
Net Position:		
Invested in capital assets	20,295	22,077
Restricted	343,206	375,549
Unrestricted	<u>550,855</u>	<u>530,268</u>
Total net position	<u>\$ 914,356</u>	<u>\$ 927,894</u>

Current Assets

Current assets consisted of cash, grants receivable, accounts receivable, interest receivable, prepaid expenses and amounts due from Sacramento Groundwater Authority (“SGA”), a related party. Total current assets have increased \$239,870 from the previous year. Grants receivables have increased by \$287,060 from the prior year. RWA has several ongoing grant awards and funding partnerships with the California Department of Water Resources (“DWR”), the United States Bureau of Reclamation (“USBR”), the California Water Foundation Resources Legacy Fund (“Legacy Fund”), and Sacramento County Regional Sanitation District (“SRCSD”). The June 30, 2014 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Drought Grant, the Proposition 84 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 2014, cash and cash equivalents of \$973,461 includes \$365,828 which is restricted for subscription programs by contract. Total cash reflects an overall decrease from the previous fiscal year of \$29,777 in part due to timing of program activity costs incurred prior to formalizing subscription program agreements for the 2014 drought application.

RWA acts as the administrative manager for SGA since SGA does not have any employees. RWA staff provides management services for SGA to carry out the objectives of SGA. Staffing and overhead costs, including common costs to operate the office, are allocated between both entities under an Administrative and Management Service agreement. Amounts due from SGA have decreased by \$29,843 at June 30, 2014 largely due to a payment of a one-time charge for

historical overhead costs for management services related to pension plan obligations. As the employer, RWA retired a \$69,141 obligation to CalPERS in order to eliminate an annual 7.5% interest charge RWA was incurring on this obligation. SGA's allocated cost share under the administrative service agreement was \$26,610 and was included in the amounts due to RWA at June 30, 2013.

Capital Assets

Net capital assets include office furniture, office equipment, website development, and leasehold improvements, net of accumulated depreciation. The overall decrease in capital assets reflects the annual depreciation of leasehold improvements and the disposition of fully depreciated and obsolete network server and was partially offset by a purchase of a new computer network server.

Non-Current Assets

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

Current Liabilities

Current liabilities due within one year include amounts due to vendors and accrued liabilities, the current portion of compensated absences, grants payable to program participants, and subscription program advances. There was a \$253,691 increase in current liabilities in fiscal year 2014 due to a large increase in grants payable of \$244,627 due to an increase in grant revenues and the timing of those payments to participants. Accounts payable increased by \$37,724 due to timing of vendor payments. Subscription program advances decreased by \$38,410 reflecting incurred expenses for these programs.

Non-Current Liabilities

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

Deferred Inflows

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

Net Position Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$20,295 and decreased a net \$1,782 over the prior year due an additional year of depreciation on the capital assets, purchases of new equipment offset by disposition of fully depreciated obsolete equipment.

Restricted Net Position

Restricted net position decreased by \$32,343. The American River Basin Conjunctive Use Program (“ARBCUP”) completed its reporting requirements on this grant and returned \$15,994 to the participants. The Integrated Regional Water Management Plan (“IRWMP”) spent \$23,534 on consulting expenses to update the regional water infrastructure map. The Water Efficiency Program (“WEP”) also had a slight increase in the current fiscal year.

Unrestricted Net Position

Unrestricted net position consists of amounts that do not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net position of \$550,855 reflects an increase of \$20,587 over the prior year reflecting core program revenue exceeding expenses and using restricted net position to pay some expenses as permitted. These unrestricted net assets may be used to meet RWA’s ongoing obligations to member agencies and creditors.

The entire amount of the unrestricted net position has been designated for purposes authorized by the Board. An amount of \$150,000 has been set aside for future anticipated pension plan payments with the adoption of Governmental Accounting Standards Board (“GASB”) pension plan accounting change, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (“GASB 68”) in fiscal year 2015. Other designations include operating and fee stabilization funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 6 for additional information.

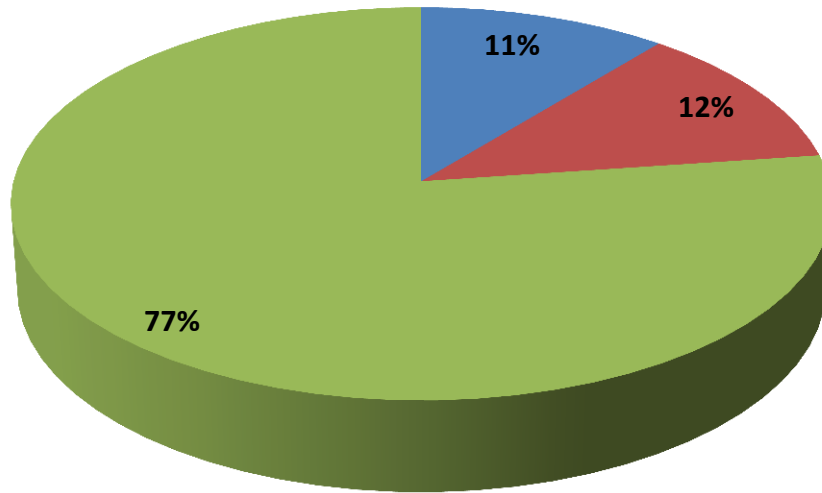
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	2014	2013
Operating revenues:		
Assessment Income	\$ 494,678	\$ 475,793
Subscription Program Fees	538,119	662,819
Incentives, Grants and Reimbursements	3,490,217	1,634,703
Other Income	18,054	6,433
Total Operating Revenues	4,541,068	2,779,748
Non-operating income	2,849	3,721
Total Revenues	4,543,917	2,783,469
Operating Expenses:		
Administrative Expenses	708,745	672,825
Core Program Expenses	23,534	-
Subscription Program		
Direct Expenses	430,728	733,409
Grant Awards	3,394,448	1,313,534
Total Operating Expenses	4,557,455	2,719,768
(Decrease) Increase in Net Position	(13,538)	63,701
Net Position, July 1	927,894	864,193
Net Position, June 30	\$ 914,356	\$ 927,894

Operating Revenues

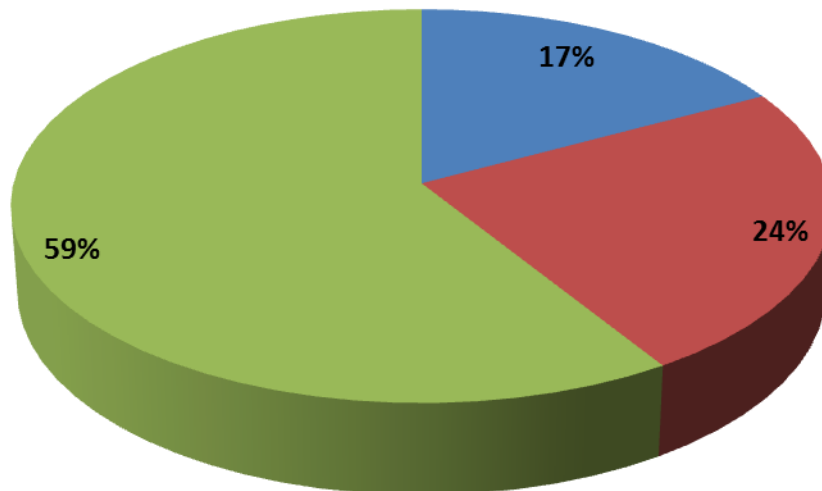
RWA's operating revenues are substantially derived from assessment fees, subscription program fees ("program fees"), and grant awards. Annual assessment fees are paid by members and are designed to fund the core RWA activities. Program fees are derived from additional one-time or ongoing subscription-based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

2014



■ Assessment Fees ■ Program Fees ■ Grant Awards

2013



■ Assessment Fees ■ Program Fees ■ Grant Awards

Analytical Review of Operating Revenues

Operating revenues totaled \$4,541,068 and was \$1,761,320 higher than in the previous year. The increase is due to higher grant and incentive earnings in the current year offset by decreased subscription program fees.

Assessment fees: The \$18,885 assessment fee income increase was due to a five percent assessment fee increase for the year ending June 30, 2014. Fruitridge Vista Water Company did not renew their membership in fiscal year 2014.

Subscription Program Fees: Program fees will vary from year to year as the projects are often limited in duration. Program fees are not expected to be comparable from year to year. In fiscal year 2014, the program fees are derived from the following programs:

- 1) Total Water Efficiency Program (“WEP”) revenues increased by a net \$21,680 largely due to a five percent increase in program dues in fiscal year 2014.
- 2) Starting in fiscal year 2014, the Integrated Regional Water Management Plan (“IRWMP”) Committee and the RWA Board decided that the IRWMP program will now be considered a core RWA function. Participants do not expect to be reimbursed for these funds and the funds will be used in the future for updates and improvements to the adopted IRWMP. Therefore, the remaining unused advances were recognized as revenue at June 30, 2013. The remaining unused balance of \$64,158 has been restricted in use for IRWMP activities.
- 3) The Prop 50 Grant \$25 million grant (“Prop 50”) revenues decreased by \$3,348 and are designed to closely match the management expenses of the program, which are not paid for by grant funds. This grant was a joint application with the Freeport Regional Water Authority (FRWA) for \$25 million in Proposition 50 grant funds for a package of 14 integrated regional water management projects. These 14 projects include expanding regional conjunctive use facilities, expanding the use of recycled water, and habitat/recreation improvement. Because the Department of Water Resources would only execute the funding agreement with one entity, RWA entered into the agreement with DWR and is managing the grant on behalf of the participating agencies.
- 4) RWA was awarded a \$16 million Proposition 84 (“Prop 84”) grant and the program began implementation in the year ending June 30, 2013. The Prop 84 grant subscription fees represent annual fees paid for by participating agencies for facilitating this program. These fees are designed to correspond with annual expenses not paid for by grant funds. The fees for this program increased by \$8,243 in the current fiscal year.
- 5) RWA ended its subscription-based public relations program in the year ending June, 30, 2014. The intent of the program was to educate and inform the public, legislators, and others about the region’s water resource needs and concerns while building a broad coalition of support for regional water issues. The board decided to incorporate this effort into the core RWA program and spent the remaining \$35,813 plus an additional \$27,458 in this fiscal year on this program. These activities are now considered part of RWA’s core program efforts.
- 6) In May 2012, Sacramento Suburban Water District (“SSWD”) was awarded a \$1 million grant under the Bay-Delta Restoration Program CalFed Water Use Efficiency Grant Program (“2012 USBR/CalFED Meter”). The project will include the installation of 5,507 meters by March 2015 by the participating agencies. RWA was not considered an

eligible applicant under the program because it does not have water delivery authority. However, RWA is the project manager of this grant and submits grant reimbursement requests on behalf of SSWD and other agencies. Subscription fees for this program reimburse RWA for project management time of which \$5,590 was incurred during the year ending June 30, 2014. Approximately \$25,000 was billed in advance to the participants to pay for staff time in managing this grant. Any unspent advances are reflected in subscription program advances.

- 7) In June 2013, Sacramento Suburban Water District (“SSWD”) was awarded a \$500,000 grant for the (“2013 USBR/CalFED Meter”). This project will include the installation of residential water meters and will be split among the three participating agencies. Those agencies include Sacramento Suburban Water District, the City of Sacramento and Sacramento County Water Agency. RWA will manage the grant on behalf of the recipients. Approximately \$15,300 was billed to the participants for anticipated staff time in managing the grant, of which \$1,820 is recognized in revenue for the year ending June 30, 2014. The unspent fees are reflected in subscription program advances.

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

- 1) WEP grants and incentives decreased a net \$43,033 from the previous year. WEP grants and incentives for the year ending June 30, 2014 are a result of three main programs: DWR Proposition 50 drought grant, the SRCSD appliance/toilet incentive grant and the new DWR Proposition 84 grant. The Prop 50 drought grant is designed to accelerate installation of 1,000 meters, provide incentives for high-efficiency washers, and to expand promotion of commercial industrial water saving devices. The SRCSD appliance/toilet programs allow regional water purveyors to offer incentives to residential and commercial customers for replacing older high-use toilets and washers with water efficient devices. The new Proposition 84 grant is a part of the overall \$16 million grant awarded to RWA. One million dollars of this grant was awarded to the WEP for a regional water meter retrofit acceleration project that will install 840 additional residential meters in the service areas of the City of Sacramento, Sacramento Suburban Water District, and Sacramento County Water Agency and other regional water efficiency measures.
- 2) The \$25 million Prop 50 grant revenue increased by \$764,456 for a total of \$975,440 in awards. Grant activity and cost reimbursements will vary year to year, depending upon the timing and completion of work. The eligible grant period continues through December 31, 2015.
- 3) The \$16 million Prop 84 grant agreement was signed in fiscal year 2013. Revenues from this grant increased by \$1,313,721 for a total of \$1,859,222 in awards for fiscal year 2014. This grant from DWR’s Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 will assist in financing projects associated with the American River Basin IRWMP and is expected to end July 1, 2016.
- 4) The \$100,000 grant from the California Water Foundation’s Resources Legacy Fund focused on helping improve the sustainability of the greater Sacramento regional water supply. This grant allowed RWA to evaluate hydrologic modeling needs in support of the IRWMP for the Lower American River Basin. During the year ending June 30, 2013,

RWA embarked on a regional tools assessment (“Regional Tools”) program using these grant funds. This grant was completed in fiscal year 2014.

Non-operating revenue

Non-operating revenue of \$2,849 represents interest income, which decreased slightly from prior year, reflecting the low interest rates and lower year end cash balances.

Operating expenses

Operating expenses fall into four major categories: administrative expenses, core program expenses, subscription program direct expenses, and grant awards. Administrative expenses represent the net costs associated with executing the core RWA strategy and activities. Core program expenses are comprised of costs associated with water related projects now funded by annual dues. The subscription program direct expenses correlate to the subscription-based revenues, which represent additional services over and above the core RWA membership services. The grant awards represent grant payments to program participants for completion of grant eligibility requirements.

Analysis Review of Operating Expenses

The operating expenses totaled \$4,557,455 and are \$1,837,687 higher than the previous year. The increase in expenses is mainly due to increased grant award payments to program participants.

Administrative Expenses: As illustrated in the supplementary information section of the financial statements, after allocating costs to SGA, overall administrative expenses incurred by RWA increased from the previous year by a net \$35,920. Prior to allocating costs to SGA, RWA incurred an additional \$42,222 in administrative expenses, which included an additional \$12,936 in staffing costs, an additional \$5,437 increase in office expenses and \$23,075 increase in professional fees. Increases in professional fees were expected since the public relations program is no longer a subscription based service and now part of the core RWA services.

Under the administrative services agreement, SGA reimburses RWA for 50% of the common costs to administer the organizations. These costs can include but are not limited to rent, administrative staff, professional fees, and office costs. Administrative management costs are essentially allocated 50/50 to SGA except for the program associate whose time is allocated based upon time spent. The reimbursements invoiced to SGA of \$463,957 and \$457,655 for the years ending June 30, 2014 and 2013, respectively, are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Position.

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

Core Program Expenses

Starting in fiscal year 2014, direct expenses incurred to maintain and implement the Integrated Regional Water Management Plan (IRWMP) are considered a core function of RWA. These costs are initially funded from prior unused subscription-based fees that have been restricted for this purpose. In the future, ongoing costs in excess of the restricted funds will be invoiced as part of the annual dues process. These costs can expect to fluctuate depending upon specific IRWMP requirements. For example, the Department of Water Resources could update its IRWMP standards, which could require an update to a portion of, or the entire, IRWMP.

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 2014, there are seven major subscription programs as previously discussed.

- 1) WEP: The WEP program decreased direct costs by \$109,034 due to spending less on public outreach and the green gardener program, as well as a decrease in external consulting expenses.
- 2) IRWMP: The IRWMP expenses are now included in the RWA core program expenses.
- 3) Prop 50 \$25 million grant: The Prop 50 \$25M direct costs are \$1,000 lower and will fluctuate based upon activity. These costs represent program management costs.
- 4) Proposition 84: These costs were \$22,180 for the program and represent program management costs and were higher by \$20,680, reflecting increased activity.
- 5) Public Relations Program (“PR”): The PR program drew down the remaining funds of \$35,813 in fiscal year 2014 and is now part of the CORE program.
- 6) The Resources Legacy Fund: This grant program spent \$106,878 of consulting costs assessing regional water analytical tools. Consulting expenses for the assessment were funded through a grant awarded by the Resources Legacy Fund in January 2013. The grant was completed in fiscal year 2014. The Sacramento Groundwater Authority was a cost share partner for the assessment in an amount up to \$40,000.
- 7) USBR Meter: As the administrator for the USBR Meter Acceleration Programs, these expenses correlated to the administration of the grant and are funded by subscription-based revenue. No direct expenses were incurred in the current fiscal year.
- 8) 2014 Drought Application: Some RWA participants began an application process for another grant. The timing of the grant application required incurring expenses prior to subscription participant agreement finalization. RWA staff has Board approval to proceed on this application with the expectation there will be subscription based participants who will reimburse RWA for these incurred costs. The reimbursement is expected during fiscal year 2015.

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

- 1) WEP: The fiscal year 2014 grant awards to participants include the DWR drought grant for \$237,299, the Proposition 84 grant for \$89,139 and SRCSD's incentives program for \$100,000. Additionally, \$133,348 of awards was paid directly to contractors on behalf of program participants for construction related activity for the Proposition 84 grant.
- 2) Prop 50 \$25 million grant: The \$764,448 increase in grant awards from the previous year matches the increase in grant revenues. The activity and payments vary on these grants and year to year comparability is not expected. Grant expenses are expected to continue through fiscal year 2015.
- 3) The Prop 84 \$16 million grant: This was the second year of this program. There was a \$1,313,721 increase in eligible costs that were incurred by the participants for grant reimbursement.

Capital Assets

Capital asset investment includes office furniture, equipment, website development and leasehold improvements as of June 30, 2014 and amounts to \$20,295 net of accumulated depreciation. During the year ending June 30, 2014, RWA purchased new office equipment and disposed of some obsolete fully depreciated office equipment. Most capital asset acquisitions are co-owned with SGA and each authority pays 50% of the acquisition cost, unless specifically purchased for the benefit of an individual authority.

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

	<u>2014</u>	<u>2013</u>
Furniture	\$ 14,464	\$ 14,464
Equipment	21,879	21,374
Website Development	15,604	15,604
Leasehold Improvements	<u>17,951</u>	<u>17,951</u>
Gross Capital Assets	69,898	69,393
Less Accumulated Depreciation and Amortization	<u>(49,603)</u>	<u>(47,316)</u>
Net Capital Assets	<u><u>\$ 20,295</u></u>	<u><u>\$ 22,077</u></u>

Economic factors and assumptions for fiscal year June 30, 2015

Periodically, RWA outlines goals and objectives to assist its members in collaborating on programs that will protect and enhance the quality and reliability of the region's water supplies. These goals and objectives drive the annual budget process. The following economic factors and assumptions affected the budget for fiscal year June 30, 2015.

- 1) The fiscal year 2015 budget was approved with a 32% rate increase. The larger than usual rate increase supports several new core program activities for RWA. These

programs include greater advocacy efforts by RWA as well as a full year public relations program.

- 2) RWA's total planned revenues exceed planned expenses in the new fiscal year by approximately \$123,450. A portion of the funds will be designated towards expected pension plan payments as a result of GASB 68. Another portion of the funds are used to fund the operating and membership dues designations since expenses are increasing, these designations need to increase to meet policy guidelines. Subscription expenses are expected to be greater than subscription fees. Subscription advances will be used to fund the expenses in excess of revenues.
- 3) RWA entered into an agreement with the Powerhouse Science to construct and operate an institution for science education for the Sacramento area, which will include opportunities for education on the important role of reliable water supplies and efficient water use in protecting public health and the environment. RWA has made a funding commitment which spans fifteen years. RWA will levy members an annual assessment over five years to fund this commitment.
- 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 \$242,200 are expected to contribute approximately 16% towards RWA expenses.
- 5) Forecasted subscription revenues include the WEP, the Prop 50 \$25 million grant award, and services of a government relations contract lobbyist.
- 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 6.3 full-time staff persons to help support the growing monitoring and reporting of subscription-based programs. Salary expenses are within ranges for each classification. Health care is budgeted to increase by 10%.
- 8) RWA will continue to invoice SGA for management services. SGA reimburses RWA for these administrative costs. The amount of shared expenses planned for fiscal year June 30, 2015 is \$499,400.
- 9) The operating fund is targeted at approximately 3.5 months for fiscal year 2015.
- 10) The IRWMP subscription program became part of the core program activities during fiscal year 2014. These costs continue to be paid from the remaining funds set aside for this purpose.
- 11) RWA plans on setting aside an additional \$75,000 for a total of \$225,000 in fiscal year 2015 in anticipation of adopting and funding the pension plan liability related to implementing the Governmental Accounting Standards Board ("GASB") pension plan accounting change, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* ("GASB 68"). Even though RWA has paid in full its annually required contribution, RWA will have an unfunded pension plan liability. The CalPERS report, dated June 30, 2012, reflects an approximate liability of \$410,500 when comparing projected benefits to the plan's market value of assets.

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2015.

Requests for Information

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

REGIONAL WATER AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets		
Cash and Investments	\$ 607,633	\$ 350,744
Restricted Cash	365,828	652,494
Grants/Incentives Receivable	1,284,832	997,772
Accounts Receivable	22,593	14,495
Receivable from Sacramento Groundwater Authority	74,516	101,623
Other Assets	14,987	13,391
Total Current Assets	2,370,389	2,130,519
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	8,662	11,398
Furniture and Equipment, Net	20,295	22,077
Total Non-Current Assets	28,957	33,475
Total Assets	\$ 2,399,346	\$ 2,163,994
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Liabilities		
Accounts Payable and Accrued Liabilities	\$ 129,591	\$ 91,867
Compensated Absences, current portion	46,250	38,000
Grants Payable	1,147,318	902,691
Subscription Program Advances	122,777	161,187
Non-current liabilities - Compensated Absences	16,259	14,089
Total Liabilities	1,462,195	1,207,834
Deferred Inflows - Rent	22,795	28,266
Net Position		
Net Investment in Furniture and Equipment	20,295	22,077
Restricted	343,206	375,549
Unrestricted	550,855	530,268
Total Net Position	914,356	927,894
Total Liabilities, Deferred Inflows, and Net Position	\$ 2,399,346	\$ 2,163,994

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues		
Assessment Income	\$ 494,678	\$ 475,793
Subscription Program Fees	538,119	662,819
Incentives, Grants, and Reimbursements	3,490,217	1,634,703
Other Income	18,054	6,433
Total Operating Revenues	4,541,068	2,779,748
Operating Expenses		
Administrative Expenses	708,745	672,825
Core Program Expenses	23,534	-
Subscription Program Direct Expenses	414,734	727,637
Refund of Subscription Program Fees	15,994	5,772
Grant Awards	3,394,448	1,313,534
Total Operating Expenses	4,557,455	2,719,768
Operating (Loss) Income	(16,387)	59,980
Other Income		
Interest Income	2,849	3,721
Total Other Income	2,849	3,721
Net (Loss) Income	(13,538)	63,701
Net Position, Beginning of Year	927,894	864,193
Net Position, End of Year	\$ 914,356	\$ 927,894

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS USED BY OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 986,289	\$ 1,017,423
Cash received from SGA	487,498	417,550
Cash received from grants and other sources	3,221,211	1,035,670
Cash paid to employees and related benefits and taxes	(875,674)	(873,287)
Cash paid to suppliers	(695,720)	(994,763)
Cash paid to subscription program participants	<u>(3,149,821)</u>	<u>(1,319,812)</u>
Net Cash Used by Operating Activities	(26,217)	(717,219)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	<u>2,972</u>	<u>3,892</u>
Net Cash Provided by Investing Activities	2,972	3,892
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Furniture and Equipment	<u>(6,532)</u>	<u>-</u>
Net Cash Used by Financing Activities	(6,532)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(29,777)	(713,327)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,003,238</u>	<u>1,716,565</u>
CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$ 973,461</u></u>	<u><u>\$ 1,003,238</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	607,633	350,744
Restricted cash and cash equivalents	<u>365,828</u>	<u>652,494</u>
	<u><u>\$ 973,461</u></u>	<u><u>\$ 1,003,238</u></u>

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
RECONCILIATION OF (LOSS) INCOME FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating (loss) income	\$ (16,387)	\$ 59,980
Adjustments to reconcile operating (loss) income to net cash used by operating activities:		
Depreciation and amortization	8,314	7,539
Change in operating assets and liabilities:		
Grants receivable	(287,060)	(605,466)
Receivable from SGA	29,843	(40,105)
Receivable from San Juan Water District	-	8,238
Accounts receivable	(8,098)	(7,421)
Other assets	(1,719)	(1,098)
Accounts payable and accrued liabilities	37,724	(12,943)
Compensated absences	10,420	7,812
Grants payable to member agencies	244,627	(6,278)
Member advances payable	(38,410)	(85,579)
Deferred inflows - rent	(5,471)	(5,471)
Unearned revenue	-	(36,427)
	-	(36,427)
Net cash used by operating activities	\$ (26,217)	\$ (717,219)

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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. RWA also has associate memberships that include public or private entities with water management responsibilities and who are not municipal water suppliers in this region. The mission of RWA is to serve and represent regional water supply interests and assist Regional Water Authority members with protecting and enhancing the reliability, availability, affordability and quality of water resources. RWA promotes regional cooperative projects that will provide reliable long-term water supplies in a cost-effective manner for the benefit of RWA’s membership, rate-payers and consumers.

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

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

Operating revenues and expenses are generated and funded through assessments from member agencies and subscription revenues from program participants on a cost reimbursement basis. Additionally, RWA may receive grant awards from federal, state or local agencies. Grants managed on behalf of program participants, administration and depreciation expenses are also considered operating activities. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Administrative expenses are allocated to subscription programs based upon budgeted allocation agreements and based upon staffing resources used. The Authority follows Governmental Accounting Standards Board (“GASB”) Statement No. 62, Codification of Accounting and Financial Report Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (“GASB 62”).

New Pronouncements – In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This statement required governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the Authority’s financial statements and is effective for the Authority’s June 30, 2015 financial statements. The Authority will fully analyze the impact of this Statement prior to the effective date listed above.

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

Compensated Absences – Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statement of Revenue, Expenses and Changes in Net Position. RWA's policy provides vacation leave to employees at a rate of 12 to 25 days per year based upon the number of years of employment and is considered earned on a pro-rata basis for each payroll period. Unused earned vacation leave is paid to employees upon separation. Total vacation hours are accrued and capped at 45 days. Vacation leave will resume accrual once the employee's accrued time is less than 45 days.

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

Subscription Program Advances – Program revenue received in advance of subscription-based program costs are recognized as advances. The purpose of these advances is to pay for subscription-based program costs not paid for by grant awards. These advances will be recognized as revenues as program costs are incurred over the life of the projects. Subscription-

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

based programs often straddle multiple fiscal years. At the completion of the subscription-based program, any unused portion of these fees is typically returned to participants.

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

	2014	2013
Prop. 84 Program Management	\$ 78,294	\$ 73,503
Public Relations	-	35,813
Prop. 50 - \$25 million grant	14,698	28,704
USBR CalFed Meter 2012	16,260	21,850
USBR CalFed Meter 2013	13,525	-
Water Efficiency Program Category 2	-	1,317
Total	\$ 122,777	\$ 161,187

Unearned Revenue – Monies received as annual assessments relating to the subsequent year and received in advance of the new fiscal year are recorded as unearned revenue. There was no unearned revenue as of the fiscal years ending June 30, 2014 and 2013.

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

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

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

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.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, RWA simultaneously recognizes a grant award expense and grants payable for these grant awards since RWA then will reimburse participating agencies when the actual cash is received. To the extent RWA receives the allowable cost information from the participating agencies in a timely manner, recognition of receivables and revenues are not delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

Assessment Income – Each of the member water districts, cities and service districts pay yearly assessments to RWA based on the number of retail water connections each provides. During 2014, the minimum assessment was \$3,246 and a maximum assessment was \$38,248. 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 a water conservation program, 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 grant 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 invoices the Sacramento Groundwater Authority (SGA) for management services and common office costs. SGA was created in 1998 under another Joint Exercise of Powers Agreement. Many of the member agencies of RWA are also member agencies of SGA. Under an Administrative Services Agreement, SGA and RWA are equally responsible for all costs incurred to operate the joint office. Expenses paid on SGA’s behalf by RWA were \$463,957 and \$457,655 for 2014 and 2013, respectively. The Statements of Revenues, Expenses, and Changes in Net Position reflect the net expenses of RWA after reimbursement by SGA. The Statements of Cash flows reflect the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers. A supplementary schedule of shared administrative expenses outlines the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription-based programs. See the schedule of shared administrative expenses in the supplementary information.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

SGA is also a subscription participant in the Resource Legacy Fund regional tools grant award. RWA invoiced SGA \$17,685 and \$6,248 in grant-related subscription expenses for the years ending June 30, 2014 and 2013.

NOTE 2 – CASH AND INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Deposits with financial institutions	\$ 120,701	\$ 103,450
Investments in LAIF	<u>852,760</u>	<u>899,788</u>
Total cash and investments	<u>\$ 973,461</u>	<u>\$ 1,003,238</u>

Investments Authorized by RWA's Investment Policy

RWA's investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). RWA is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, the Treasurer of the State of California serving as chairman. The fair value of RWA's investment in this pool is reported in the Statements of Net Assets as a cash equivalent based upon the RWA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The total fair value of all public agencies invested in LAIF at June 30, 2014 and 2013 was \$64,870,214,443 and \$58,828,474,533, respectively. For information on the types of investments made by LAIF, refer to the State of California Treasurer's separately issued investment reports. Copies of these investment reports may be obtained by calling (916) 653-3001, by writing to LAIF, 915 Capitol Mall, Room 106, Sacramento, CA 95814, or by logging on to the treasurer's website at www.treasurer.gov/pmia-laif/.

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment's sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments in the LAIF investment pool on June 30, 2014 and 2013 was approximately 232 and 278 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 88% 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, 2014 and 2013, RWA's bank balances were \$191,617 and \$164,599, respectively. RWA bank balance is covered 100% by FDIC insurance up to \$250,000. Therefore, for the year ending June 30, 2014, RWA is not exposed to custodial credit risk.

Investment in State Investment Pool

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Restricted Cash

Restricted cash represents cash received by RWA for subscription-based program revenue restricted in use for these programs. The restriction is based upon contractual agreements on how to use the advanced program revenues.

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

	2014	2013
Water Efficiency Program - Category 1 & 2	\$ 178,893	\$ 386,988
Integrated Regional Water Master Plan	64,158	87,692
Prop 84 Project Management	78,294	73,503
Public Relations	-	35,813
Proposition 50 \$25 Million Grant Administration	14,698	28,704
USBR CALFED Meter 2012	16,260	21,850
USBR CALFED Meter 2013	13,525	-
American River Basin Conjunctive Use Program	-	17,944
Total Restricted Cash	\$ 365,828	\$ 652,494

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets, consisting of furniture, equipment purchases, website development costs and leasehold improvements in excess of \$2,500 per unit with useful lives of more than one year are stated at historical cost. Acquired assets are owned 50% by RWA and 50% by SGA, unless the asset specifically benefits only one agency. During the year ending June 30, 2014 and 2013, RWA disposed of \$6,027 and \$7,586 fully depreciated obsolete office equipment, respectively. Additionally, RWA acquired \$6,532 in office equipment for the year ending June 30, 2014.

RWA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is typically three to five years. Leasehold improvements are amortized over the contractual period of the lease agreement. Depreciation and amortization expense is \$8,314 and \$7,539 for the years ending June 30, 2014 and 2013, respectively.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 – PROPERTY AND EQUIPMENT (CONTINUED)

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

	Balance			Balance
	June 30, 2013	Increases	Decreases	June 30, 2014
Furniture	\$ 14,464	\$ -	\$ -	\$ 14,464
Office Equipment	21,374	6,532	(6,027)	21,879
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	<u>69,393</u>	<u>6,532</u>	<u>(6,027)</u>	<u>69,898</u>
Less accumulated depreciation and amortization	<u>(47,316)</u>	<u>(8,314)</u>	<u>6,027</u>	<u>(49,603)</u>
Fixed Assets, Net	<u>\$ 22,077</u>	<u>\$ (1,782)</u>	<u>\$ -</u>	<u>\$ 20,295</u>

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 – OPERATING LEASE COMMITMENTS

Office Lease

RWA is obligated under an operating lease agreement for office space. RWA’s rental expense was \$19,497 for the years ended June 30, 2014 and 2013. Minimum lease payments are as follows:

Year Ending June 30,		
	2015	\$ 24,967
	2016	24,967
	2017	24,967
	2018	24,967
	2019	4,162
		Total minimum lease payments
		\$ 104,030

The difference between the rental expense and rental payments reflects amortization of the lease incentives. See Note 7 for additional information.

Copier Lease

RWA entered into an operating lease agreement during fiscal year 2010 for a copier. This lease expires March 2015. The monthly lease payment is \$244, including taxes. RWA incurred \$2,958 and \$2,975 in rental expense for the years ending June 30, 2014 and 2013, respectively.

Minimum lease payments are as follows:

Year Ending June 30,		
	2015	\$ 2,196
		Total minimum lease payments
		\$ 2,196

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”).

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Funding Policy: RWA is required to contribute the actuarially determined amounts to fund the pension benefits for its participants. Additionally, RWA elects to contribute the employees' portion of the funding. The amount paid by RWA on behalf of employees was \$39,800 during 2014 and \$36,625 during 2013.

For the fiscal years ended June 30, 2014, 2013 and 2012, RWA's annual contribution was \$100,508, \$100,655, and \$100,274, respectively, which includes the employee portion. The annual pension cost is equal to the required contributions, all of which were paid for the years ended June 30, 2014, 2013 and 2012. The required employer contribution rate for the years ended June 30, 2014, 2013 and 2012 was 11.104%, 12.270%, 12.037%, respectively. The required contribution for year ended June 30, 2014 was determined as part of the June 30, 2012 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) 7.50% investment discount rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% for miscellaneous members and (c) overall

payroll growth of 3.00% compounded annually. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the PERF's assets was determined using a technique that is designed to smooth the effect of short-term volatility in the market value gains and losses over a fifteen year period. The PERF's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirement of the plan members is established by State statute and the employer contribution rate is established and may be amended by the CalPERS Board of Administration.

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

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Unfunded Actuarial Liability (UAAL) (a-b)	Funded Ratio		Annual Covered Payroll
					AVA (b)/(a)	MVA (c)/(a)	
6/30/2012	\$1,550,702	\$1,374,274	\$1,140,250	\$176,428	88.6%	73.5%	\$447,990
6/30/2011	\$1,454,090	\$1,259,325	\$1,127,264	\$194,765	86.6%	77.5%	\$482,205

When comparing the accrued liability to the market value of assets as of June 30, 2014, RWA has an unfunded liability of \$410,452 on the market value basis. The ratio of UAAL to covered payroll is 39.4 percent. Since the historical information about the funded status of RWA’s plan for the June 30, 2010 valuation date is unavailable, this information has not been disclosed herein or in the required supplementary information. For information on funded status and funding progress of the PERF as a whole, refer to the State of California’s separately issued financial statements. Copies of these financial statements may be obtained by calling (888) 225-7377, by writing to CalPERS, 400 Q Street Sacramento, CA 95811, or by logging on to the CalPERS website at www.calpers.ca.gov.

Deferred Compensation Plan

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

Other Post-Employment Benefits

Plan Description: RWA’s other post-employment health benefits (“OPEB”) are provided in accordance with the California Public Employees’ Retirement (CalPERS) Law. The criteria to determine eligibility includes years of CalPERS service, employee age, and disability due to line of duty. Each eligible employee hired before September 1, 2007 who is covered by CalPERS health insurance subject to age and service limitations, is covered by the retiree health benefits insurance contract under Resolution 1993-001. This retiree benefit also covers qualified dependents. RWA pays for the retiree health benefit coverage as approved under Resolution 1993-001 and may be amended from time to time.

For employees hired after September 1, 2007, an employee must be eligible to retire in accordance with the RWA’s CalPERS pension plan rules and have at least five years of credited

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

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

RWA hires an independent actuary to compute the amount of the actuarial accrued liability (AAL) and actuarial value of plan assets. In calculating the AAL, the entry age normal cost, level percent of pay method is used. The actuarial assumptions include an investment return of 7.25% for the years ending June 30, 2013 and 2012 and 7.50% for the year ending June 30, 2011. Other assumptions include a health care inflation trend rate ranging from 9.0% to 4.5% as the ultimate rate in 2019 and beyond, and projected annual salary increases of 3.25%. RWA's unfunded actuarial accrued liability or funding excess is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at June 30, 2014 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 \$40,299 and \$38,236 was paid for during the years ending June 30, 2014 and 2013.

Funding Progress and Funding Status: The most recent actuarial valuation dated July 1, 2011 includes an Actuarial Accrued Liability of \$679,869 and a funding excess of \$50,901. The historical schedule of funding progress shows whether actuarial value of plan assets as increasing or decreasing over time relative to the actuarial accrued liability for benefits.

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2014	\$730,770	\$679,869	(\$50,901)	107.49%	\$574,526	-8.86%
June 30, 2013	\$668,961	\$614,139	(\$54,822)	108.93%	\$531,881	-10.31%
June 30, 2012	\$627,174	\$552,007	(\$75,167)	113.62%	\$546,667	-13.75%

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, 2014	\$40,299	\$40,299	100%	-
June 30, 2013	\$38,236	\$38,236	100%	-
June 30, 2012	\$19,136	\$19,136	100%	-

NOTE 6 – RESTRICTED NET POSITION AND BOARD DESIGNATIONS

Restricted Net Position

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

<u>Restricted Net Position</u>	<u>2014</u>	<u>2013</u>
Water Efficiency Program	\$ 279,048	\$ 269,913
American River Basin Conjunctive Use Program	-	17,944
Integrated Regional Water Management Plan	64,158	87,692
Total by Contract	<u>\$ 343,206</u>	<u>\$ 375,549</u>

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Board Designations

The Board establishes and approves the operating fund, membership dues, subscription program designation and OPEB target balances on an annual basis as part of the budget process and may modify these targets during the year so as to follow or temporarily modify the Financial/Designation Reserve Policy No. 500.1.

<u>Board Designations</u>	2014	2013
Operating Fund	\$ 338,900	\$ 214,900
Membership Dues	74,200	71,400
Subscription Programs	22,900	24,400
Pension Plan Accounting Change	150,000	40,000
Total by Board Authorization	\$ 586,000	\$ 350,700

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. For the year ending June 30, 2014, this designation is approximately 3.7 months. The membership dues stabilization fund is fully funded and designed to supplement operating cash flow in the event a member does not renew and is targeted at 15% of membership dues. The subscription program revenue fund is designed to be used in the event subscription program revenue designed to support operating expenses does not materialize as planned. This fund is set at 10% of net subscription program support revenue.

The Pension plan accounting change is a partial set-aside designation in anticipation of paying the projected liability from implementing the Governmental Accounting Standards Board (“GASB”) pension plan accounting change, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (“GASB 68”) in fiscal year 2015. Even though RWA has been fully funding its annually required contribution, RWA will have an unfunded pension plan liability. The CalPERS report, dated June 30, 2012, reflects an approximate liability of \$410,500 when comparing projected benefits to the market value of assets.

NOTE 7 – DEFERRED INFLOWS - RENT

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7 – DEFERRED INFLOWS - RENT (CONTINUED)

The deferred inflow at June 30 is as follows:

Balance June 30, 2013	Increases	Amortization	Balance June 30, 2014
<u>\$28,266</u>	<u>-</u>	<u>\$ (5,471)</u>	<u>\$ 22,795</u>

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

NOTE 8 – COMPENSATED ABSENCES

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

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

Balance 2013	Earned	Used	Balance 2014	Due Within One Year
<u>\$ 52,089</u>	<u>\$ 44,399</u>	<u>\$ 33,979</u>	<u>\$ 62,509</u>	<u>\$ 46,250</u>

Balance 2012	Earned	Used	Balance 2013	Due Within One Year
<u>\$ 44,277</u>	<u>\$ 39,872</u>	<u>\$ 32,060</u>	<u>\$ 52,089</u>	<u>\$ 38,000</u>

NOTE 9 – INSURANCE

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

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

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 9 – INSURANCE (CONTINUED)

RWA’s deductibles and maximum coverage are as follows:

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

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

NOTE 10 – CONTINGENCIES

Grant Awards and Payments

RWA participates in numerous grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that RWA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2014 and 2013 may be impaired. In the opinion of RWA’s management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

According to the voluntary grant agreements with the California Department of Water Resources (DWR), five to ten percent of the eligible grant award payment is withheld until project completion. Project completion is considered an eligibility requirement. Since these retention payments are withheld until the project is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the project is complete. Once the retention is received, RWA will then pay the program participants for the eligible costs incurred. This contingent grant award revenue and the related liability to program participants is estimated at \$486,532 and \$250,751 at June 30, 2014 and 2013 and is not currently reflected in the financial statements.

Pension Benefits

In March 2013, RWA was selected for a routine compliance audit by CalPERS’ Office of Audit Services (“OAS”) to determine pensionable payroll reporting compliance and member enrollment processes for the period of April 1, 2010 to March 31, 2013. RWA reported all

REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 – CONTINGENCIES (CONTINUED)

pensionable compensation to CalPERS for RWA's employees. However, OAS' draft compliance audit report, dated June 12, 2013, suggested that RWA has erroneously reported staff time to administering SGA as RWA pensionable compensation. Instead, OAS believes that the time administering SGA should be pensionable time for SGA. The draft report further noted that SGA is not a CalPERS contracting agency and as a result, RWA employees' time serving SGA cannot be creditable service reportable to CalPERS under the RWA contract and that RWA has over contributed for the time spent administering SGA. RWA disagrees with OAS' finding as contrary to existing legal authority and sent a response letters on July 2, 2013 and July 3, 2014 but a final resolution to this issue remains outstanding. If OAS does not change its findings or if CalPERS' Board of Administration does not reject the finding, SGA may ultimately be required to contract with CalPERS for pension benefits to fulfill employment obligations to existing employees and retired annuitants although SGA would likely receive credit for the existing RWA contributions made for time administering SGA. RWA, however, has not recorded a liability for this contingency because the amount of any liability that might result cannot be currently estimated.

Power House Science Center

RWA entered into an agreement with the Powerhouse Science to be a Title sponsor for two water related exhibits in the amount of \$500,000. These exhibits will be displayed in the science center in Sacramento and provide educational opportunities on the important role of reliable water supplies and efficient water use in protecting public health and the environment. After RWA's initial \$50,000 payment, fixed annual payments of \$25,000 will be made over a 14 year period. The California Water Awareness Campaign ("CWAC") will pay the remaining \$100,000 to Powerhouse by December 31, 2015. Should CWAC not pay the \$100,000, RWA would be responsible for this balance. RWA will provide on-going input for these exhibits and the related programming and materials provided at Powerhouse. RWA will levy members an annual assessment over five years to fund this commitment.

NOTE 11 – ECONOMIC DEPENDENCIES

RWA incurs common administrative expenses to operate both RWA and SGA. RWA relies upon reimbursement of these expenses by SGA. As discussed in note 1, summary of significant accounting policies, SGA reimbursed \$463,957 and \$457,655 for the years ending June 30, 2014 and 2013 which represents 40% of RWA's total administrative expenses. The supplementary information section details how these costs are allocated to SGA and the subscription programs.

SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
PROGRAM SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDING JUNE 30, 2014

	Agency Core Program	Water Efficiency Program	2014 Drought Application	ARBCUP	PROP 50 \$25 M Grant	PROP 84	PR Program	Regional Tools Assessment	USBR/CALFED 2012 Meter	USBR/CALFED 2013 Meter	TOTAL RWA
Operating Revenues											
Assessment Income	\$ 494,678	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	494,678
Subscription Program Fees	-	425,539	-	-	19,337	32,335	35,813	17,685	5,590	1,820	538,119
Incentives and Grant Revenues	-	566,362	-	-	975,440	1,859,222	-	89,193	-	-	3,490,217
Other Income	18,054	-	-	-	-	-	-	-	-	-	18,054
Total Operating Revenues	512,732	991,901	0	0	994,777	1,891,557	35,813	106,878	5,590	1,820	4,541,068
Operating Expenses											
Administrative Expenses	471,957	208,397	3,286	1,950	5,590	10,155	-	-	5,590	1,820	708,745
Core Program Expenses	23,534	-	-	-	-	-	-	-	-	-	23,534
Subscription Program Direct Expenses	-	214,582	21,534	-	13,747	22,180	35,813	106,878	-	-	414,734
Refund of Subscription Program Fees	-	-	-	15,994	-	-	-	-	-	-	15,994
Grant Awards	-	559,786	-	-	975,440	1,859,222	-	-	-	-	3,394,448
Total Operating Expenses	495,491	982,765	24,820	17,944	994,777	1,891,557	35,813	106,878	5,590	1,820	4,557,455
Net Operating Income	17,241	9,136	(24,820)	(17,944)	0	0	0	0	0	0	(16,387)
Other Income											
Interest Income	2,849	-	-	-	-	-	-	-	-	-	2,849
Net Other Income	2,849	-	-	-	-	-	-	-	-	-	2,849
Net Income	\$ 20,090	\$ 9,136	\$ (24,820)	\$ (17,944)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(13,538)
Net Position, Beginning of the Year											927,894
Net Position, End of the Year											\$ 914,356

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

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

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

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

REGIONAL WATER AUTHORITY
SCHEDULES OF ALLOCATED ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDING JUNE 30, 2014

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

The allocation of administrative expenses for the year ending June 30, 2014 is:

	<u>Staff Expenses</u>	<u>Office Expenses</u>	<u>Professional Fees</u>	<u>Depreciation and Amortization</u>	<u>Total Administrative Expenses</u>
RWA Administrative Expenses	\$ 915,170	\$ 109,148	\$ 140,071	\$ 8,313	\$ 1,172,702
Allocated to Sacramento Groundwater Authority	(386,476)	(46,825)	(30,656)	-	(463,957)
Total RWA Administrative Expenses - Net of SGA allocation	<u>528,694</u>	<u>62,323</u>	<u>109,415</u>	<u>8,313</u>	<u>708,745</u>
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(189,670)	(13,856)	(4,871)	-	(208,397)
American River Basin Conjunctive Use Program (ARBCUP)	(1,950)	-	-	-	(1,950)
2014 Drought Application	(3,286)	-	-	-	(3,286)
Proposition 50 - \$25 Million Grant	(5,590)	-	-	-	(5,590)
Prop 84 Grant	(10,155)	-	-	-	(10,155)
USBR/CALFED Meter Program - 2012	(5,590)	-	-	-	(5,590)
USBR/CALFED Meter Program - 2013	(1,820)	-	-	-	(1,820)
Total Allocated Administrative Expenses - Subscription Programs	<u>(218,061)</u>	<u>(13,856)</u>	<u>(4,871)</u>	<u>-</u>	<u>(236,788)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 310,633</u>	<u>\$ 48,467</u>	<u>\$ 104,544</u>	<u>\$ 8,313</u>	<u>\$ 471,957</u>

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

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

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

OTHER REPORT

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

To the Board of Directors
Regional Water Authority
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Regional Water Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses

To the Board of Directors
Regional Water Authority

or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

November 26, 2014