REGIONAL WATER AUTHORITY

INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

June 30, 2016 and 2015

CONTENTS

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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, 2016 and 2015, 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 from 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.

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, 2016 and 2015 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, the Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions to the Pension Plan and Schedule of OPEB Funding Progress 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of the Authority's internal control over financial 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 28, 2016

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, 2016 and 2015. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 21 to 49 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 the statement of net position, statement of revenues, expenses, and changes in net position, and statement 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 statement 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, pension expense and amounts due to vendors).

The statement 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 25 to 49 of this report.

Condensed Financial Information

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

	2016	2015	2014
Current Assets	$ 6,248,543	$ 4,653,757	$ 2,370,389
Capital Assets	7,644	13,058	20,295
Non-Current Assets	3,191	5,927	8,662
Deferred Outflow	315,907	123,438	-
Total Assets	$ 6,575,285	$ 4,796,180	$ 2,399,346
Current Liabilities	$ 5,094,324	$ 3,551,547	$ 1,445,936
Non-Current Liabilities	413,212	384,009	16,259
Total Liabilities	5,507,536	3,935,556	1,462,195
Deferred Inflows	75,744	154,692	22,795
Net Position:			
Invested in capital assets	7,644	13,058	20,295
Restricted	297,009	328,170	343,206
Unrestricted	687,352	364,704	550,855
Total net position	$ 992,005	$ 705,932	$ 914,356

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. RWA has several ongoing grant awards and funding partnerships with the California Department of Water Resources (“DWR”), the United States Bureau of Reclamation (“USBR”), and Sacramento County Regional Sanitation District (“SRCSD”). Amounts due from grants and partnerships can be expected to vary from year to year, depending upon the availability of grant awards, as well as the timing of the fulfillment of these obligations.

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 resulting in amounts due from SGA. See the Statements of Net Position for amounts due from SGA.

Fiscal Year 2016 Compared to Fiscal Year 2015

Total current assets have increased $1,594,786 reflecting grants receivables increasing by $1,545,592 from the prior year. The June 30, 2016 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 50 Grant, the Proposition 84 grant, the 2014 Proposition 84 Drought Grant, and the 2014 Water Energy Grant.

Fiscal Year 2015 compared to Fiscal Year 2014

Total current assets have increased $2,283,368 mainly due to grants receivables increasing by $1,731,368. The June 30, 2015 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.

For fiscal year 2015, total cash reflects an overall increase from the previous fiscal year of $474,704, in part due to an increase in restricted cash for subscription programs and funding for the Powerhouse Science Center water exhibit received but not yet disbursed.

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 for fiscal year 2016, fiscal year 2015, and fiscal year 2014 reflects the annual depreciation of leasehold improvements and office equipment.

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.

Deferred Outflows

Deferred outflows represent pension related contributions to the pension plan, adjustments due to the change in proportions (allocations) of the pension plan to RWA, and differences between expected and actual experience of the pension plan.

Fiscal Year 2016 Compared to Fiscal Year 2015

Pension contributions of $293,426 made during the year ending June 30, 2016 which apply to the pension plan measurement date of June 30, 2016 will reduce the pension liability during the year ending June 30, 2017 since the measurement date is lagging one year from the fiscal year. The balance of deferred outflows is being amortized over the next few years and will increase pension expense. See Note 5 for the amortization schedule.

Fiscal Year 2015 compared to Fiscal Year 2014

Pension contributions of $111,678 made during the year ending June 30, 2015 which apply to the pension plan measurement date of June 30, 2015 reduced the pension liability during the year ending June 30, 2016. Deferred outflows are a result of implementing of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB 71") during the year ended June 30, 2015.

Current Liabilities

Current liabilities due within one year include amounts due to vendors and accrued liabilities, the current portion of compensated absences, grants payable to program participants, subscription program advances and unearned revenue.

Fiscal Year 2016 Compared to Fiscal Year 2015

There was a $1,542,777 increase in current liabilities in fiscal year 2016 due to a large increase in grants payable of $1,408,966 as a result of an increase in grant revenues and the timing of those payments to participants. Accounts payable decreased by $87,449 due to timing of vendor payments. Subscription program advances increased by $205,425 reflecting fees collected for these programs for which expenses have not yet been incurred.

Fiscal Year 2015 compared to Fiscal Year 2014

Current liabilities in fiscal year 2015 increased by $2,105,611 due to a large increase in grants payable of $1,715,302 as a result of an increase in grant revenues and the timing of those payments to participants. Accounts payable increased by $93,816 due to timing of vendor payments. Subscription program advances increased by $273,693 reflecting fees collected for these programs.

Non-Current Liabilities

Non-current liabilities include unearned revenue, and the net pension obligation. See Note 5 for additional net pension obligation information. Noncurrent liability also consists of compensated absences which are not expected to be used during the next fiscal year. See Note 8 for additional information for compensated absences.

Fiscal Year 2016 Compared to Fiscal Year 2015

RWA's non-current liability increased by $29,203 mainly due to an increase in unearned revenue from the Powerhouse Science center advance collections.

Fiscal Year 2015 compared to Fiscal Year 2014

An increase in the non-current liability by $367,750 was mainly due to recording the net pension liability of $337,276 due to implementing GASB 68.

Deferred Inflows

Deferred inflows comprise mainly of unamortized pension adjustments. These remaining pension adjustments will be amortized to pension expense over the next few years. See Note 5 for additional information. Additionally, deferred inflows include 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.

Fiscal Year 2016 Compared to Fiscal Year 2015

The decrease of $78,948 in deferred inflows mainly represents changes in unamortized pension adjustments effecting pension expense during the year ending June 30, 2016 caused by timing of when they are reflected in the pension liability valuation.

Fiscal Year 2015 compared to Fiscal Year 2014

The increase of $131,897 in deferred inflows mainly represents unamortized pension adjustments caused by timing of when they are reflected in the pension liability valuation as a result of implementing GASB 68.

Net Position Invested in Capital Assets

The decrease in invested in capital assets net of accumulated depreciation is due to an additional year of depreciation on the capital assets for each year.

Restricted Net Position

Restricted net position represents funding set aside for both the Water Efficiency Program (“WEP”) and the Integrated Regional Water Management Plan (“IRWMP”).

Fiscal Year 2016 Compared to Fiscal Year 2015

Restricted net position decreased by $31,161, reflecting the 100% use of the IRWMP funds of $56,311. WEP had a $25,150 increase in the current fiscal year.

Fiscal Year 2015 compared to Fiscal Year 2014

A decrease in restricted net position is due to IRWMP spending $7,847 on consulting expenses to update the regional water infrastructure map. Additionally, the WEP also had a $7,189 decrease due to spending.

Unrestricted Net Position

Unrestricted net position consists of amounts that do not meet the definition of “restricted” or “invested in capital assets.” These unrestricted net assets may be used to meet RWA’s ongoing obligations to member agencies and creditors.

The unrestricted net position has been designated for purposes authorized by the Board. 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.

Fiscal Year 2016 Compared to Fiscal Year 2015

Unrestricted net position of $687,352 reflects an increase of $322,648, reflecting an increase due to net income of $286,073.

Fiscal Year 2015 compared to Fiscal Year 2014

Unrestricted net position of $364,704 reflects a decrease of $186,151. Net position decreased by $360,331, reflecting the implementation of GASB No. 68 and one-time restatement recording the related net pension liability as of July 1, 2014. The decrease was mainly offset by an increase of $151,907 reflecting core program revenue exceeding expenses and using restricted net position to pay some expenses as permitted.

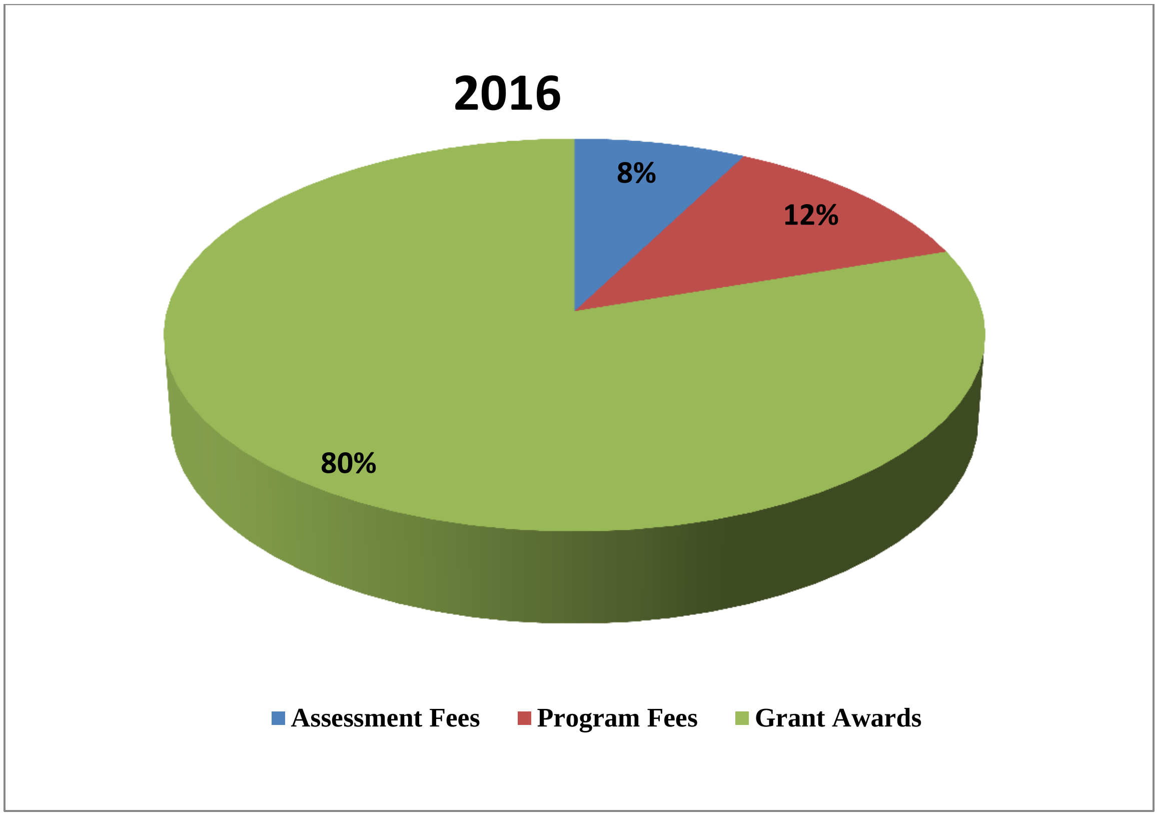
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

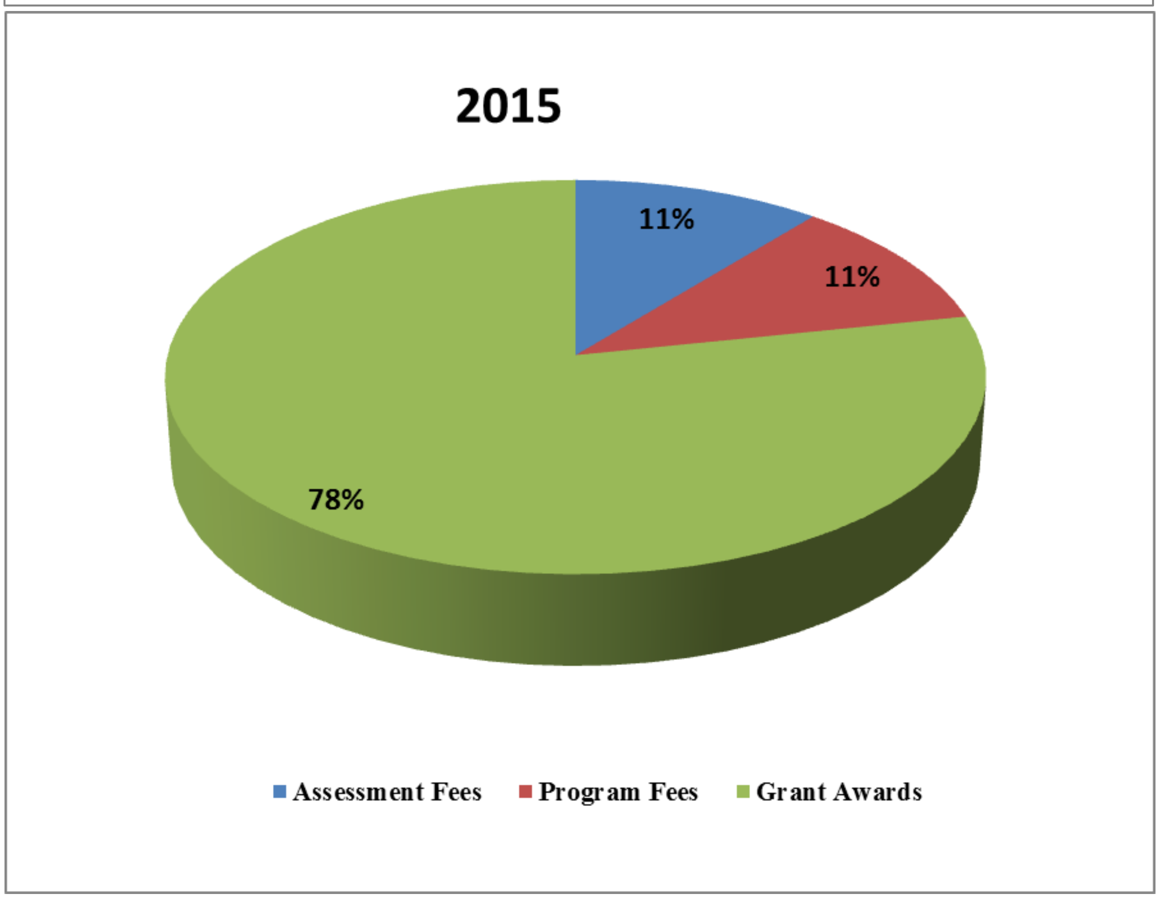
For the fiscal years ending June 30, the following condensed schedules of revenues, expenses, and changes in net position are presented:

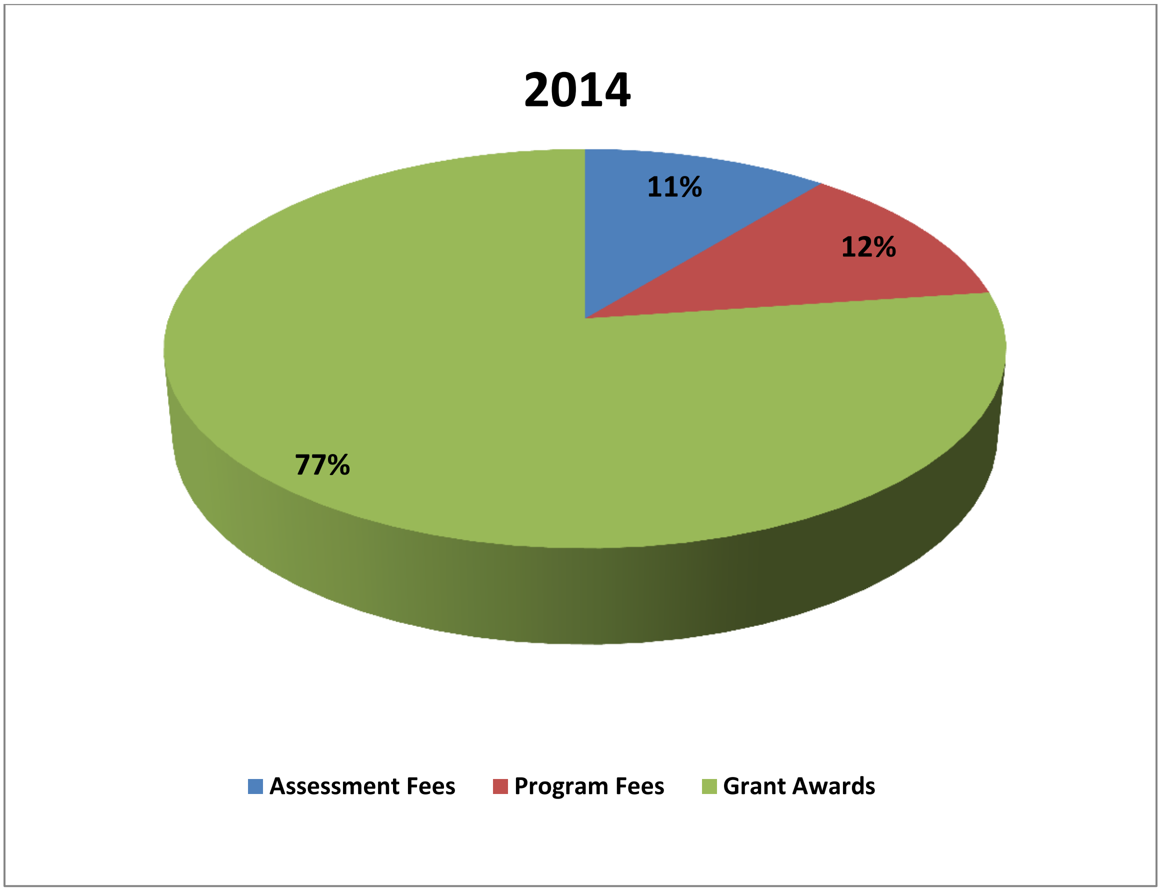
	2016	2015	2014
Operating revenues:			
Assessment Income	$ 776,389	$ 703,915	$ 494,678
Subscription Program Fees	1,243,857	699,147	538,119
Incentives, Grants and Reimbursements	8,172,669	5,049,714	3,490,217
Other Income	6,010	5,560	18,054
Total Operating Revenues	10,198,925	6,458,336	4,541,068
Non-operating income	6,887	3,325	2,849
Total Revenues	10,205,812	6,461,661	4,543,917
Operating Expenses:			
Administrative Expenses	733,982	758,767	708,745
Core Program Expenses	31,986	57,845	23,534
Subscription Program			
Direct Expenses	990,876	453,254	430,728
Grant Awards	8,162,895	5,039,888	3,394,448
Total Operating Expenses	9,919,739	6,309,754	4,557,455
Increase (Decrease) in Net Position	286,073	151,907	(13,538)
Net Position, July 1, as previously reported	705,932	914,356	927,894
Restatement for change in accounting principle	-	(360,331)	-
Net Position, July 1, as restated	705,932	554,025	927,894
Net Position, June 30	$ 992,005	$ 705,932	914,356

Operating Revenues

RWA's operating revenues are substantially derived from assessment fees, subscription program fees ("program fees"), and grant awards. 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. For additional information on the subscription and grant programs, see the Statement of Revenues, Expenses and Changes in Net Assets – By program in the supplementary information section of the financial statements.


2016
8%
12%
80%
Assessment Fees
Program Fees
Grant Awards


2015
11%
11%
78%
Assessment Fees
Program Fees
Grant Awards



Fiscal Year 2016 Compared to Fiscal Year 2015

Operating revenues totaled $10,198,925 and was $3,740,589 higher than in the previous year. The increase is largely due to higher grant and incentive earnings, followed by an increase in subscription program fees and assessment income in the current year.

Fiscal Year 2015 compared to Fiscal Year 2014

Operating revenues totaled $6,458,336 and was $1,917,268 higher than in the fiscal year 2014. The increase is due to higher grant and incentive earnings, followed by an increase in assessment income and subscription program fees in the current year.

Assessment fees

Annual assessment fees are paid by members and are designed to fund the core RWA activities.

Fiscal Year 2016 Compared to Fiscal Year 2015

The $72,474 assessment fee income increase was due to a ten percent assessment fee increase for the year ending June 30, 2016. The RWA Board approved the increase in RWA general fees for additional support to incrementally implement the strategic plan over time using consulting expenses to help staff manage the growing regional water issues affecting its members.

Fiscal Year 2015 compared to Fiscal Year 2014

The assessment fee income increase of $209,237 was due to a thirty two percent assessment fee increase for the year ending June 30, 2015. The RWA Board approved the increase in RWA general fees for additional consulting expenses to help staff manage the growing regional water issues affecting its members and to help pay for the Powerhouse Science Center water exhibits.

Subscription Program Fees

Subscription 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. Fees charged for these products and services are designed to cover the costs of the additional services offered beyond the core membership service. Program fees will vary from year to year as the projects are often limited in duration.

Fiscal Year 2016 Compared to Fiscal Year 2015

During fiscal year 2016, RWA mainly earned subscription program fees from reclamation basin study, the IRWM grant application fees, labor compliance, the Water Efficiency Program ("WEP"), the Proposition 50 $25 million Grant Program ("Prop 50"), the $16 million Proposition 84 Program ("Prop 84"), the government relations program, the 2014 Integrated Regional Water Management Drought Proposition 84 Grant ("2014 Drought Prop 84"), and the USBR retrofit program. Program fees are not expected to be comparable from year to year. The program fees increased overall by $544,710, largely attributable to two subscription programs:

1) WEP members agreed to contribute a one-time $150,000 for an extended public outreach program to help with drought messaging.
2) RWA has been awarded multiple grant awards through the USBR WaterSMART and the USBR/CalFed programs. RWA was not considered an eligible applicant under these programs because it does not have water delivery authority. Various member agencies applied for the grant. RWA is the project manager for these grants and submits grant reimbursement requests on behalf of RWA agencies. Revenues from these subscription fees increased by $385,707, largely from the 2014 USBR Retrofit program.

Fiscal Year 2015 compared to Fiscal Year 2014

In fiscal year 2015, the program fees are derived from the labor compliance programs, WEP, Prop 50, Prop 84, USBR/CalFed programs, government relations, public relations and a 2014 drought grant application. During fiscal year 2015, subscription program fees were $161,028 higher than in 2014. While each program contributed different fees between each year, the biggest differences were attributed to three programs:

1) The government relations program began in fiscal year 2015 as a subscription program. Fees of $60,000 recognized during the year pay for the costs incurred for consulting services for this program.
2) The public relations program is no longer a subscription program, therefore reflecting a decrease of $35,813 in fees from fiscal year 2014. The public relations program became a part of the core services provided by RWA.

3) RWA collected $120,000 in subscription fees to apply for a 2014 drought grant award and used the fees for consulting services and staff expenses.

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.

Fiscal Year 2016 Compared to Fiscal Year 2015

In fiscal year 2016, RWA earned grant awards from the WEP, Prop 50, Prop 84, and the 2014 Drought Prop 84. Two programs contributed largely to the overall $3,122,955 increase in grant awards:

1) The Prop 50 grant revenue increased by $4,526,752 for a total of $4,716,191 in awards in fiscal year 2016. 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. The eligible grant period ended June 30, 2016. RWA is closing out the project and will apply for remaining retention balances in fiscal year 2017.
2) The Department of Water Resources (DWR) awarded RWA $9.765 million from the 2014 Drought Prop 84. The grant will partially fund 17 projects by 12 different agencies that will help the region maintain water supply if drought conditions persist. Revenue on this grant decreased by $1,507,650 for a total of $1,111,642 in fiscal year 2016. The program is expected to end by June 30, 2018.

Fiscal Year 2015 compared to Fiscal Year 2014

Fiscal year 2015 included WEP grants, Prop 50, Prop 84, and 2014 Drought Prop 84 grant awards. These revenues both increased and decreased significantly by program from the previous year as follows:

1) WEP grants and incentives increased a net $270,512 from the previous year due to the DWR Proposition 50 drought grant, the SRCSD appliance/toilet incentive program, and the new 2014 Integrated Regional Water Management Drought Grant funded through Proposition 84. 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.
2) The Prop 50 grant revenue decreased by $786,001 for a total of $189,439 in awards in fiscal year 2015.
3) The Prop 84 grant revenues decreased by $455,113 for a total of $1,404,109 in awards for fiscal year 2015.

4) The 2014 Drought Prop 84 recognized its first award invoice in the amount of $2,619,292 during fiscal year 2015.

Non-operating revenue

Non-operating revenue represents interest and increased slightly each year, reflecting a slight change in interest rates and higher 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

Administrative expenses represent the net costs associated with executing the core RWA strategy and activities. RWA incurs common administrative expenses for both RWA and SGA which then are invoiced to and reimbursed by SGA. 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 WEP staff and the program assistant whose time is allocated based upon time spent. The total gross administrative expenses to run both organizations along with the SGA allocation are presented as Allocated Administrative Expenses in the supplementary information section of the financial statements. 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.

The reimbursements invoiced to SGA of $556,278, $475,522, and $463,957 for the years ending June 30, 2016, 2015, and 2014, respectively, are netted against the expenses in the Statement of Revenues, Expenses and Changes in Net Position. Part of SGA's reimbursement to RWA in fiscal year 2016 includes $87,600 for SGA's estimated CalPERS' pension obligation for prior administrative staff assistance received from RWA.

Fiscal Year 2016 Compared to Fiscal Year 2015

As illustrated in the supplementary schedule of Allocated Administrative Expenses, after allocating costs to SGA, overall administrative expenses incurred by RWA decreased from the previous year by a net $24,785. Prior to allocating costs to SGA, RWA incurred an additional $55,971 in administrative expenses, which included an additional $10,473 in staffing costs, an increase of $2,837 in office expenses and $44,484 increase in professional fees. Increases in professional fees were expected since RWA employed a retired annuitant to help with legislative issues plus incurred additional core public relations costs.

Fiscal Year 2015 Compared to Fiscal Year 2014

Overall administrative expenses incurred by RWA increased from the previous year by a net $50,022. Prior to allocating costs to SGA, RWA incurred an additional $61,587 in administrative expenses, which included an additional $12,511 in staffing costs, a decrease of $13,461 in office expenses and $63,612 increase in professional fees. Increases in professional fees were expected since RWA hired a retired annuitant during the year to help with legislative issues plus the first full year of core public relations costs were incurred. Additional legal fees were also incurred due to pension plan administrative findings by CalPERS.

Core Program Expenses

Core program expenses are comprised of costs associated with water related projects funded by annual dues.

Fiscal Year 2016 Compared to Fiscal Year 2015

For the year ending June 30, 2016, core expenses decreased $25,859 and included Integrated Regional Water Management Plan (IRWMP) expenses and the Powerhouse Science Center water exhibit expense. Direct expenses incurred to maintain and implement the Integrated Regional Water Management Plan (IRWMP) are now considered a core function of RWA.

During fiscal year 2016, RWA paid a total of $25,000 to the Powerhouse science center in an agreement to pay for water related exhibits of which $5,000 was funded by WEP compared to the payment of $50,000 made in fiscal year 2015.

Fiscal Year 2015 Compared to Fiscal Year 2014

Total core expenses increased by $34,311 from the previous year. During fiscal year 2015, RWA paid a total of $50,000 to the Powerhouse science center of which $5,000 was funded by WEP. The IRWMP costs decreased from the prior year by $15,687.

Subscription Program Direct Expenses

The subscription program direct expenses correlate to the subscription-based revenues, which represent additional services over and above the core RWA membership services. 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.

Fiscal Year 2016 Compared to Fiscal Year 2015

During fiscal year 2016, RWA incurred subscription program expenses from the core program, WEP, Prop 50, the government relations program, the 2014 Water Energy Grant program, Prop 84 Round 3 Grant Program, and the USBR programs. Program fees are not expected to be comparable from year to year. The program fees increased overall by $537,622, largely attributable to five subscription programs:

1) The core program subscription direct expenses include reclamation basin costs of $14,964, IRWM grant application costs of $29,996, and regional reliability costs of $41,607 that are new this year.
2) The government relations program increased by $62,194 for a total of $122,194 in consulting costs during the fiscal year ending June 30, 2016. The increased costs represent a full year program versus a partial year program in the prior year.
3) The Prop 84 Round 3 subscription costs represent new public outreach costs during fiscal 2016 of $71,669.
4) As the administrator for the USBR Programs, these expenses correlated to the administration of the grant and are funded by subscription-based revenue. There was an increase of $384,097 in cumulative direct expenses incurred in the current fiscal year mainly from the 2014 USBR retrofit program.
5) RWA no longer incurred 2014 Drought grant application expenses in fiscal year 2016 which reduced costs by $87,039.

Fiscal Year 2015 Compared to Fiscal Year 2014

The direct subscription program expenses incurred during fiscal year 2015 included labor compliance, WEP, Prop 50, the government relations program, the 2014 Drought Prop 84, USBR Programs, and the 2014 drought application costs. While the program fees were $22,526 higher in fiscal year 2015, they varied between each program with both increases and decreases in expenses. Three programs resulted in the greatest variances:

1) The 2014 Drought Application represents twelve participants who applied for this Prop 84 drought grant. RWA was successful in obtaining grant funding. The grant will partially fund 17 projects by 12 different agencies that will help the region maintain water supply if drought conditions persist. The expenses pertain to the consulting costs associated with preparing the grant application and increased by $65,505.
2) The government relations program incurred $60,000 in consulting costs during the first year of partial implementation.
3) The Regional Tools subscription program was finalized in fiscal year 2014 and reflects a $106,878 absence of fees in 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. The grant awards represent grant payments to program participants or to project vendors for completion of grant eligibility requirements.

Fiscal Year 2016 Compared to Fiscal Year 2015

In fiscal year 2016, RWA earned grant awards from the WEP, Prop 50, Prop 84, and the 2014 Drought Prop 84 Program. The activity and payments vary on these grants and year to year comparability is not expected. These two programs contributed largely to the overall $3,123,007 increase in grant awards expense:

1) Prop 50 $25 million grant increase of $4,526,752 in grant awards from the previous year matches the increase in grant revenues. Grant expenses are completed in fiscal year 2016.
2) The Prop 84 $16 million grant: This grant award is the fourth year of this program. There was $1,660,980 in eligible costs that were incurred by the participants for grant reimbursement.
3) The 2014 drought grant started in fiscal year 2015. Grant distributions decreased in fiscal year 2016 by $1,507,649 for a total of $1,111,642 in fiscal year 2016 which corresponds to the grant award earned.

Fiscal Year 2015 Compared to Fiscal Year 2014

Fiscal year 2015 included WEP grants, Prop 50, Prop 84, and 2014 Drought Prop 84 grant awards and increased overall by $1,645,440. These grant award payments both increased and decreased significantly by program from the previous year as follows:

1) The WEP fiscal year 2015 grant awards to participants increased by $267,262 and include the DWR drought grant for $172,579, the Proposition 84 grant distribution for $49,415 and construction payments of $373,776, $124,427 in drought media buys, and SRCSD's incentives program for $100,000.
2) Prop 50 $25 million grant $786,001 decrease in grant awards from the previous year matches the decrease in grant revenues.
3) The Prop 84 $16 million grant is the third year of this program. There was $1,404,109 in eligible costs that were incurred by the participants for grant reimbursement, representing a $455,113 decline from the previous year. The grant awards decrease matches the grant revenues.
4) The new 2014 Drought Prop 84 grant started in fiscal year 2015 with its first invoice in the amount of $2,619,292.

Capital Assets

Capital asset investment includes office furniture, equipment, website development, and leasehold improvements. The decline in capital assets reflects annual depreciation for each year.

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

	2016	2015	2014
Furniture	$ 14,464	$ 14,464	$ 14,464
Equipment	19,505	21,879	21,879
Website Development	15,604	15,604	15,604
Leasehold Improvements	17,951	17,951	17,951
Gross Capital Assets	67,524	69,898	69,898
Less Accumulated Depreciation and Amortization	(59,880)	(56,840)	(49,603)
Net Capital Assets	$ 7,644	$ 13,058	$ 20,295

Economic factors and assumptions for fiscal year June 30, 2017

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, 2017.

1) The fiscal year 2017 budget was approved with an 11% rate increase.
2) RWA will transition from a retired annuitant to a full time staff member to help manage increasing regional water issues affecting its members and provide for a more active role in advocacy. There are organizational benefits to having a permanent staff hired before the new legislative cycle begins in calendar year 2017. A new designation that was added in FY16 for the Strategic Plan fund will be used to support the transition.
3) Over the last year, the WEP Program Manager has been assisting with RWA core functions. Some of these activities have included State Water Resources Control Board emergency regulations, water supply data collection, the water-energy study, and developing an RWA annual report. Consequently, approximately 10% of the staffing costs associated with this position are being shifted to RWA core dues to reflect the support provided to the core program by this position.
4) RWA's lease will be coming up for renewal in calendar year 2018. RWA staff negotiated a very favorable lease rate at the time ACWA JPIA moved out of the building. RWA needs to plan for a significant increase (and a potential move) in the office lease in 2018.
5) RWA made the $225,000 payment for the unfunded pension liability allocated by CalPERS in FY16. The SGA allocated portion and reimbursement of RWA was $87,600 or 39%. The projections in FY17 and beyond include additional payments of the unfunded liability for RWA only.
6) Core expenses in excess of core revenues project a net cash inflow of approximately $74,200 for the core program. Subscription expenses are projected to exceed revenues by approximately $246,200. Many subscription program expenses will be funded from previously collected funds which have been set aside for this purpose.
7) Employees began picking up their 7% portion of the CalPERS retirement, phased in over several years. The projection includes employees picking up 2% in FY17 with an incremental increase of an additional 2% per year so that employees pay the total 7% by FY19. A future total compensation survey is expected to be conducted by FY19 which will adjust salary bands to reflect employee's full pick of the employees' share of CalPERS pension plan contributions.
8) The subscription-based programs continue to help pay for core program administrative activities, such as staffing and office costs. Subscription revenue and subscription cash of approximately $278,300 are expected to contribute approximately 16% towards RWA expenses.
9) Budgeted subscription revenues include the WEP, the 2015 IRWM grant, the Prop 84 implementation grant, the 2014 Prop 84 drought grant, and the government relations program.
10) Grant award income is projected to come from the Prop 84 implementation grant and the 2014 Prop 84 drought grant.
11) General expenses are expected to increase 3% unless specific increases have been identified. Staffing expenses include 4.8 full-time staff persons to help support the

growing monitoring and reporting of subscription-based programs. Salary expenses are within ranges for each classification and include a 2% increase to reflect the shift towards employees picking up 2% of CalPERS. Health care is budgeted to increase by 7.5%.

12) 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, 2017 is $560,300.

13) The operating fund is targeted at approximately 4 months for fiscal year 2017. RWA has budgeted up to $42,000 to pay additional amounts towards the unfunded pension liability as determined by CalPERS Annual Valuation report as of June 30, 2014. The funding of the pension liability is calculated independently from how the actual pension liability is recorded on the financial statements of RWA according to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68").

These significant factors above were considered in preparing the RWA's budget for the fiscal year ending June 30, 2017.

As previously mentioned, RWA employees assist SGA with administrative services and these services are reimbursed by SGA. An audit by CalPERS of the pension plan contributions resulted in a finding that SGA should have its own pension plan for these employees who provide service to SGA. Allocated pension liabilities and assets and contributions will be allocated between RWA and SGA likely in the fiscal year ending June 30, 2017. This allocation will effectively reduce RWA's pension liability. The reduction in liability will increase the net position of RWA, but will not increase expected cash for RWA since the pension funding of these plans has already occurred. See Note 10 Contingencies for additional details.

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, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and Investments	$ 937,706	$ 562,063
Restricted Cash	610,657	886,102
Grants/Incentives Receivable	4,561,792	3,016,200
Accounts Receivable	31,238	83,065
Receivable from Sacramento Groundwater Authority	87,468	91,246
Other Assets	19,682	15,081
Total Current Assets	6,248,543	4,653,757
Non-Current Assets		
Receivable from Sacramento Groundwater Authority	3,191	5,927
Furniture and Equipment, Net	7,644	13,058
Total Non-Current Assets	10,835	18,985
Deferred Outflow - Pension	315,907	123,438
Total Assets and Deferred Outflows	$ 6,575,285	$ 4,796,180
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 135,958	$ 223,407
Compensated Absences	53,500	44,050
Grants Payable	4,271,586	2,862,620
Subscription Program Advances	601,895	396,470
Unearned Revenue	31,385	25,000
Total Current Liabilities	5,094,324	3,551,547
Non-Current Liabilities		
Compensated Absences	4,016	11,023
Net Pension Obligation	346,165	337,276
Unearned Revenue	63,031	35,710
Total Non-Current Liabilities	413,212	384,009
Total Liabilities	5,507,536	3,935,556
Deferred Inflows		
Rent	11,854	17,324
Unamortized Pension Adjustments	63,890	137,368
Total Deferred Inflows	75,744	154,692
Net Position		
Net Investment in Furniture and Equipment	7,644	13,058
Restricted	297,009	328,170
Unrestricted	687,352	364,704
Total Net Position	992,005	705,932
Total Liabilities, Deferred Inflows, and Net Position	$ 6,575,285	$ 4,796,180

REGIONAL WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating Revenues		
Assessment Income	$ 776,389	$ 703,915
Subscription Program Fees	1,243,857	699,147
Incentives, Grants, and Reimbursements	8,172,669	5,049,714
Other Income	6,010	5,560
Total Operating Revenues	10,198,925	6,458,336
Operating Expenses		
Administrative Expenses	733,982	758,767
Core Program Expenses	31,986	57,845
Subscription Program Direct Expenses	990,876	453,254
Grant Awards	8,162,895	5,039,888
Total Operating Expenses	9,919,739	6,309,754
Operating Income	279,186	148,582
Other Income		
Interest Income	6,887	3,325
Total Other Income	6,887	3,325
Net Income	286,073	151,907
Net Position, Beginning of Year	705,932	554,025
Net Position, End of Year	$ 992,005	$ 705,932

The accompanying notes are an integral part of these financial statements.

REGIONAL WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Cash received from members and participants	$ 2,311,204	$ 1,676,993
Cash received from SGA	562,792	461,527
Cash received from grants and other sources	6,633,087	3,323,906
Cash paid to employees and related benefits and taxes	(1,199,258)	(925,464)
Cash paid to suppliers	(1,964,472)	(1,245,914)
Cash paid to subscription program participants	(6,248,876)	(2,819,533)
Net Cash Provided by Operating Activities	94,477	471,515
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	5,721	3,189
Net Cash Provided by Investing Activities	5,721	3,189
NET INCREASE IN CASH AND CASH EQUIVALENTS	100,198	474,704
CASH AND CASH EQUIVALENTS, Beginning of Year	1,448,165	973,461
CASH AND CASH EQUIVALENTS, End of Year	$ 1,548,363	$ 1,448,165
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET		
Cash and cash equivalents	937,706	562,063
Restricted cash and cash equivalents	610,657	886,102
	$ 1,548,363	$ 1,448,165

The accompanying notes are an integral part of these financial statements.

	2016	2015
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 279,186	$ 148,582
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,414	7,237
Net pension expense	(257,058)	(9,125)
Change in operating assets and liabilities:		
Grants receivable	(1,545,592)	(1,731,368)
Receivable from SGA	6,514	(13,995)
Accounts receivable	51,827	(60,472)
Other assets	(3,435)	42
Accounts payable and accrued liabilities	(87,449)	93,816
Compensated absences	2,443	(7,436)
Grants payable to member agencies	1,408,966	1,715,302
Member advances payable	205,425	273,693
Deferred inflows - rent	(5,470)	(5,471)
Unearned revenue	33,706	60,710
Net cash provided by operating activities	$ 94,477	$ 471,515

The accompanying notes are an integral part of these financial statements.

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. Lastly, RWA has an affiliate membership class with the purpose to promote communication between water managers and the community and to support RWA's efforts to educate and inform the public. 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, associate and affiliate organizations, 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 – For the year ending June 30, 2016, RWA has adopted Governmental Accounting Standards Board (GASB) Statements as follows:

a) GASB Statement No. 82 ("GASB No. 82), Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73 which requires reporting the presentation of covered payroll in the supplementary information schedules as the payroll on which contributions to a pension plan are based versus total payroll. Additionally, employer paid member contributions are to be recognized as expense in the period in which it is assessed and categorized as salary expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments for the year ending June 30, 2016 prescribes the hierarchy of accounting rules for RWA to follow.

c) GASB Statement No. 72, Fair Value Measurement and Application addresses accounting and financial reporting issues related to fair value measurements and requires additional disclosures about assets and liabilities measured at fair value. For the years ending June 30, 2016 and 2015, RWA does not have any assets or liabilities which require fair value measurement.

In June 2015, GASB issued Statement No. 75 (GASB No. 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB"), replacing the requirements of GASB Statement No. 45. GASB No. 75 requires governments that are responsible for OPEB liabilities related to their own employees to report a net OPEB liability on the face of the financial statements, which is the difference between the total OPEB liability and assets accumulated in the trust. New extensive note disclosures and supplementary information about the OPEB liability will also be required. This statement is effective for periods beginning after June 15, 2017.

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows – Deferred outflows comprise of the following adjustments that will reduce the net pension liability or increase pension expense over time, depending upon the source of the adjustment. These adjustments include pension contributions, the difference between expected and actual plan experience, changes in proportionate allocations to RWA, and differences between expected and actual pension contributions. Since the pension plan valuation measurement date of June 30, 2015 lags the fiscal year of June 30, 2016, any pension contributions made subsequent to the measurement date of June 30, 2015 will decrease the pension liability in the subsequent fiscal year. The differences between expected and actual experience in regards to changes in economic or demographic factors are amortized into pension expense over the expected average remaining service life ("EARLS") which is 3.8 years for measurement dates June 30, 2015 and 2014. The changes from year to year proportionate plan allocations to RWA and the differences between expected and actual pension contributions are also amortized into pension expense over EARLS. See Note 5 for details and how these balances are amortized.

Deferred Inflows – Deferred inflows are comprised of two items: unamortized pension adjustments and rent related to a lease incentive. The unamortized pension adjustments include changes in assumptions ("changes in assumptions") about future economic or demographic factors and reduce pension expense amortized over time using EARLS. Additionally, these pension adjustments include net differences between projected versus actual investment earnings on pension investments and are amortized over five years. See Note 5 for details and how these balances are amortized.

The lease incentive received when renewing the lease for the year ending June 30, 2012 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the RWA's California Public Employees' Retirement System (CalPERS) plans ("Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subscription Program Advances – Program revenue received in advance of subscription-based program costs are recognized as advances. The purpose of these advances is to pay for subscription-based program costs not paid for by grant awards. These advances will be recognized as revenues as program costs are incurred over the life of the projects. Subscription-based programs often straddle multiple fiscal years. At the completion of the subscription-based program, any unused portion of these fees is typically returned to participants. For the years ending June 30, the advances by subscription programs are as follows:

	2016	2015
2014 Retrofit	$ 131,391	$ 159,642
Prop 84 Program management	112,090	118,952
2014 Water Energy	100,000	-
Lobbying Subscription Program	77,806	70,000
2014 Drought Application	72,833	-
2014 Drought PM	59,953	-
Prop. 50 - $25 million grant	17,439	6,850
2014 Water Smart	15,416	8,198
2014 USBR Meter	14,966	11,304
2012 USBR CalFed Meter	-	7,963
2013 USBR CalFed Meter	-	10,238
SRCSD Water Suppliers	-	3,323
Total	$ 601,894	$ 396,470

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue – Monies received as annual assessments relating to subsequent years and received in advance are recorded as unearned revenue. Unearned revenue is comprised of the following at June 30:

	2016	2015
Powerhouse Science Center	$ 88,031	$ 60,710
Other	6,385	-
Total	$ 94,416	$ 60,710
Less: Current Portion		
Powerhouse Science Center	25,000	25,000
Other	6,385	-
Current Portion	31,385	25,000
Non-Current Portion	$ 63,031	$ 35,710

There was $88,031 in unearned revenue that relates to the Powerhouse Science Water exhibit agreement which represents amounts collected from members but not yet remitted to Powerhouse Science Center. The balance of unearned revenue represents deposits received in advance of the regional RWA meeting for RWA's 15 year anniversary.

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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

met in advance of applying for and receiving the funds from the grantors. RWA recognizes revenues and receivables when all applicable eligibility requirements have been met.

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

Assessment Income – Each of the member water districts, cities and service districts pay yearly assessments to RWA based on the number of retail water connections each provides. During 2016, the minimum assessment was $4,800 and a maximum assessment was $55,537, not including the special assessment related to the Powerhouse Science Center.

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 $10,500 per year, subject to adjustments from time to time by the RWA Board. Lastly, RWA affiliates pay an annual fee $750 per year.

During fiscal years ending June 30 2016 and 2015, RWA also assessed for the Powerhouse Science Center water exhibits that RWA will sponsor. The assessments will continue for five years and vary by member, with a total annual collection of approximately $60,000 from members. There are three remaining years of collections for the Powerhouse Science Center.

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. During fiscal years 2016 and 2015, the Prop 84 grant also funded WEP incurred expenses. 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 are presented in the financial statements as grant awards and grants payable to member agencies.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $556,278 and $475,522 for the years ending June 30, 2016 and 2015, respectively. The Statement of Revenues, Expenses, and Changes in Net Position reflect the net expenses of RWA after reimbursement by SGA. The Statement of Cash flows reflect the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers. A supplementary schedule of shared administrative expenses outlines the total agency administrative costs to run both organizations as well as the allocation of those costs to SGA and the subscription-based programs. See the schedule of shared administrative expenses in the supplementary information.

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

Reclassification – Certain amounts reported in 2015 have been reclassified to conform to the 2016 presentation.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments on the balance sheet consist of the following at June 30:

	2016	2015
Deposits with financial institutions	$ 111,816	$ 242,339
Investments in LAIF	1,436,547	1,205,826
Total cash and investments	$ 1,548,363	$ 1,448,165

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

are recorded on an amortized cost basis. The total fair value of all public agencies invested in LAIF at June 30, 2016 and 2015 was $75,442,588,513 and $69,641,162,418, 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/laif.asp.

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

Disclosures Relating to Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment's sensitivity to the changes in market interest rates increases as the length of maturity increases. The average maturity of the investments in the LAIF investment pool on June 30, 2016 and 2015 was approximately 167 and 239 days.

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 93% and 83% of its cash invested in LAIF for the years ending June 30, 2016 and 2015.

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, 2016 and 2015, RWA's bank balance was $2,245,715 and $435,773, respectively. The RWA bank balance is covered 100% by FDIC insurance up to $250,000. From time to time RWA will be exposed to custodial credit risk since RWA can receive large deposits and write

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

large checks due to grant activity. On June 29, 2016, RWA made a large deposit of $2,137,318 due to receiving a large grant award for the Prop 50 grant payable to three members. Those checks were mailed on June 30, 2016. RWA does bank with a long-standing reputable national bank to mitigate some of this risk.

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

Restricted Cash
Restricted cash represents cash received by RWA for subscription-based program revenue restricted in use for these programs. The restriction is based upon contractual agreements on how to use the advanced program revenues. Additionally, the amount received in advance of payment to the Powerhouse Science Center has been restricted for its intended use of future contractual payments.

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

	2016	2015
Water Efficiency Program - Category 1 & 2	$ 152,123	$ 372,611
Prop 84 Program Management	112,090	118,952
Lobbying Subscription Program	77,806	70,000
Powerhouse Science Center	88,031	60,710
2014 Drought Application	72,833	-
2014 Drought Program Management	59,953	-
USBR CalFed Meter Programs	30,382	37,703
Prop. 50 - $25 Million grant	17,439	6,850
2014 Retrofit	-	159,642
Integrated Regional Water Master Plan	-	56,311
SRCSD Water Suppliers	-	3,323
Total Restricted Cash	$ 610,657	$ 886,102

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.

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 $5,414 and $7,237 for the years ending June 30, 2016 and 2015.

A summary of the furniture and equipment at cost is as follows for the years ending June 30:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Furniture	$ 14,464	$ -	$ -	$ 14,464
Office Equipment	21,879	-	(2,374)	19,505
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	69,898	-	(2,374)	67,524
Less accumulated depreciation and amortization	(56,840)	(5,414)	2,374	(59,880)
Fixed Assets, Net	$ 13,058	$ (5,414)	$ -	$ 7,644

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Furniture	$ 14,464	$ -	$ -	$ 14,464
Office Equipment	21,879	-	-	21,879
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	69,898	-	-	69,898
Less accumulated depreciation and amortization	(49,603)	(7,237)	-	(56,840)
Fixed Assets, Net	$ 20,295	$ (7,237)	$ -	$ 13,058

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 ending June 30, 2016 and 2015. Minimum lease payments are as follows:

Year Ending June 30,		
2017	$	24,967
2018		24,967
2019		4,162
Total minimum lease payments	$	54,096

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 2015 for a copier. The new monthly lease payment is $241, including taxes. RWA incurred $2,892 and $3,023 in rental expense for the years ending June 30, 2016 and 2015, respectively.

Minimum lease payments are as follows:

Year Ending June 30,		
2017	$	2,892
2018		2,892
2019		2,892
2020		1,928
Total minimum lease payments	$	10,604

NOTE 5 – EMPLOYEE BENEFIT PLANS

California Public Employees' Retirement System (CalPERS)

Plan Description: All qualified employees are eligible to participate in the 2% at 55 Miscellaneous plan administered by California Public Employees' Retirement System (CalPERS). This cost-sharing multiple-employer pension plan provides defined benefits to eligible RWA retired staff members. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law ("PERL"). CalPERS issues publicly available reports that include a full description of the pension plans

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided: 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"). Benefits are based upon years of credited service. Members with five years of totals service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The pre-retirement death benefit is available if the member dies while actively employed and is a monthly allowance equal to the service retirement benefit that the member would have received had the member retired on the date of his or her death and is available for as long as the surviving spouse lives and then to any unmarried children under 18. The post-retirement death benefit is a lump sum of $500, plus either 25 percent or 50 percent of the service retirement benefit, depending upon the election made at retirement. The cost of living adjustments are set at up to 2% per year.

The plan's provisions and benefits in effect at June 30, 2016 and 2015 are summarized as follows:

	Miscellaneous	**PEPRA Miscellaneous**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates - fiscal year 2015/2016	7.00%	6.25%
Required employer contribution rates - fiscal year 2015/2016	8.844%	6.25%
Required employee contribution rates - fiscal year 2014/2015	7.00%	6.25%
Required employer contribution rates - fiscal year 2014/2015	11.840%	6.25%

In addition to the contribution rates above, starting in fiscal year 2016, RWA was required to pay $12,529 toward the unfunded lability. RWA has not hired any new employees after January 1, 2013. The miscellaneous plan is closed to new employees unless the new employee is considered a classic member as defined by the California Public Employees' Pension Reform Act ("PEPRA").

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. RWA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

RWA has contractually required employer contributions as well as pays for some of the employees required contributions. The following required pension contributions were made:

Year Ending	Employer Required Contributions	Required Unfunded Liability Contribution	Total	Required Contribution rate
June 30, 2016	$55,897	$12,529	$68,426	8.844%
June 30, 2015	$70,182	$0	$70,182	11.840%

Additionally, RWA made a pension contribution of $225,000 during the year ending June 30, 2016 towards payment of the unfunded liability. A portion of this payment was allocated and paid for by SGA. SGA's net pension liability is estimated at 39% and therefore reimbursed RWA $87,600 towards this $225,000 payment. Since the pension liability measurement date is based upon June 30, 2015, this additional amount plus the employer contributions made during the year ending June 30, 2016 totaling $293,426 will be reflected as deferred outflows.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2016 and 2015 , RWA reported its proportionate share of the net pension liability of $346,165 and $337,276, respectively. The net pension liability for June 30, 2016 and 2015 is measured as of June 30, 2015 and 2014, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and June 30, 2013 and then rolled forward to June 30, 2015 and June 30, 2014, respectively, using standard update procedures. RWA's proportion of the net pension liability was based upon a projection of RWA's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

RWA's proportionate share of the net pension liability is as follows:

	Miscellaneous
Proportion - June 30, 2015	0.0126180%
Proportion - June 30, 2014	0.0136500%
Change - Decrease	(0.001032%)

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

	Miscellaneous
Proportion - June 30, 2014	0.0136500%
Proportion - June 30, 2013	0.0155500%
Change - Decrease	(0.001900%)

For the years ending June 30, 2016 and 2015, RWA recognized pension expense of $36,368 and $61,057, respectively.

At June 30, RWA reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	
	2016	2015
Pension contributions subsequent to measurement date	$ 293,426	$ 111,678
Differences between actual and expected experience	4,499	-
Differences between the employer's contribution and the employer's proportionate share of contributions	7,559	11,760
Adjustments due to differences in proportions	10,423	-
Total	$ 315,907	$ 123,438

The $293,426 and $111,678 reported as deferred outflows of resources as of June 30, 2016 and 2015 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2017 and 2016, respectively.

RWA reported deferred inflows of resources as of June 30 related to pensions from the following sources:

	Deferred Inflows of Resources	
	2016	2015
Changes in assumptions	$ 42,556	$ -
Net differences between projected and actual earnings on plan investments	21,334	113,340
Adjustments due to differences in proportions	-	24,028
Total	$ 63,890	$ 137,368

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Excluding the pension contributions subsequent to the measurement date, the other amounts of deferred outflows and inflows will be recognized as a reduction or increase in pension expense over the next four years as follows:

Year Ended June 30	
2016	$ (24,937)
2017	(24,061)
2018	(19,680)
2019	27,269
	$ (41,409)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability – The total pension liabilities in the actuarial valuations were determined using the following actuarial assumptions:

For the year ending June 30	2016	2015
Valuation Date	June 30, 2014	June 30, 2013
Measurement Date	June 30, 2015	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	7.65%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increases (1)	3.30% to 14.20%	3.30% to 14.20%
Investment Rate of Return (2)	7.50%	7.50%
Mortality (3)	Derived using CalPERS' Membership Data for all Funds.	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power allowance floor on puchasing power applies; 2.75% thereafter	

(1) Depending upon age, service, and type of employment

(2) Net of pension plan investment expenses, includes inflation

(3) The mortality table used was developed based on CalPERS specific data for the period of 1997 to 2007. The table includes 5 years of mortality improvements using Society of Actuaries Scale AA published by the society of actuaries for June 30, 2014 measurement date and 20 years of mortality improvements using Society of Actuaries Scale BB for June 30, 2015 measurement date. Further details can be found on the CalPERS website.

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.650%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.650% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.650% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they change their methodology.

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	June 30, 2016			June 30, 2015		
Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)	Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%	12.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%	11.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%	3.0%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%	2.00%	-0.55%	-1.05%
Total	100.0%			100.0%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents RWA's proportionate share of the net pension liability at June 30, 2016, calculated using the discount rate as well as what RWA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease		6.65%
Net Pension Liability	$	580,552
Current Discount Rate		7.65%
Net Pension Liability	$	346,165
1% Increase		8.65%
Net Pension Liability	$	152,661

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Payable to the Pension Plan – At June 30, 2016, RWA does not have an outstanding payable to the pension plan. As of June 30, 2015, RWA's outstanding payable to the pension plan was $4,349.

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 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 methods

NOTE 5 –EMPLOYEE BENEFIT PLANS (CONTINUED)

and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. 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 following assumptions are used:

Valuation Date	July 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization period	Level Dollar Basis
Remaining Amortization Period - Open	10 years(1)
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment rate (discount rate)	7.25%
Salary Increase	3.25%
Inflation	3.00%
Projected Medical Increase	4.64% to 8.50%

(1) Nine years remain of amortization at July 1, 2013

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 $31,505 was paid to the CERBT during the year ending June 30, 2016.

Funding Status and Funding Progress: The schedule of funding status is as follows:

Schedule of Funding Status

Year Ending	Employer Annual Required Contribution	Annual Required Contribution (ARC) Paid to CERBT or Retirees	Percentage of ARC Contributions
June 30, 2016	$31,505	$31,505	100%
June 30, 2015	$29,114	$29,114	100%
June 30, 2014	$40,299	$40,299	100%

NOTE 5 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2016	$824,840	$735,350	($89,490)	112.17%	$646,156	-13.85%

The actuarial valuation dated July 1, 2013 includes an actuarial accrued liability of $735,350 and a funding excess of $89,490. The historical schedule of funding progress included in the required supplementary section shows whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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. Restricted net position consists of the following at June 30:

Restricted Net Position	2016	2015
Water Efficiency Program	$ 297,009	$ 271,859
Integrated Regional Water Management Plan	-	56,311
Total by Contract	$ 297,009	$ 328,170

Board Designations

The Board establishes and approves the operating fund, membership dues, and subscription program designation target balances on an annual basis as part of the budget process based upon available cash and may modify these targets during the year so as to follow or temporarily modify the Financial/Designation Reserve Policy No. 500.1. The available cash at June 30, 2016 and 2015 is sufficient to set aside the designations for budget purposes. However, the unrestricted net position as of June 30, 2016 and 2015 of $687,352 and $364,704 are insufficient to cover the designations as listed by $107,563 and $172,796, respectively.

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

The designations are as follows at June 30:

	2016	2015
Board Designations		
Operating Fund	$ 456,200	$ 411,500
Strategic Plan Fund	200,015	-
Membership Dues	112,700	98,100
Subscription Programs	26,000	27,900
Total by Board Authorization	$ 794,915	$ 537,500

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, 2016, this designation is approximately 4 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 to support operating expenses does not materialize as planned. This fund is set at 10% of net subscription program support revenue. For the year ending June 30, 2016, the Board also approved a strategic plan fund designed to carry out the strategic plan steps over several years.

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 deferred rent and is recorded as 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. The deferred inflow at June 30 is as follows:

Balance June 30, 2015	Increases	Amortization	Balance June 30, 2016
$17,324	-	$ (5,470)	$ 11,854

Balance June 30, 2014	Increases	Amortization	Balance June 30, 2015
$22,795	-	$ (5,471)	$ 17,324

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 2015	Earned	Used	Balance 2016	Due Within One Year	Long term
$ 55,073	$ 51,035	$(48,592)	$ 57,516	$ 53,500	$ 4,016

Balance 2014	Earned	Used	Balance 2015	Due Within One Year	Long term
$ 62,509	$ 45,415	$(52,851)	$ 55,073	$ 44,050	$ 11,023

NOTE 9 – INSURANCE

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

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

RWA's deductibles and maximum coverage are as follows:

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	150,000,000	$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, 2016 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

NOTE 10 – CONTINGENCIES (CONTINUED)

incurred. This contingent grant award revenue and the related liability to program participants is estimated at $970,800 at June 30, 2016 and is not currently reflected in the financial statements.

Pension Liability

In March 2013, RWA was selected for a routine compliance audit by CalPERS' Office of Audit Services ("OAS") to evaluate compliance with pensionable payroll reporting and member enrollment processes for the period of April 1, 2010 to March 31, 2013. Consistent with its Administrative Services Agreement with SGA, RWA reported all pensionable compensation paid to RWA employees to CalPERS. However, OAS' draft compliance audit report, dated June 12, 2013, ("Draft Report") found that the time spent by RWA employees on behalf of SGA under the direction of the SGA Executive Director was in fact time performed as common law employees of SGA rather than RWA. As such, OAS determined that RWA has been erroneously reporting RWA staff time allocated to administering SGA, and the pensionable compensation paid for such time ("SGA Time"), under RWA's contract with Cal PERS. The Draft Report concluded that in order to capture the preceding time and pensionable compensation, it would be necessary for SGA to establish a separate contract with CalPERS. RWA disagreed with OAS' finding as contrary to existing legal authority and sent response letters on July 2, 2013 and July 3, 2014. The CalPERS' Board of Administration disagreed and finalized the Draft Report on May 29, 2015 with the same finding. In order to fulfill employment obligations to existing employees and retired annuitants, the RWA and SGA boards determined that it would be in the best interests of the affected employees and retired annuitants for SGA to establish a contract with CalPERS for pension benefits. It is anticipated that, once established, the assets and liabilities associated with the SGA time will be allocated from the RWA contract to the SGA contract, resulting in a reduction in pension liability for RWA. RWA, however, has not recorded a reduction in liability for this contingency because RWA still has a contractual obligation to CalPERS for the pension liabilities until they are allocated to SGA by CalPERS. The July 1, 2014 beginning of the year adjustment due to implementing GASB No. 68 as well as the related net pension liability would have been reduced if the amounts were known. This adjustment will likely be reflected in future financial statements, once the amounts attributable to the SGA are known. The liability reduction at June 30, 2016 for the measurement date of June 30, 2015 is estimated at $135,000, reflecting an allocation rate of 39%. The deferred inflow related to pensions is estimated at $24,900. The deferred outflow related to pensions estimates is approximately $123,200.

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 made July 7, 2014, fixed annual payments of $25,000 will be

NOTE 10 – CONTINGENCIES (CONTINUED)

made over a 14 year period. The California Water Awareness Campaign ("CWAC") paid the remaining $100,000 to Powerhouse. 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 $556,278 and $475,522 for the years ending June 30, 2016 and 2015 which represents 43% and 40% of RWA's total administrative expenses, respectively. The supplementary information section details how these costs are allocated to SGA and the subscription programs. Additionally, RWA relies upon subscription based programs to pay for approximately 16% of administrative expenses.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MISCELLANEOUS PLAN
Last Ten Years

For the year ending June 30	2016	2015
Proportion of the net pension liability	0.012618%	0.01365%
Proportionate share of the net pension liability	$ 346,165	$ 337,276
Covered - employee payroll for measurement period	$ 592,756	$ 565,797
Proportionate share of the net pension liability as a percentage of covered payroll	58.40%	59.61%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to Schedule:

There were no benefit changes during the year. The June 30, 2015 Actuarial Valuation changed the discount rate from 7.50% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expenses.

GASB Statement No. 68 was implemented during the year ended June 30, 2015 - only two years data available.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN
Last Ten Years

	Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Contractually required contribution (actuarially determined)	$ 68,426	$ 70,182	$ 62,822
Contributions in relation to the actuarially determined contributions	293,426	70,182	62,822
Contribution deficiency (excess)	$ (225,000)	$ -	$ -
Covered - employee payroll	$ 632,144	$ 592,756	$ 565,797
Contributions as a percentage of covered - employee payroll	46.42%	11.84%	11.10%
Valuation Date:	June 30, 2013	June 30, 2012	June 30, 2011

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Investment Rate of Return	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increases	3.32% to 12.20% depending upon age, service, and type of employment
Post Retirement Benefit Increase	Contract Cola up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015, therefore only three years are presented.

Schedule of Funding Progress - Other Post Employment Benefits
Last Three Years

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, 2016	$824,840	$735,350	($89,490)	112.17%	$646,156	-13.85%
June 30, 2015	$767,402	$671,018	($96,384)	114.36%	$608,841	-15.83%
June 30, 2014	$703,796	$609,640	($94,156)	115.44%	$574,526	-16.39%

The historical schedule of funding progress shows whether actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The schedule reflects the most recent available actuarial determined valuation reports.

SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY
PROGRAM SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDING JUNE 30, 2016

	Agency Core Program	Water Efficiency Program	PROP 50 $25 M Grant	PROP 84	Government Relations	2014 Drought PROP 84	2014 Water-Energy	PROP 84 Round 3	USBR/CALFED Programs	TOTAL RWA
Operating Revenues										
Assessment Income	$ 776,389	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 776,389
Subscription Program Fees	58,886	601,196	17,204	14,555	122,194	29,933	-	-	399,889	1,243,857
Incentives and Grant Revenues	-	656,502	4,716,191	1,660,980	-	1,111,642	27,354	-	-	8,172,669
Other Income	6,010	-	-	-	-	-	-	-	-	6,010
Total Operating Revenues	841,285	1,257,698	4,733,395	1,675,535	122,194	1,141,575	27,354	0	399,889	10,198,925
Operating Expenses	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	468,310	201,858	9,290	14,555	-	17,695	7,760	3,128	11,386	733,982
Core Program Expenses	26,986	5,000	-	-	-	-	-	-	-	31,986
Subscription Program Direct Expenses	100,453	278,248	7,914	-	122,194	-	21,284	71,670	389,113	990,876
Grant Awards	-	674,082	4,716,191	1,660,980	-	1,111,642	-	-	-	8,162,895
Total Operating Expenses	595,749	1,159,188	4,733,395	1,675,535	122,194	1,129,337	29,044	74,798	400,499	9,919,739
Net Operating Income	245,536	98,510	0	0	0	12,238	(1,690)	(74,798)	(610)	279,186
Other Income										
Interest Income	6,887	-	-	-	-	-	-	-	-	6,887
Net Other Income	6,887	-	-	-	-	-	-	-	-	6,887
Net Income (Loss)	$ 252,423	$ 98,510	$ -	$ -	$ -	$ 12,238	$ (1,690)	$ (74,798)	$ (610)	286,073
Net Position, Beginning of the Year										705,932
Net Position, End of the Year										$ 992,005

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, 2015

	Agency Core Program	Water Efficiency Program	2014 Drought Application	PROP 50 $25 M Grant	PROP 84	Government Relations	2014 Drought PROP 84	USBR/CALFED Programs	TOTAL RWA
Operating Revenues									
Assessment Income	$ 703,915	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 703,915
Subscription Program Fees	25,969	450,500	120,000	17,400	11,096	60,000	-	14,182	699,147
Incentives and Grant Revenues	-	836,874	-	189,439	1,404,109	-	2,619,292	-	5,049,714
Other Income	5,560	-	-	-	-	-	-	-	5,560
Total Operating Revenues	735,444	1,287,374	120,000	206,839	1,415,205	60,000	2,619,292	14,182	6,458,336
Operating Expenses			-	-		-			
Administrative Expenses	513,323	206,470	8,259	6,720	11,096	-	3,733	9,166	758,767
Core Program Expenses	52,845	5,000	-	-	-	-	-	-	57,845
Subscription Program Direct Expenses	25,969	256,045	87,039	10,680	-	60,000	8,505	5,016	453,254
Grant Awards	-	827,048	-	189,439	1,404,109	-	2,619,292	-	5,039,888
Total Operating Expenses	592,137	1,294,563	95,298	206,839	1,415,205	60,000	2,631,530	14,182	6,309,754
Net Operating Income	143,307	(7,189)	24,702	0	0	0	(12,238)	0	148,582
Other Income									
Interest Income	3,325	-	-	-	-	-	-	-	3,325
Net Other Income	3,325	-	-	-	-	-	-	-	3,325
Net Income (Loss)	$ 146,632	$ (7,189)	$ 24,702	$ -	$ -	$ -	$ (12,238)	$ -	151,907
Net Position, Beginning of the Year									554,025
Net Position, End of the Year									$ 705,932

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

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, 2016 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation and Amortization	Total Administrative Expenses
RWA Administrative Expenses	$ 938,154	$ 98,524	$ 248,167	$ 5,415	$ 1,290,260
Allocated to Sacramento Groundwater Authority	(483,370)	(41,735)	(31,173)	-	(556,278)
Total RWA Administrative Expenses - Net of SGA allocation	454,784	56,789	216,994	5,415	733,982
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(181,769)	(12,734)	(7,355)	-	(201,858)
2014 Water Energy Grant	(7,760)	-	-	-	(7,760)
Proposition 50 - $25 Million Grant	(9,290)	-	-	-	(9,290)
Proposition 84 Grant	(14,555)	-	-	-	(14,555)
2014 Drought Proposition 84	(17,695)	-	-	-	(17,695)
Proposition 84 Round 3	(3,128)	-	-	-	(3,128)
USBR/CALFED Programs	(11,386)	-	-	-	(11,386)
Total Allocated Administrative Expenses - Subscription Programs	(245,583)	(12,734)	(7,355)	-	(265,672)
Net Agency Administrative Expenses - Agency Core Program	$ 209,201	$ 44,055	$ 209,639	$ 5,415	$ 468,310

Regional Water Authority
Schedule of Allocated Administrative Expenses
For the Year Ending June 30, 2015

The allocation of administrative expenses for the year ending June 30, 2015 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation and Amortization	Total Administrative Expenses
RWA Administrative Expenses	$ 927,681	$ 95,687	$ 203,683	$ 7,238	$ 1,234,289
Allocated to Sacramento Groundwater Authority	(398,380)	(41,650)	(35,492)	-	(475,522)
Total RWA Administrative Expenses - Net of SGA allocation	529,301	54,037	168,191	7,238	758,767
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(187,891)	(12,582)	(5,997)	-	(206,470)
2014 Drought Application	(8,259)	-	-	-	(8,259)
Proposition 50 - $25 Million Grant	(6,720)	-	-	-	(6,720)
Prop 84 Grant	(11,096)	-	-	-	(11,096)
2014 Drought Prop 84	(3,733)	-	-	-	(3,733)
USBR/CALFED Programs	(9,166)	-	-	-	(9,166)
Total Allocated Administrative Expenses - Subscription Programs	(226,865)	(12,582)	(5,997)	-	(245,444)
Net Agency Administrative Expenses - Agency Core Program	$ 302,436	$ 41,455	$ 162,194	$ 7,238	$ 513,323

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, 2016, 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 28, 2016.

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 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 28, 2016