REGIONAL WATER AUTHORITY

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018

REGIONAL WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. 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.

2880 GATEWAY OAKS DRIVE, SUITE 100, SACRAMENTO, CA 95833 • 101 PARKSHORE DRIVE, SUITE 100, FOLSOM, CA 95630
PHONE:916.646.6464 • FAX:916.929.6836 • GilbertCPA.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Water Authority as of June 30, 2018, and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the Authority adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the 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.

Supplementary Information

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

The supplementary information is the responsibility of management and was derived from and relates 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 supplementary 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 December 5, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 5, 2018

REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018 and 2017. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 13 to 38 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 basic financial statements include the statement of net position, statement of revenues, expenses, changes in net position, and statement of cash flows.

RWA’s statement of net position include all assets, deferred outflows, liabilities, and deferred inflows with the difference 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 shows the amount of cash received and paid out for operating activities, as well as cash received from interest earnings.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 16 to 38 of this report.

Condensed Statements of Net Position

For the fiscal years ending June 30, the following condensed comparative Statements of Net Position are presented:

	2018	2017	Increase (Decrease)	% Change
Current Assets	$ 2,484,247	$ 6,153,058	$(3,668,811)	(60%)
Capital Assets	528	3,947	(3,419)	(87%)
Total Assets	2,484,775	6,157,005	(3,672,230)	(60%)
Deferred Outflows	369,915	236,571	133,344	56%
Total Assets and Deferred Outflows	2,854,690	6,393,576	(3,538,886)	(55%)
Current Liabilities	813,531	4,758,327	(3,944,796)	(83%)
Non-Current Liabilities	380,437	245,599	134,838	55%
Total Liabilities	1,193,968	5,003,926	(3,809,958)	(76%)
Deferred Inflows	190,231	123,424	66,807	54%
Net Position:				
Invested in capital assets	528	3,947	(3,419)	(87%)
Restricted	443,603	405,501	38,102	9%
Unrestricted	1,026,360	856,778	169,582	20%
Total net position	$ 1,470,491	$ 1,266,226	$ 204,265	16%

Fiscal Year 2018 Compared to Fiscal Year 2017

Total current assets have decreased $3,668,811 and reflect a decrease in grant receivables from the prior year by $3,435,115. The June 30, 2018 receivables reflect amounts earned for fulfillment of obligations from these grantors for the Proposition 84 grant, the water energy grant, SRCSD incentives, and the Prop 1 Integrated Regional Water Management (IRWM) grants. The current assets decrease also includes a $235,598 decrease in cash and restricted cash due to using member advances to pay for subscription program activities and returning advances to members, timing of payments to vendors which are partially offset by some increases in assessment income.

The deferred outflows net increase of $133,344 is a result of changes in actuarial estimates from determining the net pension liability and from determining the net other-post employment benefits liability (OPEB). Deferred outflows increased by $192,641 during fiscal year 2018 reflecting implementation of Government Accounting Standards Board Statement (GASB) No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (GASB 75). Significant net pension liability changes include a reduction in the discount rate used to estimate the pension liabilities from 7.65 percent to 7.15 percent and a reduction in RWA's proportionate share of the pension plans net pension liability. These changes resulted in a net decrease of $59,297 in pension plan related deferred outflows.

There was a $3,944,796 decrease in current liabilities in fiscal year 2018 due to a decrease in grants payable of $3,488,520 as a result of paying grants to participants. Accounts payables decreased by $18,571 due to the timing of vendor payments. Subscription program advances decreased by $329,558 reflecting returning $200,000 of fees to members as well as using the fees collected for incurred subscription program expenses. Unearned revenue decreased by $111,143 due to using fees previously collected to pay for the Regional Reliability Program expenses incurred in fiscal year 2018.

RWA's non-current liability increased by $134,838 due to an increase in the net pension liability as well as a new $92,493 OPEB liability as a result of GASB 75. Unearned revenue has increased by $33,994 due to additional Powerhouse Science center collections in advance of obligations.

The increase of $66,807 in deferred inflows mainly represents $143,437 of unamortized OPEB adjustments caused by timing of when they are reflected in OPEB expense as a result of GASB 75. The increase is partially offset by a $71,159 decrease in pension adjustments also due to the timing of when these adjustments will be reflected in pension expense.

Restricted net position increased by $38,102 due to Water Efficiency Program (WEP) having an increase in their net earnings in excess of expenses in current fiscal year.

Unrestricted net position of $1,026,360 reflects an increase of $169,582, due to net income of $258,786, a portion of which includes the WEP and included in restricted net position. 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.

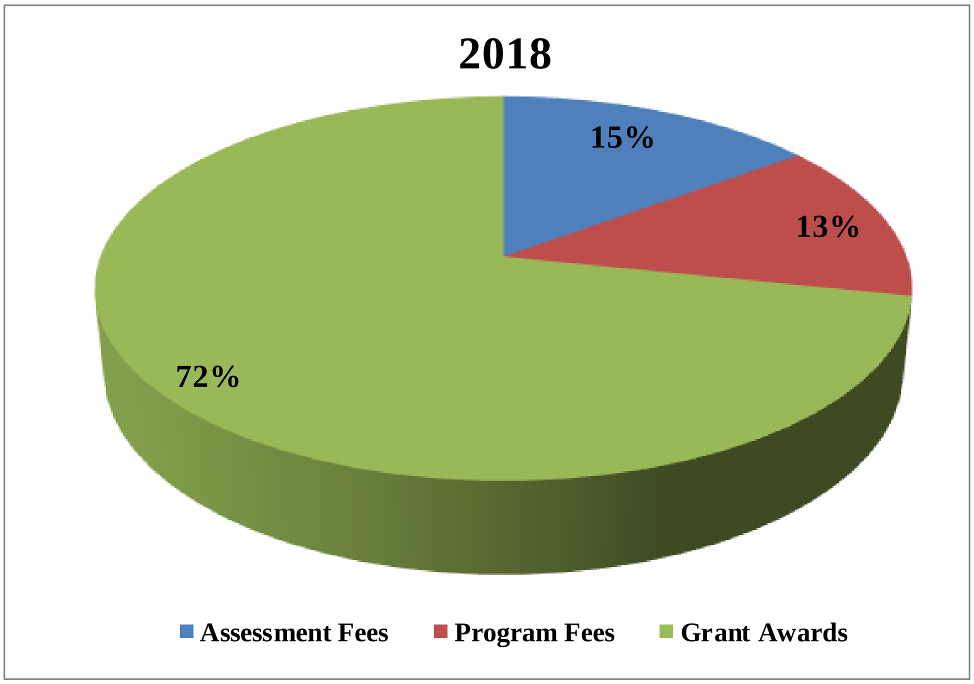
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

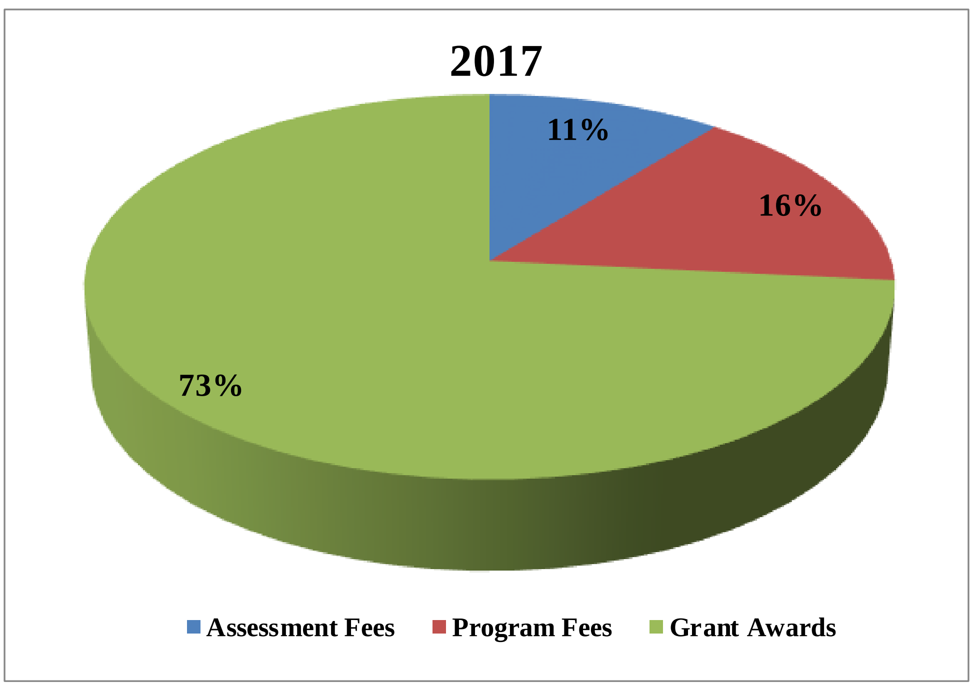
For the fiscal years ending June 30, the following condensed schedules of revenues, expenses, and changes in net position are presented:

	2018	2017	Increase (Decrease)	% Change
Operating revenues:				
Assessment Income	$ 972,713	$ 835,231	$ 137,482	16%
Subscription Program Fees	878,471	1,248,759	(370,288)	(30%)
Incentives, Grants and Reimbursements	4,699,626	5,745,315	(1,045,689)	(18%)
Other Income	15,541	15,669	(128)	(1%)
Total Operating Revenues	6,566,351	7,844,974	(1,278,623)	(16%)
Interest Income	32,439	16,647	15,792	95%
Total Revenues	6,598,790	7,861,621	(1,262,831)	(16%)
Operating Expenses:				
Administrative Expenses	1,032,799	966,023	66,776	7%
Core Program Expenses	50,000	-	50,000	100%
Subscription Program Direct Expenses	2,350,581	1,884,677	465,904	25%
Grant Awards	2,906,624	4,736,700	(1,830,076)	(39%)
Total Operating Expenses	6,340,004	7,587,400	(1,247,396)	(16%)
Increase in Net Position	258,786	274,221	(15,435)	(6%)
Net Position, July 1, as Previously Reported	1,266,226	992,005	274,221	28%
Restatement for Change in Accounting Principle	(54,521)	-	(54,521)	(100%)
Net Position, as Restated	1,211,705	992,005	219,700	22%
Net Position, June 30	$ 1,470,491	$ 1,266,226	$ 204,265	16%

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 from state, federal, or local agencies to fund water related projects and conservation, depending upon the grant program. The following pie charts graphically display the percentages of operating revenues by category:





Fiscal Year 2018 Compared to Fiscal Year 2017

Operating revenues – Operating revenues totaled $6,566,351 and was $1,278,623 lower than the previous year. The decrease is mainly a result of lower grant awards due to completion of some of the multi-year grants.

Assessment fees – The $137,482 increase in assessment fees is due to an 10% increase for the year ended June 30, 2018 for the additional funding of the new water policy position as well as the continued set aside of future payments for the unfunded pension liability.

Subscription Program Fees – During fiscal year 2018, RWA mainly earned subscription program fees from the labor compliance program, the Water Efficiency Program (WEP), the Regional Reliability Plan, 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), the Prop 84 Round 3 grant, the American River Basin (ARB) study and the Landscape Imagery project. Program fees are not expected to be comparable from year to year. The program fees decreased overall by $370,288 mainly due to the United States Bureau of Reclamation (USBR) programs being completed in the prior year and a reduction in fees collected related to the regional reliability program. For the detail of fees earned by program, see the Schedule of Program Revenue, Expenses and Changes in the supplementary section of the financial statements.

Incentive, grants and reimbursements – In fiscal year 2018, RWA earned grant awards from the WEP, 2018 IRWM Update, 2014 Water Energy, 2014 Drought Prop 84, Prop 84, and the Prop 84 Round 3 grants. Two programs contributed largely to the overall $1,045,689 decrease in grant awards:

1) The Prop 84 grant revenue decreased by $2,114,582 in fiscal year 2018. This grant from DWR's Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 will assist in financing projects associated with the American River Basin Integrated Regional Water Management Plan (IRWMP).

2) The Prop 50 grant revenue decreased by $377,629 in fiscal year 2018. 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 (DWR) 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. RWA closed out the project and applied for remaining retention balances that were paid out in fiscal year 2018.

The decrease in the above grant revenues was also offset by an increase in grant revenues for the following programs:

1) 2014 Water Energy grant revenue increase of $856,814 for a total of $1,664,730.

2) 2014 Drought grant revenue increase of $463,528 for a total of $1,576,559.

3) RWA Prop 84 round 3 grant revenues increase of $10,661 for a total of $248,887.

4) IRWM update received $106,769 in grant awards from DWR.

Operating expenses – Operating expenses fall into four major categories: administrative expenses, core program expenses, subscription program direct expenses, and grant awards.

Administrative Expenses – Before allocation to Sacramento Groundwater Authority (SGA), total administrative expenses increased by $64,606 from the previous fiscal year which included an additional $122,676 in staffing costs, an increase of $13,057 in office expenses and a decrease of $70,849 in professional fees. The increases in staffing costs were due to hiring a new Legislative and Regulatory Affairs Program Manager. Net expenses after allocation to RWA were higher than the previous year by $66,776 in part due to the increased staffing expenses and in part due to decreased cost allocations to SGA since SGA is paying its own pension related costs, both current and additional payments.

Core Program Expenses – For the year ended June 30, 2018, core expenses increased $50,000 related to the payment for the Powerhouse Science Center exhibits.

Subscription Program Direct Expenses – During fiscal year 2018, RWA incurred subscription program expenses from the core program, WEP, Prop 50, Prop 84 implementation, the government relations program, the 2014 Prop 84 Drought Grant, the Prop 84 Round 3 Grant Program, and the landscape imagery programs. Program expenses are not expected to be comparable from year to year. The program expenses increased overall by $465,905, as follows:

1) The core program subscription direct expenses decreased by $85,035 and include the regional reliability costs of $183,389, labor compliance costs of $26,923, ARB study costs of $17,624, and $104,800 for the 2018 IRWM update this year.

2) The government relations program increased by $15,000 for a total of $135,000 in consulting costs during the fiscal year ended June 30, 2018.

3) The 2014 Water-Energy grant expenses of $1,593,014 increased by $762,402 due to increased program work conducted by the consultant.

4) The WEP administration costs of $231,041 increased by $59,593 and represents administering public outreach about water saving and awareness.

5) The landscape imagery project had consulting costs of $55,940 during 2018.

6) The USBR had a decrease of $204,837 in USBR costs related to program completion in the prior year.

7) The Prop 84 Round 3 had a decrease of $132,841.

Grant Awards – In fiscal year 2018, RWA earned grant awards from the WEP, Prop 84, and the 2014 Drought Prop 84 program and the P84 Round 3 grants. The activity and payments vary on these grants and year to year comparability is not expected. These programs contributed largely to the overall $1,830,076 decrease in grant awards expense:

1) The Prop 84 $16 million grant award is in the sixth year of this program. There was $735,071 in eligible costs that were incurred by the participants for grant reimbursement which reflects a decrease in grant awards of $2,114,582.

2) The Prop 50 grant was completed in fiscal year 2017, contributing to a decrease in grant awards of $377,628.

3) The 2014 drought grant started in fiscal year 2015. Grant distributions increased in fiscal year 2018 by $462,028 for a total of $1,561,500.

4) The Prop 84 Round 3 grant increased $198,049 for a total of $244,137.

Capital Assets

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

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

	2018	2017	Increase (Decrease)	% Change
Furniture	$ 14,464	$ 14,464	$ -	-
Equipment	17,307	17,307	-	-
Website Development	15,604	15,604	-	-
Leasehold Improvements	17,951	17,951	-	-
Gross Capital Assets	65,326	65,326	-	-
Less Accumulated Depreciation	(64,798)	(61,379)	(3,419)	6%
Net Capital Assets	$ 528	$ 3,947	$ (3,419)	(87%)

Economic factors and assumptions for fiscal year June 30, 2019

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, 2019.

1) A total 4% increase on general and associate membership fees is proposed to fully implement the strategic plan staffing, plus continuing to pay sums towards the unfunded pension liability. Additionally, core revenues are now projected to cover 30% of the WEP manager costs and related office expenses. For participants who helped fund the advocacy work through a subscription program, the fees in FY19 will be lower than the combined general dues plus subscription fees paid in FY18.

2) No increases to affiliate membership fees are planned.

3) SGA service fees represent 50% sharable costs according to the Administrative Services Agreement and exclude the Water Efficiency Program staffing, the legislative program manager, and the retired annuitants for RWA and SGA. SGA does pay for 20% of the project assistant position.

4) Subscription program revenues provide approximately 13% of needed RWA core revenues and reflect income earned from providing staffing and office support to subscription based programs, including the WEP.

5) Powerhouse Science Center (PSC) reflects five years of collection of funds with fiscal year 2019 as the final year, to be paid to PSC over 15 years.

6) Other revenues represent interest income and holiday social revenues.

7) The core program budgets for all staffing positions. Shared staffing costs are allocated 50/50 to SGA and RWA. The Legislative Program Manager is fully funded by RWA; the Water Efficiency Program Manager is funded 30% by RWA and 70% by WEP; and the Project Research Assistant is funded 80% by WEP and 20% by SGA. These allocations result in 4.8 FTEs for RWA and 2.2 FTEs for SGA for a total of 7 fulltime positions.

8) Staff salaries are within ranges assigned by the 2017 total compensation survey and reflect a possible 4% increase for merit plus 3% COLA. Beginning in fiscal year 2019, staff will pay the full 7% employee share of their pension contributions.

9) Benefit costs also include projected increases for OPEB and health care, and a reduction of the employer pick up of the employee portion of PERS retirement benefits.

10) RWA continues to plan for additional CalPERS pension payments for the unfunded liability.

11) Office cost increases are based upon estimated increases in fiscal year 2019.

12) Professional fees include higher audit, accounting and actuarial analysis fees due to the reporting requirement for GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and implementation of GASB 75, increased public relations, human resources assistance, increased legal costs associated with advocacy, IRWM consulting costs, water advocacy consulting fees and $20,000 for unexpected items.

13) Core project expenses include costs associated with the Powerhouse Science Center partnership.

14) Combined core and subscription expenses versus revenues net a projected decrease in cash out flow of approximately $548,500, largely due to the subscription program. Many subscription program expenses will be funded from previously collected funds which have been set aside for this purpose.

15) Changes to membership are not anticipated, including any decline due to agency consolidations or nonparticipation.

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

STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS	
Current Assets	
Cash and Investments	$ 1,018,426
Restricted Cash and Investments	1,017,327
Grants/Incentives Receivable	298,963
Accounts Receivable	29,832
Receivable from Sacramento Groundwater Authority	95,733
Other Assets	23,966
Total Current Assets	2,484,247
Capital Assets, Net	528
Total Assets	2,484,775
DEFERRED OUTFLOWS	
Pension	177,274
Other Post Employment Benefits (OPEB)	192,641
Total Deferred Outlfows	369,915
TOTAL ASSETS AND DEFERRED OUTFLOWS	2,854,690
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	259,935
Compensated Absences	67,080
Grants Payable	43,544
Subscription Program Advances	417,972
Unearned Revenue	25,000
Total Current Liabilities	813,531
Non-Current Liabilities	
Compensated Absences	2,800
Net Pension Liability	154,391
Net OPEB Liability	92,493
Unearned Revenue	130,753
Total Non-Current Liabilities	380,437
Total Liabilities	1,193,968
DEFERRED INFLOWS	
Rent	912
Unamortized Pension Adjustments	45,882
Unamortized OPEB Adjustments	143,437
Total Deferred Inflows	190,231
NET POSITION	
Net Investment in Capital Assets	528
Restricted	443,603
Unrestricted	1,026,360
Total Net Position	$ 1,470,491

REGIONAL WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES:	
Assessment Income	$ 972,713
Subscription Program Fees	878,471
Incentives, Grants, and Reimbursements	4,699,626
Other Income	15,541
Total Operating Revenues	6,566,351
OPERATING EXPENSES:	
Administrative Expenses	1,032,799
Core Program Expenses	50,000
Subscription Program Direct Expenses	2,350,581
Grant Awards	2,906,624
Total Operating Expenses	6,340,004
OPERATING INCOME	226,347
OTHER INCOME:	
Interest Income	32,439
INCREASE IN NET POSITION	258,786
Net Position, Beginning of Year, as Previously Reported	1,266,226
Restatement for Change in Accounting Principle	(54,521)
Net Position, Beginning of Year, as Restated	1,211,705
NET POSITION, End of Year	$ 1,470,491

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

REGIONAL WATER AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS USED BY OPERATING ACTIVITIES:	
Cash received from members and participants	$ 1,438,600
Cash received from SGA	479,815
Cash received from grants and other sources	8,150,282
Cash paid to employees, related benefits and taxes	(1,173,558)
Cash paid to suppliers	(2,759,790)
Cash paid to subscription program participants	(6,395,144)
Net Cash Used by Operating Activities	(259,795)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on cash	24,197
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,598)
CASH AND CASH EQUIVALENTS, Beginning of Year	2,271,351
CASH AND CASH EQUIVALENTS, End of Year	$ 2,035,753
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET:	
Cash and investments	$ 1,018,426
Restricted cash and investments	1,017,327
	$ 2,035,753
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating income	$ 226,347
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	3,419
Change in operating assets and liabilities:	
Grants receivable	3,435,115
Accounts receivable	(5,877)
Receivable from SGA	5,273
Other assets	6,943
Accounts payable and accrued liabilities	(18,571)
Compensated absences	4,496
Grants payable	(3,488,520)
Subscription program advances	(329,558)
Net pension liability	(5,011)
Net OPEB liability	(11,231)
Unearned revenue	(77,149)
Deferred inflows - rent	(5,471)
Net cash used by operating activities	$ (259,795)

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.

New Pronouncements – For the year ended June 30, 2018, RWA has adopted Governmental Accounting Standards Board (GASB) 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. Additionally, in the year of adoption, a restatement to net position is made due to implementation of GASB No. 75 as a result of a change in accounting principle. The beginning of the year restatement at July 1, 2017 is as follows:

Decrease in Net Position	$	54,521
Increase in Deferred Outflows		72,745
Net OPEB Liability	$	127,266

Future Pronouncements – GASB Statement No. 87 (GASB No. 87), Leases which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of this new GASB statement.

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, deferred outflows, liabilities, and deferred inflows, the disclosure of contingent assets, deferred outflows, liabilities, and deferred inflows 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.

Capital Assets – Capital 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.

Compensated Absences – Compensated absences are accrued and reported as a liability in the period earned. Amounts payable are included in the Statement of 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.

Net Pension Liability and Related Balances – For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value by CalPERS and not reported by RWA.

CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications (www.calpers.ca.gov). Reported results pertain to liability and asset information within the following defined timeframes:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

Net Other Post-Employment Benefits (OPEB) Liability – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of RWA's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Deferred Outflows and Inflows – Deferred outflows of resources is a consumption of net position by RWA that is applicable to a future period and deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Both deferred inflows and outflows of resources are reported in the statements of net position, but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. See Note 5 for further details related to the pension deferred outflows and inflows. See Note 6 for additional details related to the OPEB related deferred outflows and inflows.

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 or to provide a cash flow bridge for grant expenses paid for in advance of grant awards received. 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 year ended June 30, 2018, the advances by subscription programs are as follows:

Direct Install	$	200,000
Lobbying Subscription Program		86,806
Prop 84 Program management		68,478
2014 Drought PM		29,482
Prop 84 R3 Program management		17,964
Prop. 50 - $25 million grant		8,593
WEP Prop 84 R3 Program management		6,272
ARB Study		377
Total	$	417,972

Unearned Revenue – Monies received as assessments relating to subsequent years and received in advance are recorded as unearned revenue. Unearned revenue is comprised of the following at June 30, 2018:

Powerhouse Science Center	$	155,753
Less: Current Portion		25,000
Non-Current Portion	$	130,753

The unearned revenue relates to the Powerhouse Science Center water exhibit agreement which represents amounts collected from members but not yet remitted to Powerhouse Science Center.

Net Position – RWA's net position is classified into the following categories:

Net investment in capital assets: Furniture and equipment, net of accumulated depreciation.

Restricted: Represents 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. A portion of net assets have been restricted based upon subscription contractual provisions. The restrictions by contract represent fees 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 cumulative Water Efficiency Program fees in excess expenses incurred of $443,603.

Unrestricted: Funds not subject to any outside legal restrictions on use of these funds and may be designated for use by management or the Board.

Non-exchange Transactions – The grant awards and incentives received by RWA are considered voluntary non-exchange transactions since these awards and incentives are entered into willingly by the grantors and RWA. In the non-exchange transactions, RWA receives value (benefit) from another party (the grantor) without directly giving equal value in exchange.

Typically, RWA has administrative oversight in distributing these grant and incentive proceeds to program participants. All current grant agreements offer grant awards on a reimbursement basis once allowable costs have been incurred under the program. These requirements must be met in advance of applying for and receiving the funds from the grantors. RWA recognizes revenues and receivables when all applicable eligibility requirements have been met.

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

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 2018, the minimum assessment was $5,847 and a maximum assessment was $67,811, 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 $12,900 per year, subject to adjustments from time to time by the RWA Board. Lastly, RWA affiliates pay an annual fee of $750 per year.

During fiscal year ended June 30, 2018, RWA also assessed for the Powerhouse Science Center water exhibits that RWA will sponsor. The assessments will vary by member, with a total annual collection of approximately $60,000 from members. Fiscal year 2019 will be the final year 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 benefit from these activities reimburse 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 year 2018, 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.

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 $474,542 for the year ended June 30, 2018. 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 reflects the cash payments from SGA as well as all expenses paid by RWA to employees and suppliers.

If capital asset acquisitions benefit both organizations, the costs are shared 50/50 between both organizations. Acquired assets are owned 50% by RWA and 50% by SGA, unless the asset specifically benefits only one agency. 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 8). 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.

2. CASH AND INVESTMENTS

Cash and investments on the Statement of Net Position consist of the following at June 30, 2018:

Cash and Investments	$	1,018,426
Restricted Cash and Investments		1,017,327
	$	2,035,753

Cash and investments balance at June 30, 2018 consist of the following:

Deposits with financial institutions	$	157,817
Investments in LAIF		1,877,936
Total cash and investments	$	2,035,753

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 as designated by state statute. The fair value of RWA's investment in this pool is reported in the accompanying financial statements at amounts based upon the RWA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The total fair value of all public agencies invested in the LAIF at June 30, 2018 was $22,548,942,230. The LAIF balance is a part of the California Pooled Money Investment Account (PMIA) and includes the Surplus Money Investment Fund and the General Fund. The total fair value of all public agencies invested in PMIA at June 30, 2018 is $88,798,232,977. 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.ca.gov/pmia-laif/reports/monthly.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, 2018 was approximately 193 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 92% of its cash invested in LAIF for the year ended June 30, 2018.

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, 2018, RWA's bank balance was $226,839. The RWA bank balance is covered 100% by FDIC insurance up to $250,000.

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, 2018 restricted cash by program is as follows:

Water Efficiency Program	$	443,603
Direct Install		200,000
Powerhouse Science Center		155,753
Lobbying Subscription Program		86,806
Prop 84 Program Management		68,478
2014 Drought Program Management		29,482
Prop 84 Round 3 Program Management		17,964
Prop. 50 - $25 Million grant		8,593
WEP Prop 84 3 Program management		6,272
ARB Study		376
Total Restricted Cash	$	1,017,327

3. CAPITAL ASSETS

A summary of the capital assets at cost is as follows for the year ended June 30:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Furniture	$ 14,464	$ -	$ -	$ 14,464
Office Equipment	17,307	-	-	17,307
Website Development	15,604	-	-	15,604
Leasehold Improvements	17,951	-	-	17,951
Total	65,326	-	-	65,326
Less accumulated depreciation	(61,379)	(3,419)	-	(64,798)
Capital Assets, Net	$ 3,947	$ (3,419)	$ -	$ 528

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 year ended June 30, 2018. Subsequent to June 30, 2018, RWA renewed its office lease through September 2023. These new lease payment terms are reflected below. Minimum lease payments are as follows:

Year Ending June 30,		
2019	$	31,112
2020		32,340
2021		35,035
2022		35,574
2023		35,574
Thereafter		5,929
Total minimum lease payments	$	175,564

The difference between the rental expense and rental payments reflects amortization of the lease incentives. See Note 8 for additional information.

Copier Lease

RWA entered into an operating lease agreement during fiscal year 2015 for a copier. The monthly lease payment is $241, including taxes. RWA incurred $2,892 in rental expense for the year ended June 30, 2018.

Minimum lease payments are as follows:

Year Ending June 30,		
2019	$	2,892
2020		1,928
Total minimum lease payments	$	4,820

5. EMPLOYEE PENSION PLANS

Plan Description

RWA participates in a public agency cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by California Public Employees' Retirement System (CalPERS). Since RWA has less than 100 active members as of the June 30, 2017 (the measurement date), qualified employees are covered under the Miscellaneous 2% at 55 Risk Pool. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute. None of the RWA employees were hired after January 1, 2013 that would participate in the PEPRA plan. The miscellaneous plan is closed to new employees unless the new employee is considered a classic member as defined by PEPRA.

Benefits Provided

The benefits for the Plan are established by contract with CalPERS, in accordance with the provisions of the California Public Employees' Retirement Law (PERL). The benefits are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. To be eligible for service retirement, members must be at least 50 and have a minimum of five years of CalPERS-credited service. Under the PEPRA plan, members after January 1, 2013 must be at least 52.

Contributions

Section 20814(c) of the PERL requires employer contribution rates for all public employers are determined on an annual basis by the actuary and are effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by the Miscellaneous risk pool, the 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. The required contribution rate for the June 30, 2017 measurement period is 9.055%.

Employer contributions rates may change if plan contracts are amended. RWA makes a portion of the contributions required of employees on their behalf and for their account. For the year ended June 30, 2018, the employer required contribution to the plan was $49,160. RWA also made additional non-required employer pension contributions of $42,000 for the year ended June 30, 2018 towards payment of its unfunded liability.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

RWA's net pension liability (NPL) for the Plan is measured as the proportionate share of the NPL. The NPL of the Plan is measured as of June 30, 2017 for the year ended June 30, 2018. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. As of June 30, 2018, RWA's proportionate share of the Plan's NPL was $154,391.

Using RWA's individual employer rate plan's share of the risk pool TPL and Fiduciary Net Position (FNP), the proportionate shares of the TPL and FNP at the measurement date are determined for RWA by the actuary for the June 30, 2017 measurement date. The following table shows RWA's employer allocation factors for the Plan as of the measurement dates for June 30:

2017:	**Plan**
Proportion - June 30, 2017	.003917%
Proportion - June 30, 2016	.004247%
Change - decrease	(.000330)%

For the measurement period ended June 30, 2017, RWA incurred a pension expense of $86,419.

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

	2018
Contributions after measurement date	$ 91,160
Difference between actual and expected experience	534
Changes in assumptions	66,299
Net difference between projected and actual earnings on plan investments	14,994
Adjustments due to differences in proportions	4,287
	$ 177,274

The $91,160 reported as deferred outflows of resources related to employer contributions after the measurement date will be recognized as a reduction of the NPL for the year ended June 30, 2019.

At June 30, the deferred inflow of resources related to pensions from the following sources:

	2018
Difference between actual and expected experience	$ 7,655
Changes in assumptions	5,055
Differences between employer contributions and the employer's proportionate share of contributions	7,304
Adjustments due to differences in proportions	25,868
	$ 45,882

Amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2018	$ 3,397
2019	25,647
2020	20,091
2021	(8,903)

Actuarial Assumptions

For the measurement period ended June 30, 2017, the TPL was determined by rolling forward the June 30, 2016 results. The June 30, 2017 TPL was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table(1)	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Changes in Assumptions

For the measurement period ended June 30, 2017, the financial reporting discount rate for the Plan decreased from 7.65% to 7.15%. Deferred outflows of resources for the change in assumptions represent the unamortized portion of this assumption change.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 (the measurement date) was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction of administrative expenses. 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 discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected investment rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability of the Plan. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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. 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. The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. 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 as follows:

	June 30, 2017		
Asset Class	**New Strategic Allocation**	**Real Return Years 1 - 10(a)**	**Real Return Years 11+(b)**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	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 Proportional Share of the NPL to Changes in the Discount Rate

The following presents RWA's Proportional Share of the NPL of the Plan, calculated using the discount rate of 7.15% for the measurement date June 30, 2017, as well as what the Proportional Share of the NPL would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Proportionate Share of Plan's NPL	$ 240,673	$ 154,391	$ 82,931

Payable to the Pension Plan

At June 30, 2018, RWA does not have outstanding payables to the pension plan.

Deferred Compensation Plan

RWA offers its employees a deferred compensation plan (Deferred Plan) created in accordance with Internal Revenue Code Section 457 through CalPERS and is managed by ING. The Deferred Plan is available to all RWA employees and permits them to defer a portion of their salary until future years. The Deferred 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.

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

RWA has established a retiree healthcare plan that provides other postemployment health care benefits for eligible retired employees and their dependents through the retiree healthcare plan (the Plan). RWA, through the authorization of their Board of Directors, elected to establish an irrevocable trust for the Plan through the California Employers' Retiree Trust (CERBT) fund, an agent multiple-employer plan, administered by CalPERS. The CERBT has pooled administrative and investment functions, while separate employer accounts are maintained to prefund and pay for health care or other postemployment benefits in accordance with the terms of the participating employers' plans. The CERBT offers three investment strategies for employers to choose from depending on their expected levels of return and volatility. Benefit provisions are established by RWA.

Benefits Provided

RWA's OPEB are provided in accordance with the 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.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following inactive and active employees were covered by the benefit terms under the OPEB Plan:

Inactive employees receiving benefits	3
Inactive employees entitled to but not receiving benefits	0
Participating active employees	7
Total	10

Contributions

RWA makes annual contributions to the CERBT fund. The current policy is to prefund benefits through annual contributions based on an actuarially determined contribution. For the fiscal year ended June 30, 2018, RWA's cash contributions were $56,415 in payments to the trust and the estimated implied subsidy was $17,565, resulting in total payments of $73,980. These assets accumulate and are invested in the CERBT. Employees are currently not required to contribute to the plan.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Funding Method	Entry Age Normal, Level Percent of Pay
Asset Valuation Method	Market Value of Assets
Discount Rate	7.00%
Long-term Return on Assets (net of plan investment expenses and inflation)	7.00%
Salary Increase	3.25%
Inflation Rate	2.75%
Mortality Rate [1]	MacLeod Watts Scale 2017 applied generationally
Pre-Retirement Turnover [2]	
Healthcare Trend [3]	7.50% decreasing to 5.0%

(1) The MacLeod Watts Scale 2017 was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP 2016 Report, published in October 2016 and the demographic assumptions used in the 2016 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published June 2016.

(2) Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of CalPERS using data from 1997 to 2011, except for (a) point retirement dates used for 3 employees and (b) a different basis used to project future mortality improvements.

(3) The healthcare trend ranges from increases of 7.50% starting in 2019 and decrease 0.5% per year to 5.0% in 2024 and beyond.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, plan assets will be managed to earn, on a long-term basis, a rate of return equal to or more than the target rate of return of 7.0 percent.

The CERBT offers three diversified allocation strategies. RWA has elected to participate in CERBT's Strategy 1 which has the highest long-term expected rate of return and return volatility. The following table shows the target asset allocation for employers participating in CERBT Strategy 1:

Asset Class	Target Asset Allocation
Global Equity	57%
Fixed Income	27%
Inflation Assets	5%
REITs	8%
Commodities	3%
Total	100%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that RWA contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at Fiscal Year Ending 6/30/2017 *Measurement Date 6/30/2016*	$ 986,832	$ 859,566	$ 127,266
Changes During the Period:			
Service Cost	57,930	-	57,930
Interest Cost	71,699	-	71,699
Net Investment Income	-	90,150	(90,150)
Employer Contributions	-	72,745	(72,745)
Administrative Expenses	-	(460)	460
Benefit Payments	(40,972)	(40,972)	-
Assumption Changes	139,794		139,794
Plan Experience	(141,761)	-	(141,761)
Net Changes in Fiscal Year 2017-2018	86,690	121,463	(34,773)
Balance at Fiscal Year Ending 6/30/2018 *Measurement Date 6/30/2017*	$ 1,073,522	$ 981,029	$ 92,493

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	Discount Rate –1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate +1% (8.00%)
Net OPEB liability (asset)	$ 208,309	$ 92,493	$ (4,808)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Medical Trend Rate – 1% (6.50% decreasing to 4.0%)	Current Medical Trend Rate (7.50% decreasing to 5.00%)	Medical Trend Rate +1% (8.50% decreasing to 6.00%)
Net OPEB liability (asset)	$ (12,106)	$ 92,493	$ 225,951

OPEB plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available on CalPER's website in an annual report titled "California Employers' Retiree Benefit Trust, Agent Multiple-Employer Other Postemployment Benefits Plan, Schedule of Changes in Fiduciary Net Position by Employer". Additionally, CalPERS annually issues a Comprehensive Annual Financial Report which includes the CERBT fund's financial information.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net differences between projected and actual earnings on OPEB Trust investments	5 years
All other amounts	6.62 years, expected average remaining service lives (EARSL)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, RWA recognized OPEB expense of $62,749. As of fiscal year ended June 30, 2018, deferred outflows and inflows of resources related to OPEB are from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 73,980	$ -
Changes in assumptions	118,661	-
Differences between expected and actual experience	-	120,330
Net differences between projected and actual earnings on OPEB plan investments	-	23,107
Total	$ 192,641	$ 143,437

The $73,980 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Fiscal Year Ending June 30	Net Deferred Outflows/ (Inflows) of Resources
2019	$ (6,074)
2020	(6,074)
2021	(6,074)
2022	(6,073)
2023	(297)
Thereafter	(185)

7. BOARD DESIGNATIONS

The Board establishes and approves the operating fund, membership dues, strategic plan fund, 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, 2018 is sufficient to set aside the designations for budget purposes.

The designations as of June 30, 2018 are as follows:

Board Designations		
Operating Fund	$	628,100
Membership Dues		137,200
Strategic Plan Fund		109,748
Subscription Programs		25,400
Total Board Designations	$	900,448

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 ended June 30, 2018, this designation is approximately six months when considering the SGA reimbursement for expenses. 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 strategic plan fund is designed to carry out the strategic plan through fiscal year 2019. 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.

8. 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, 2017	Increases	Amortization	Balance June 30, 2018
$ 6,383	$ -	$ (5,471)	$ 912

9. COMPENSATED ABSENCES

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

Balance 2017	Earned	Used	Balance 2018	Due Within One Year	Long-term
$ 65,384	$ 70,098	$ (65,602)	$ 69,880	$ 67,080	$ 2,800

10. 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	$ 5,000,000	$ 55,000,000	None
Public Officials Liability	5,000,000	55,000,000	None
Property Damage	100,000	490,000,000	$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.

Copies of ACWA/JPIA's annual financial reports and other pertinent data may be obtained from their website at www.acwa.jpia.org, their office at 2100 Professional Drive, Roseville, CA 95661-3700 or by calling (800) 231-5742.

11. 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, 2018 may be impaired. In the opinion of RWA's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

According to the voluntary grant agreements with the California Department of Water Resources (DWR), five to ten percent of the eligible grant award payment is withheld until project completion. Project completion is considered an eligibility requirement. Since these retention payments are withheld until the project is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the project is complete. Once the retention is received, RWA will then pay the program participants for the eligible costs incurred. This contingent grant award revenue and the related liability to program participants is estimated at $1,050,287 at June 30, 2018 and is not currently reflected in the financial statements.

Pension Liability

CalPERS implemented a discount rate reduction, reducing the rate from 7.15% to 7.0%. This reduction in discount rate will have an effect on the net pension plan liability and expenses, likely increasing these amounts that will be reflected in the financial statements and increasing the amount of payments required by RWA. These changes have not been reflected in the financial statements since the amounts must be actuarial determined and have yet to be completed. See Note 5 which does indicate the potential impact of a 1% decrease to the discount rate at June 30, 2017.

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 are scheduled to be made over a 14 year period, for a total of $400,000. 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 through fiscal year 2019.

12. 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 $474,542 for the year ended June 30, 2018 which represents 31% of RWA’s total administrative expenses. Additionally, RWA relies upon subscription based programs to pay for approximately 18% of administrative expenses. The Water Efficiency Program is a substantial portion of the subscription based programs and contributes towards administrative expenses. To the extent subscription based programs did not exist or were reduced, RWA membership dues would need to increase to fund operating expenses.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MISCELLANEOUS PLAN FOR THE YEARS ENDED JUNE 30

	Meaurement Date			
	2017	**2016**	**2015**	**2014**
Proportion of the net pension liability	0.003917%	0.004247%	0.012618%	0.013650%
Proportionate share of the net pension liability	$ 154,391	$ 147,540	$ 346,165	$ 337,276
Covered - employee payroll	$ 466,290	$ 365,294	$ 592,756	$ 565,797
Proportionate share of the net pension liability as a percentage of covered payroll	33.11%	40.39%	58.40%	59.61%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	73.31%	75.87%	78.40%	79.82%
RWA fiduciary net positon as a percentage of the RWA pension liability	90.24%	89.09%	83.50%	83.03%

Notes to Schedule:

For the measurement period ending June 30, 2017, the discount rate decreased from 7.65% to 7.15% due to an assumption change. For the measurement period ending June 30, 2015, the discount rate changed from 7.50% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expenses. There were no benefit changes in any of the years presented.

Historical information is only required for the years in which GASB 68 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN
FOR THE YEARS ENDED JUNE 30

	Fiscal Year				
	2017-2018	**2016-2017**	**2015-2016**	**2014-2015**	**2013-2014**
Contractually required contribution (actuarially determined)	$ 49,160	$ 47,566	$ 44,595	$ 70,182	$ 62,822
Contributions in relation to the actuarially determined contributions	91,160	89,566	181,995	70,182	62,822
Contribution deficiency (excess)	$ (42,000)	$ (42,000)	$ (137,400)	$ -	$ -
Covered - employee payroll	$ 536,680	$ 466,290	$ 365,294	$ 592,756	$ 565,797
Contributions as a percentage of covered - employee payroll	16.99%	19.21%	49.82%	11.84%	11.10%
Contributions valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

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	3.20% to 12.20% depending upon age, service and type of employment
Post Retirement Benefit Increase	Contract Cola up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.00% thereafter

Omitted years: GASB Statement No. 68 was implemented during fiscal year 2015, therefore only 5 years presented.

Notes to Schedule:

Historical information is only required for the years in which GASB 68 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIO FOR THE MEASUREMENT PERIOD ENDING JUNE 30

Measurement Period	**2017**
Total OPEB Liability	
Service Cost	$ 57,930
Interest Cost	71,699
Actual and Expected Experience Difference	(141,761)
Assumption Changes	139,794
Benefit Payments	(40,972)
Net change in OPEB Liability	86,690
Total OPEB Liability - Beginning	986,832
Total OPEB Liability - Ending (a)	$ 1,073,522
Plan Fiduciary Net Position	
Employer Contributions	$ 72,745
Net Investment Income	90,150
Benefit Payments	(40,972)
Administrative Expenses	(460)
Net change in plan fiduciary net position	121,463
Plan fiduciary net position - Beginning	859,566
Plan fiduciary net position - Ending (b)	$ 981,029
Net OPEB Liability (a) - (b) = (c)	$ 92,493
Plan fiduciary net position as a percentage of OPEB liability (b)/(a)	91.38%
Covered Payroll (d)	$ 752,115
Net OPEB Liability as a percentage of covered payroll (c)/(d)	12.30%

Notes to Schedule:

Historical information is only required for the years in which GASB 75 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC) (a)	$ 73,980
Contributions in Relation to ADC	(73,980)
Contribution Deficit (Excess)	$ -
Covered employee payroll (b)	$ 833,750
ADC as a % of covered employee payroll (a)/(b)	8.87%

Methods and assumptions used to determine contributions

	2018
Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Percent of Pay over a closed 10-year period
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Salary Increase	3.25% per year, used only to allocate the cost of benefits between service years
Wage Inflation	3.0% per year (component of assumed annual salary increase: not used for amortization since using level dollar amortization)
Investment Rate of Return	7.00%
Healthcare Trend (1)	7.50% decreasing to 5.0%
Retirement Age	2.0% @ 55 if hired prior to 1/1/2013 2.0% @ 62 if hired after 1/1/2013 The probabilities of retirement are based upon 2014 CalPERS experience study for the period of 1997 to 2011.
Mortality (2)	MacLeod Watts Scale 2017 applied generationally

Notes to Schedule:

(1) Healthcare trend starts at 7.50% and decreases by .5% each year through 2023 and then remains at 5%.

(2) The MacLeod Watts Scale 2017 was developed from a blending of data and methodologies found in two published sources: (1) the Society of Actuaries Mortality Improvement Scale MP-2016 Report, published in October 2016 and (2) the demographic assumptions used in the 2016 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds, published June 2016.

(3) Historical information is only required for the years in which GASB 75 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

SUPPLEMENTARY INFORMATION

REGIONAL WATER AUTHORITY

PROGRAM SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	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	Landscape Imagery Project	Total RWA
Operating Revenues										
Assessment Income	$ 972,713	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 972,713
Subscription Program Fees	229,082	454,289	2,822	18,094	135,000	7,717	-	6,854	24,613	878,471
Incentives, Grants, and Reimbursements	106,769	367,610	-	735,071	-	1,576,559	1,664,730	248,887	-	4,699,626
Other Income	15,541	-	-	-	-	-	-	-	-	15,541
Total Operating Revenues	1,324,105	821,899	2,822	753,165	135,000	1,584,276	1,664,730	255,741	24,613	6,566,351
Operating Expenses										-
Administrative Expenses	763,124	194,356	190	17,989	-	22,695	27,624	6,821	-	1,032,799
Core Program Expenses	40,000	10,000	-	-	-	-	-	-	-	50,000
Subscription Program Direct Expenses	332,735	231,041	2,632	105	135,000	81	1,593,014	33	55,940	2,350,581
Grant Awards	-	365,916	-	735,071	-	1,561,500	-	244,137	-	2,906,624
Total Operating Expenses	1,135,859	801,313	2,822	753,165	135,000	1,584,276	1,620,638	250,991	55,940	6,340,004
Net Operating Income	188,246	20,586	-	-	-	-	44,092	4,750	(31,327)	226,347
Other Income										
Interest Income	32,439	-	-	-	-	-	-	-	-	32,439
Net Other Income	32,439	-	-	-	-	-	-	-	-	32,439
Net Income (Loss)	$ 220,685	$ 20,586	$ -	$ -	$ -	$ -	$ 44,092	$ 4,750	$ (31,327)	258,786
Net Position, Beginning of the Year as Previously Reported										1,266,226
Restatement for Change in Accounting Principle										(54,521)
Net Position, Beginning of Year as Restated										1,211,705
Net Position, End of the Year										$ 1,470,491

REGIONAL WATER AUTHORITY

SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

RWA manages the SGA and shares 50% of the common administrative costs. Additionally, RWA 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 ended June 30, 2018 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation	Total Administrative Expenses
RWA Administrative Expenses	$ 1,187,694	$ 118,480	$ 197,748	$ 3,419	$ 1,507,341
Allocated to Sacramento Groundwater Authority	(385,890)	(50,303)	(38,349)	-	(474,542)
Total RWA Administrative Expenses - Net of SGA allocation	801,804	68,177	159,399	3,419	1,032,799
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(169,785)	(13,031)	(11,540)	-	(194,356)
2014 Water Energy Grant	(27,624)	-	-	-	(27,624)
Proposition 50 - $25 Million Grant	(190)	-	-	-	(190)
Proposition 84 Grant	(17,989)	-	-	-	(17,989)
2014 Drought Proposition 84	(22,695)	-	-	-	(22,695)
Proposition 84 Round 3	(6,821)	-	-	-	(6,821)
Total Allocated Administrative Expenses - Subscription Programs	(245,104)	(13,031)	(11,540)	-	(269,675)
Net Agency Administrative Expenses - Agency Core Program	$ 556,700	$ 55,146	$ 147,859	$ 3,419	$ 763,124

OTHER REPORT

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*

Independent Auditor's Report

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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 5, 2018.

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 entity'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.

2880 GATEWAY OAKS DRIVE, SUITE 100, SACRAMENTO, CA 95833 • 101 PARKSHORE DRIVE, SUITE 100, FOLSOM, CA 95630
PHONE:916.646.6464 • FAX:916.929.6836 • GilbertCPA.com

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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 5, 2018