

REGIONAL WATER AUTHORITY EXECUTIVE COMMITTEE AGENDA

March 25, 2020; 8:30 a.m.

AMENDED AGENDA

The public shall have the opportunity to directly address the Board on any item of interest before or during the Board's consideration of that item. Public comment on items within the jurisdiction of the Board is welcomed, subject to reasonable time limitations for each speaker. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the Authority's Administrative Office at the address listed above. In compliance with the Americans with Disabilities Act, if you have a disability and need a disability-related modification or accommodation to participate in this meeting, please contact the Executive Director of the Authority at (916) 967-7692. Requests must be made as early as possible, and at least one full business day before the start of the meeting. The Executive Committee may consider any agenda item at any time during the meeting.

Note: Pursuant to the Governor's Executive Order N-29-20, and given the state of emergency regarding the threat of COVID-19, the meeting will be held via teleconference.

We encourage Board members and participants to join the meeting 10 minutes early. Note that we will use GoToMeeting to share slides and other information during the meeting. Use the link below to join GoToMeeting. If you have a microphone that you can use with your computer, it should be possible to both listen to, and participate in, the meeting through GoTo Meeting. If you do not have a microphone, or a headset with a microphone, that plugs into your computer via USB port, you will need to call into the toll-free telephone conference line to listen and comment, although you still should be able to view the meeting materials on GoToMeeting. Please do not simultaneously use a microphone through GoToMeeting and the telephone conference line. That combination results in audio problems for all participants.

Meeting Information:

To join the meeting from your computer, tablet or smartphone.

<https://global.gotomeeting.com/join/677981437>

Join the conference call:

1-877-654-0338 Guest Code 198#

- 1. CALL TO ORDER AND ROLL CALL**
- 2. PUBLIC COMMENT:** Members of the public who wish to address the committee may do so at this time. Please keep your comments to less than three minutes.
- 3. CONSENT CALENDAR**
 - a. Minutes of the January 22, 2020 and February 19, 2020 Executive Committee meetings
Action: Approve the January 22, 2020 and February 19, 2020 Executive Committee meetings minutes

4. **RWA 2019 AUDIT REPORT**
Presentation: Peggy Vande Vooren, Gilbert Associates, Inc.
Action: Recommend RWA Board acceptance of 2019 RWA financial audit report
5. **OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING REPORT**
Presentation and Discussion: Josette Reina-Luken, Financial and Administrative Services Manager
Action: Recommend RWA Board OPEB Funding Strategy
6. **DEVELOPMENT OF FISCAL YEAR 2019 – 2020 BUDGET**
Presentation and Discussion: Josette Reina-Luken, Financial and Administrative Services Manager
7. **CHECK SIGNING AUTHORITY POLICY UNDER THE COVID-19 STATE OF EMERGENCY (RWA POLICY 500.6)**
Discussion: Jim Peifer, Executive Director
8. **SACRAMENTO CENTRAL GROUNDWATER AUTHORITY**
Discussion: Jim Peifer, Executive Director
9. **LEGISLATIVE/REGULATORY UPDATE**
Information Presentation: Ryan Ojakian, Legislative and Regulatory Affairs Manager
Action: Adopt Positions on Legislation
10. **EXECUTIVE DIRECTOR'S REPORT**
11. **DIRECTORS' COMMENTS**

ADJOURNMENT

Upcoming meetings:

Upcoming Executive Committee Meetings –April 22, 2020 at 8:30 a.m. and May 27, 2020 at 8:30 a.m. at the RWA office

Next RWA Board of Directors' Meeting – Thursday, May 14, 2020, at 9:00 a.m. in the RWA conference room, 5620 Birdcage Street, Ste. 110, Citrus Heights, CA 95610

The RWA Executive Committee Meeting electronic packet is available on the RWA website at <https://rwah2o.org/meetings/board-meetings/> to access and print the RWA Board electronic packet.

March 25, 2020

AGENDA ITEM 3: CONSENT CALENDAR

Approval of the minutes from the January 22, 2020 Executive Committee meeting and the February 19, 2020 Executive Committee meeting.

Action: Approve the January 22, 2020 and February 19, 2020 Executive Committee meetings minutes

1. CALL TO ORDER

Chair Schmitz called the meeting of the Executive Committee to order at 8:30 a.m. at the Sacramento Suburban Water District. Individuals in attendance are listed below:

Executive Committee Members

Ron Greenwood, Carmichael Water District
Marcus Yasutake, City of Folsom
Michelle Carrey, City of Sacramento
Paul Schubert, Golden State Water Company
Brent Smith, Placer County Water Agency
Kerry Schmitz, Sacramento County Water Agency
Dan York, Sacramento Suburban Water District

Staff Members

Jim Peifer, Rob Swartz, Ryan Ojikian, Josette Reina-Luken, Amy Talbot, Cecilia Partridge and Ryan Bezerra, legal counsel

Others in Attendance

Kelye McKinney, Bruce Kamilos and Paul Helliker.
Ellen Cross, Catherine MacLeod, Nicole Krotoski, Marty Hanneman and Sean Bigley participated via conference phone

2. PUBLIC COMMENT

Mr. Bezerra noted that we have two Executive Committee members who are participating via the conference phone line. They are participating as members of the public.

There was no public comment.

3. CONSENT CALENDAR

- a. The minutes from the December 11, 2019 Executive Committee meeting
- b. 2020 RWA Executive Committee Meeting Schedule

Mr. Schubert noted that the proposed December 9, 2020 Executive Committee meeting conflicts with the Sacramento Central Groundwater

Authority Board meeting. He requested looking into the possibility of rescheduling the December 9, 2020 Executive Committee meeting at a future meeting.

Motion/Second Carried (M/S/C) Mr. Greenwood moved, with a second by Mr. York, to approve the Consent Calendar items. The motion carried by the unanimous voice vote of all directors present.

Agenda item number 6 was moved after agenda item 3, but is reported in the order listed on the agenda.

4. DEVELOPMENT OF FISCAL YEAR 2020 – 2021 BUDGET

Mr. Peifer said that staff has begun the process of preparing a draft budget for fiscal year 2020-21 (FY2021) by requesting updated retail connections from all RWA members. Staff presented a proposed timeline for budget development. This upcoming budget will be inclusive of key issues raised in RWA strategic plan workshops, as applicable. As such, FY2021 draft budget presentations will likely occur slightly later than in past years. However, budget adoption to the RWA Board remains to be slated for the May Board meeting. In the event that the RWA Board does not approve the budget, a Special Board Meeting may need to be convened in June.

A strategic plan workshop is scheduled for February 21, 2020. Possible strategic plan outcomes could include additional programs whether dues or subscription based and additional staff or consultant costs. Ms. Reina-Luken said that the outcome of the strategic plan and how it might affect FY 2021 budget is not certain. There could be opportunities for increased revenues, revenue generating programs, water transfer programs, new grants and/or new membership. There could also be new program expenditures. The budget drivers for FY 2021 include increased dues, one-time computer equipment replacements and a possible increase in pension liability.

Examples of categories where funding has been designated in the past are the Science Center and the strategic plan. The strategic plan facilitator/consultant cost will be \$35,000. The first strategic plan workshop will focus on goals, mission and mission values with some educational sessions. The second workshop in March will focus on objectives that will be helpful in forming a budget and programs.

Mr. Peifer said that there are some drivers that are causing us to be slightly over on budget at this time at 52%. We had a large expense for a legislative staff tour. Some projected budget expenditure overruns include the audit, necessary legal expenses for assistance required on the complicated pension arrangement that

RWA has with SGA, and additional legal expenses associated with Brown Act issues.

5. STRATEGIC PLAN

The RWA prepared a strategic plan in 2013 and adopted minor plan updates in 2017. An update of the strategic plan is recommended by the Executive Director and Executive Committee input is requested. Similar to the 2013 update, the Executive Committee will guide the development of the process to update the plan, including schedule, the process used to solicit input from members and stakeholders, and other considerations.

Mr. Peifer presented the draft agenda for the February 21, 2020 strategic plan workshop including the topics and presenters.

Ms. Cross said that the workshop is for the members to help establish the priorities for the organization. This is an opportunity to recognize milestones, where we have been, what the next steps are, and how to get there. The survey results will be reviewed as a planning tool for the workshop topics. Ms. Cross went over each topic and the time allowed for each presenter. The goal is to develop strategic plan content from the workshop.

Mr. Bigley suggested that we need to consider the legislature today and what RWA needs to do to be effective in the future with respect to being proactive with RWA's legislative/regulatory program.

Mr. Bezerra suggested adding a presentation by Amy Talbot on some of the regulations around water conservation.

After discussion of the agenda, it was recommended to change the start time for the strategic plan workshop from 10:00 a.m. to 9:30 a.m. The timelines for each topic will be adjusted as needed.

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING REPORT

Mr. Peifer said that during the October 23, 2019 Executive Committee Meeting, the Board requested staff to direct the actuary, MacLeod Watts, to generate some preliminary analysis regarding RWA's CalPERS California Employers' Retiree Benefits Trust (CERBT) used for their Other Post-Employment Benefits (OPEB)/health care retirement deposits. The actuary was asked to do a custom discount rate for RWA based on our cash flows and returns received to date. Specifically, the actuary was asked to provide an OPEB cash flow and liability analysis using the RWA customized blended rate for Strategy 1 (RWA's current strategy) which is the most aggressive strategy; and determine the customized rate for funding Strategies 2 and 3 and the resulting cash flow and liability analysis for comparison to Strategy 1. The actuary's pre-funding Illustrations were included in

the packet along with a few slides regarding CERBT Strategy highlights for discussion.

Josette Reina-Luken, Financial and Administrative Services Manager said that Ms. Krotoski previously provided an OPEB trust overview to the Executive Committee. At this time, the RWA trust is approximately 92% funded. A question for discussion with the Executive Committee is: does RWA want to stay at the same strategy or move to a more conservative strategy? Ms. Reina-Luken gave an overview of the different strategies, how they differ, what could be estimated from each, the RWA risk tolerance with each option, and how the funding obligation would change if the strategy changed. The Executive Committee directed staff to further investigate whether or not CalPERS offers agencies the ability to invest in multiple funding strategies and report back findings at next month's meeting.

7. LEGISLATIVE/REGULATORY UPDATE

Mr. Ojakian provided a quick update of Legislative and Regulatory matters. The legislature came back into session January 6, 2020. There were no two-year bills with one exception that was of significance to RWA, SB 45, which is a bond measure that we will want to focus our attention on this year. For the region, the focus out of the bond measure is going to be how do we tell our story effectively so that we are being recognized for the funding for infrastructure needs that we have including the groundwater bank and RiverArc and how will that conversation occur including for environmental and habitat improvements on the lower American river. There needs to be a bond discussion on where the money should be spent.

8. FEDERAL AFFAIRS PLATFORM

Mr. Bigley said that at the January 9th RWA Board Meeting, the Board adopted the Federal Platform in principle, and requested the Federal Affairs Ad Hoc Committee revise the platform to address any changes the RWA members may want to propose. The ad hoc committee met on January 14th and edited the document to provide more clarity. He explained the changes in the document. He said that the committee believes the document is ready to present to the Board of Directors for approval of the RWA Federal Affairs Platform.

A markup copy was attached along with a clean copy.

9. URBAN WATER MANAGEMENT PLAN SUPPORT

Mr. Peifer said that Mark Madison and Bruce Kamilos from Elk Grove Water District came up with an idea to get agencies together to pool their resources for an Urban Water Management Plan (UWMP). This idea is in keeping with the philosophy of RWA.

Amy Talbot, Water Use Efficiency Program Manager, gave some background saying that UWMPs come out every five years. DWR is expected to release guidelines to

formulate the plans. Mr. Kamilos has been reaching out to DWR for the most recent guidelines to review. Once the new guidelines and requirements are reviewed, there will be discussion on how to meet the requirements.

Mr. Kamilos said that there are some common elements that can be addressed regionally, such as on climate change, drought risk, and seismic risk. Taking a regional approach would give us a stronger voice.

There was discussion that once the guidelines are known, it will be worth investigating to find the commonalities to move forward with the UWMP updates. Ms. Talbot said that her recommendation would be to wait until the guidelines are released and reviewed to determine the opportunities. At that time, we could potentially establish committees of those with specific expertise in content areas to identify a regional approach to efficiently developing content.

10. EXECUTIVE DIRECTOR'S REPORT

RWA Outreach – Thanks to all those who attended the 19th Annual RWA/SGA Holiday Social on December 12, 2018. We were pleased to honor Paul Schubert with the Water Statesperson Award. We were equally pleased to honor Einar Maisch and Steve Nugent who received the Distinguished Service Award.

Mr. Peifer has been appointed to the ACWA Groundwater Committee and will continue to serve as Vice Chair of the Federal Affairs Committee in 2020. Mr. Ojakian was appointed to serve on the State Legislative Committee.

Mr. Ojakian was invited to meet Congressman Jared Huffman along with a few water purveyor member agency representatives to discuss the Water Bank and the regions needs on December 21, 2020. There was an article in the Sacramento Bee that focused on the Folsom Dam raise that gave mention to the Water Bank.

Mr. Peifer was invited to make a presentation to Ernest Conant, Mid Pacific Director for the Bureau of Reclamation along the partners in the American River Basin Study at the Mid Pacific Water Users Conference on January 22, 2020.

We need to implement the policies and procedures set by the Board and talk about the role for outreach associated with the policies. The federal platform will be tiering off of the Legislative Policy Principles. The RWA has an outward facing job in order to do accomplish that. Staff will meet with Secretary of Natural Resources and other agencies to move these issues forward. Mr. Peifer thinks about meetings he would like to attend and he needs to continue to update the Executive Committee while being aligned with the Executive Committee. He also needs the flexibility to decide who attends the meetings with him to provide diversity. The more presence RWA has is beneficial. It was noted that the members appreciate information updates on meetings attended and events the Executive Director and staff are involved in. The

region could do a better job with organizing conferences by being the conduit for the region with one message.

Audit – The RWA and SGA audits are not completed, but we expect completion before the statutory deadline which is the end of the fiscal year. A non-intentional disruption in consultant services has delayed progression of the audits. Staff is procuring additional accounting services to aid in the completion of audits.

November 2019 COLA – Consistent with RWA policy, pay scales were increased January 1, 2020 by 2.5% based on the November consumer price index for small western cities. The updated pay scales and CPI were included in the packet and are posted at www.rwah2o.org to comply with CalPERS requirements.

Voluntary Agreement Ad Hoc Committee – The Executive Committee, during the December 11th meeting, directed staff and the ad hoc committee to investigate the potential for a permanent staff position to assist on Bay-Delta Efforts. That evaluation is ongoing.

Chair Schmitz said that she planned to reappoint the ad hoc committee for further work on the Voluntary Agreement, to revisit the goal and what the committee would like to accomplish.

11. DIRECTORS' COMMENTS

Mr. Greenwood said that Carmichael Water District continues their search for a new general manager. They are now in their second round of interviews and have narrowed the field to three candidates. The District is proceeding with their new storage tank, which is a \$20 million project.

Chair Schmitz reappointed the Voluntary Agreement Ad Hoc Committee and the Federal Affairs Ad Hoc Committee. A Holiday Social Event Ad Hoc Committee was appointed to include Ron Greenwood, Dan York, Brent Smith and Michelle Carrey as chair. The Committee will be staffed by Cecilia Partridge, Josette Reina-Luken, and Jim Peifer.

ADJOURNMENT

Chair Schmitz adjourned the meeting at 10:38 a.m.

By:

Chairperson

Attest:

Josette Reina-Luken, Board Secretary / Treasurer

1. CALL TO ORDER

Chair Schmitz called the meeting of the Executive Committee to order at 8:30 a.m. at the Sacramento Suburban Water District. Individuals in attendance are listed below:

Executive Committee Members

Ron Greenwood, Carmichael Water District
Marcus Yasutake, City of Folsom
Sean Bigley, City of Roseville
Michelle Carrey, City of Sacramento
Paul Schubert, Golden State Water Company
Brent Smith, Placer County Water Agency
Kerry Schmitz, Sacramento County Water Agency
Dan York, Sacramento Suburban Water District
Marty Hanneman, San Juan Water District (via conference phone)

Staff Members

Jim Peifer, Ryan Ojakian, Josette Reina-Luken, Amy Talbot, Cecilia Partridge, Monica Garcia and Andrew Ramos, legal counsel

Others in Attendance

John Woodling, GEI Consultants and Dan Rich, Sacramento Suburban Water District, and Ellen Cross, Strategy Driver participated via conference phone

2. PUBLIC COMMENT

None.

3. CONSENT CALENDAR

Approval of the minutes from the January 22, 2020 Executive Committee meeting were deferred to the March 2020 Executive Committee meeting

4. STRATEGIC PLAN

Mr. Peifer said that finishing touches have been made to the agenda for the RWA Strategic Plan Workshop. RWA prepared a strategic plan in 2013 and adopted minor plan updates in 2017. Similar to the 2013 update, the Executive Committee will guide the development of the process to update the plan, including schedule, the

process(es) used to solicit input from members and stakeholders, and other considerations.

Ellen Cross, Strategy Driver, gave a summary of the results from a survey that was sent out to RWA members. She said there was a lot of alignment from the participating agencies including additional outreach, involving the full membership in the groundwater bank, improved communication and identifying grants for smaller agencies. Education, communication, transparency, water affordability, water efficiency and advocacy ranked very high as priorities. The survey revealed what the membership would like to see for the next five years including more communication, collaboration with one voice that represents the whole membership, protecting our groundwater sustainability plan, water rights and conjunctive use, aligning priorities in the strategic plan to meet long range goals.

Mr. Peifer said that survey responses were varied but the purpose of a strategic plan is for the members to have a common vision. Mr. Peifer reported that one agency reported on their survey that they were concerned that with federal and legislative activities their dues may increase while they don't see a benefit for them with the program. When the agency was contacted, they provided additional feedback saying that they may be satisfied with a subscription program that they were not obligated to pay for.

5. OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING REPORT

Josette Reina-Luken, Financial and Administrative Services Manager gave a report back from the January 22nd Executive Committee meeting. Ms. Reina-Luken said that she confirmed with CalPERS that they are not allowing agencies to invest in two funding strategies at this time. They are currently doing a test pilot with an agency to see what administrative effort would be involved to manage multiple portfolios. This option will be brought to the Executive Committee when it becomes available. She gave an overview of Funding Strategy 1, Funding Strategy 2, their discount rates and how each strategy affects expenses, trust balances, ratios, implicit and explicit liabilities. She asked for a funding recommendation from the Executive Committee to present to the full RWA Board.

Mr. Peifer said that the risk tolerance of the board starts with a discussion among the Executive Committee. Mr. Schubert suggested that we move to Strategy 2 and eliminate the implicit liability.

Mr. Woodling, GEI Consultants, said that RWA is a voluntary membership organization. A part of the funding loop was closed when RWA adopted an exit clause for agencies leaving the RWA. The strategy choice to maintain funding the implicit liability for RWA years ago was a conservative decision.

Ms. Reina-Luken said that she will direct the actuary to perform the calculation and have the information to staff in preparation to present at the full board at the March meeting and include in the May budget presentation.

6. LEGISLATIVE/REGULATORY UPDATE

Ryan Ojakian, Legislative and Regulatory Affairs Manager said that the Legislative bill introduction is February 21st. There have only been a few bills introduced related to water management. A potential climate resilience bond remains the primary water issue in the state. It is expected that there will be multiple bills presented for this legislative session. The Governor posted his proposed \$4.75 billion bond as a budget trailer bill on January 31st. RWA has put together language requesting \$200 million for conjunctive use to be specifically called out in the bond. A copy of that language was included in the packet. The intent of the RWA language is to direct funding to the Sacramento Regional Water Bank and the RiverArc projects. The approach in the RWA language is to set the regions conjunctive use approach apart from other efforts around the state by prioritizing projects.

Mr. Ojakian said that there needs to be discussion on how to determine how any funds that are allocated would be distributed in the region and determine distribution priorities.

Mr. Peifer suggested putting funding distribution recommendations together with a proposal for discussion by the Executive Committee.

Staff expects to have discussion on the proposed bills at the next RWA Board meeting.

7. VOLUNTARY AGREEMENT AD HOC COMMITTEE RECOMMENDATIONS

Chair Schmitz reappointed the ad hoc committee to address the RWA's role in the Bay Delta Water Quality Control Plan (WQCP) and the Voluntary Agreements (VA). The ad hoc committee's charge is to oversee the participation of RWA and its Executive Director in the ongoing negotiations and proceedings concerning the SWRCB proposal to amend the WQCP. The ad hoc committee made recommendations to the RWA Board and Executive Committee for defining the RWA role and commitments of resources.

During the December 11, 2019 Executive Committee (EC), the VA Committee updated the EC on the status of committee efforts in order to move the VA subscription program forward. At that meeting, Andy Fecko from PCWA brought up difficulties relative to consultant assistance as well as given the multiple processes/challenges to surface water rights in particular, perhaps RWA should contemplate staff resources rather than consultant resources. The EC then gave direction to the Executive Director to investigate the need for a staff position that could take lead on matters that affect the surface water reliability of the member water agencies.

Kerry Schmitz, Chair of the Voluntary Agreement Ad Hoc Committee said that there is consensus amongst the committee to have the VA included in the Strategic

Planning process to determine what the membership views are as the focus for the committee.

Mr. Schubert exited the meeting.

The committee expects to continue meeting to discuss what this program looks like with ideas from the strategic planning.

Motion/Second Carried (M/S/C) Mr. Greenwood moved, with a second by Mr. Bigley, to direct the Executive Director to evaluate options and report back to the committee and the Board. The motion carried by the unanimous voice vote of all directors present including Ron Greenwood, Marcus Yasutake, Sean Bigley, Michelle Carrey, Brent Smith, Kerry Schmitz and Dan York. Marty Hanneman voted yes via voice vote on the conference phone.

8. EXECUTIVE DIRECTOR'S REPORT

The Water Forum is interested in starting a new Water Forum Agreement. This would be an early negotiation since the current agreement expires in 2030. The reasons behind the early negotiations include the plans of the Water Forum Executive Director to retire in a couple of years and the voluntary agreements may affect the agreement. The negotiations will include coequal objectives, habitat, Folsom storage, flow standard and climate change and how they all fit into the agreement negotiations. Mr. Peifer has been requested to make a list of people who would participate in the main organizing body including five to seven negotiators from the combined water caucus and public caucus. He will participate as a representative of the RWA member agencies. Mr. York would represent the groundwater interests and Darin Reintjes would represent the upstream diverters. Two representatives would represent the Folsom Reservoir Diverters. The proposal needs to be agreed upon by the water caucus.

Staff will be planning out the ACWA Spring Conference and deciding what types of items we would like to accomplish during the conference. Mr. Peifer will be working with members to identify outcomes and develop meetings at the conference.

Mr. Peifer and Mr. Ojakian will be attending the ACWA-DC Conference next week, along with other members from the region. They will be meeting with members of congress, their staff and members of the administration to talk about resiliency and the funding need for the water bank.

Representative Jared Huffman released a piece of legislation called the Future Drought Resiliency Act. Staff provided comments on that legislation which will be circulated to the Executive Committee. Senator Feinstein recently released a new version of SB 1932. Staff may be submitting a comment letter on the new version.

Mr. Peifer has been participating in the Metro Chamber Steering Committee meetings for Cap-to-Cap. Working with Meg Arnold with Valley Vision, the

committee is developing a climate change panel for discussions on what we see happening with climate change and possible solutions. It is anticipated that Ben Holton, a professor from UC Davis who has led the Sacramento region on climate initiatives will provide introductory remarks with a panel discussion of four panel members. The panel will be moderated by Mr. Peifer. The purpose of the panel is to align the regions leaders in one direction to get the support needed including funding and alignment on the various activities that we are working on with climate change.

Mr. Peifer participated in an ACWA Federal Affairs Committee meeting last week along with the water management committee and groundwater committee meetings. There is a call for those on the various committees to be the ambassadors and help align the groundwater committee.

Mr. Peifer recently participated with a number of other agency staff from the region in the Bureau of Reclamation Water Users Conference giving a presentation on the water bank and the American River Basin Study. There was a follow up meeting on funding opportunities with the Bureau of Reclamation. Information was received about an annual funding fair held in Denver where anyone can attend to get information on federal grants for projects.

Mr. Peifer and Mr. Swartz met with East Bay MUD recently to discuss their interest in opportunities with entities in the Sacramento Valley that have reliable water supplies. They are interested in increasing their dry year water supplies.

Mr. Peifer, Mr. Swartz and Mr. Ojakian met with DWR. Chris Tjernell, Deputy Director for DWR, has an increasing portfolio of activities and many of the resiliency portfolio functions are falling under his oversight. Staff wanted to let him know what we are doing in the region and looking towards him as a collaborator who we could work with.

Mr. Peifer gave an update on the office flooding. He reported that the owner has replaced drywall, replaced the carpet and painted in the office. A mold test will be performed. Upon clear results, ServPro will move RWA items back into the office. There is still some cabinetry that needs to be replaced in the conference room.

9. DIRECTORS' COMMENTS

Mr. Smith said that the Placer County Water Agency watershed sits at 55 percent of normal for this time of year. Tomorrow is the last day for General Manager Einar Maisch in the office.

Mr. Bigley said that American River contractors will be participating in a reservoir signing ceremony on February 28th.

Mr. York said that with the Sacramento Suburban Water District conjunctive use program, they have been fortunate to take water from Placer County Water Agency and the City of Sacramento. They have recently turned off those supplies, because

the watershed projected inflow was not adequate. ACWA regions 2 and 4 will have a joint program at Shasta Dam on March 26th.

Mr. Greenwood reported that Carmichael Water District is continuing their infrastructure work. They have replaced a water storage tank. The search for the new General Manager is in the final stages.

Mr. Yasutake requested that additional information on the RiverArc be presented at future board meetings.

ADJOURNMENT

Chair Schmitz adjourned the meeting at 10:14 a.m.

By:

Chairperson

Attest:

Josette Reina-Luken, Board Secretary / Treasurer

March 25, 2020

AGENDA ITEM 4: RWA 2019 AUDIT REPORT

BACKGROUND:

Gilbert Associates, Inc. has completed the financial audit for the fiscal year that ended June 30, 2019. The full audit report is attached.

STAFF RECOMMENDATION:

Presentation: Peggy Vande Vooren, Gilbert Associates, Inc.

Action: Recommend RWA Board acceptance of 2019 RWA financial audit report

Relax
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Regional Water Authority

Executive Committee Meeting

March 25, 2020

The Audit

I. OVERVIEW OF THE AUDIT

- Fieldwork at offices of RWA: Interim – July, Year-End – October, and wrapped up audit procedures in November/December.
- Management and staff were well-prepared and cooperative; however, experienced delays in receiving report timely.

II. REQUIRED COMMUNICATIONS TO THE BOARD

- *Responsibilities and Opinion* - Our responsibilities as auditors, scope and timing, unmodified opinion. Supplementary info required by GASB.
- *Interactions with Management* – no disagreements, full representations from mgmt. will be obtained, no consultations with other auditors or accountants, no difficulties encountered, however experienced delays in obtaining the financial statements timely.
- *Qualitative Aspects of Accounting Practices* – No new accounting policies; estimates/judgments deemed reasonable.
- *Results of the Audit* – Timing and scope as expected. No Audit Adjustments. No Significant Deficiencies or Material Weaknesses reported.

III. THE AUDIT REPORT

Pages 1-3 **The Independent Auditor’s Report on Financial Statements**

- Issued an unmodified (clean) opinion – (first paragraph of pg. 2) the best opinion that we can give as auditors

Pages 4-16 **Management’s Discussion and Analysis**

- Introduction & overview of RWA’s financial statements
- Condensed comparative financial statement data
- Analysis of financial position and results of operations
- Future economic factors and assumptions

The Financial Statements

Page 17

Statements of Net Position

- Financial Position at June 30,

	<u>2019</u>	<u>2018</u>
Total Assets	\$ 2,377,261	\$ 2,484,775
Deferred Outflows of Resources	338,121	369,915
Total Liabilities	(757,433)	(1,193,968)
Deferred Inflows of Resources	<u>(159,304)</u>	<u>(190,231)</u>
Net Position	<u>\$ 1,798,645</u>	<u>\$ 1,470,491</u>

- Total assets decreased by ~ \$108 thousand. This decrease is primarily related to grants receivables of ~\$190 thousand as well as an offsetting increase in cash and investments of ~\$106 thousand.
- Total liabilities decreased by ~ \$437 thousand. This decrease is primarily related to a reduction in grants payable of ~\$165 thousand, in addition to a decrease in Subscription Program Advances of ~\$265 thousand, plus a reduction in Pension Liability of ~\$65 thousand. These decreases are offset by an increase in Unearned Revenue of ~\$45 thousand due to additional Powerhouse Science center collections.

Page 18

Statements of Revenues, Expenses, and Changes in Net Position

- Results of Operations for the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Total Operating Revenues	\$ 5,704,289	\$ 6,566,351
Total Operating Expenses	<u>(5,432,527)</u>	<u>(6,340,004)</u>
Operating Income	271,762	226,347
Non-Operating Revenues	<u>56,392</u>	<u>32,439</u>
Increase in Net Position	<u>\$ 328,154</u>	<u>\$ 258,786</u>

- Most of the decreases in operating revenues and expenses were due to an overall reduction in grant and subscription program activities.

Page 19 **Statements of Cash Flows**

- Cash Transactions
 - Illustrates cash inflows and outflows of RWA
 - Majority of the activity is based on the nature of RWA’s operations with members and programs

Pages 20-44 **Notes to the Financial Statements**

- The notes to the financial statements explain the assumptions underlying the financial statements and provide additional information that is not available in the financial statements
 - Significant Accounting Policies – No new accounting standards – Page 20, Note 1
 - Employee Pension Plan (CalPERS) – Pension Liability decreased to \$89,817 from \$154,391 – Page 28, Note 5
 - Other Post-Employment Benefits (OPEB) – OPEB Liability decreased to \$84,722 from \$92,493 – Page 34, Note 6
 - Board Designations – per Board Policy – Page 41, Note 7

IV. REQUIRED SUPPLEMENTARY INFORMATION

Page 45 **Schedule of the Proportionate Share of the Net Pension Liability**

Page 46 **Schedule of Contributions to the Pension Plan**

Page 47 **Schedule of Changes in Net OPEB Liability and Related Ratio**

Page 48 **Schedule of OPEB Contributions**

V. SUPPLEMENTARY INFORMATION

Page 49 **Program Schedules of Revenues, Expenses and Changes in Net Position**

Page 51 **Schedule of Allocated Administrative Expenses**

VI. OTHER INDEPENDENT AUDITOR’S REPORT

Pages 53-54 **“GAGAS” Audit Report**

REGIONAL WATER AUTHORITY

Communications With Those Charged With Governance

Submitted by

Gilbert CPAs

We have audited the financial statements of the Regional Water Authority (the Authority) for the year ended June 30, 2019. Professional standards require that we provide you with information related to our audit. We are providing the Authority's Executive Committee and Board of Directors (Board) with information regarding the scope and results of the audit to assist the Board in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board, and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties. The following pages summarize these required communications.

March 25, 2020

MANAGEMENT AND AUDITOR RESPONSIBILITIES

Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The financial statements are the responsibility of management. As stated in our engagement contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Authorities' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We issued an unmodified opinion on the financial statements of the Authority for the year ended June 30, 2019.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we advised management about the appropriateness of accounting policies and their application.

The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2019.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive estimates and disclosures affecting the Authority's financial statements were:

- The Net OPEB Liability (NOL) and related deferred inflows and outflows of resources is measured as of June 30, 2018. The total OPEB liability (TOL) used to calculate the NOL was determined by an actuarial valuation as of June 30, 2017.
- The estimate of the net pension liability and related deferred inflows and outflows of resources is based upon the Authority's proportionate allocation of the CalPERS plan pension amounts as of the June 30, 2018 measurement date. CalPERS calculates the net pension liability for all participating agencies actuarially by rolling-forward obligations from the June 30, 2017 actuarial valuation using standard update procedures as of the measurement date. These amounts are allocated to the Authority and other participating agencies based on their proportionate share of contributions to the CalPERS plans during the measurement period.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.

INTERACTIONS WITH MANAGEMENT

Planned Scope and Timing of the Audit	We performed the audit according to the planned scope and timing previously communicated in our engagement contract.
Management Consultations with Other Independent Accountants In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.	To our knowledge, there were no such consultations with other accountants.
Disagreements with Management For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report.	We are pleased to report that no such disagreements arose during the course of our audit.
Management Representations	We requested certain representations from management in a letter to us.
Difficulties Encountered in Performing the Audit	We encountered delays in obtaining the financial statements necessary to complete the audit timely. However, we encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were cooperative.

OTHER MATTERS

Other Audit Findings or Issues	We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
Corrected and Uncorrected Misstatements Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.	No significant adjustments were identified during our audit.

SUPPLEMENTARY INFORMATION

Required Supplementary Information

Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the Authority's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquiries of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.

The following required supplementary information is required to accompany the Authority's basic financial statements and subjected to limited procedures, but no opinion has been expressed:

- Management's Discussion and Analysis
- Schedule of the Authority's Proportionate Share of the Net Pension Liability
- Schedule of the Authority's Contributions to the Pension Plan
- Schedule of the Authority's Changes in Net OPEB Liability and Related Ratios
- Schedule of the Authority's Contributions to the OPEB Plan

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The supplementary information section, as listed in the table of contents of the financial statements of the Authority for the years ended June 30, 2019 and 2018, are presented for purposes of additional analysis and in our opinion are fairly stated in all material respects to the financial statements as a whole.

REGIONAL WATER AUTHORITY

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2019 AND 2018

DRAFT

REGIONAL WATER AUTHORITY

TABLE OF CONTENTS JUNE 30, 2019 and 2018

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 – 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 16
FINANCIAL STATEMENTS	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19
Notes to Financial Statements	20-44
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the Proportionate Share of the Net Pension Liability	45
Schedule of Contributions to the Pension Plan	46
Schedule of Changes in Net OPEB Liability and Related Ratio	47
Schedule of Contributions to the OPEB Plan	48
SUPPLEMENTARY INFORMATION	
Program Schedule of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2019	49
Program Schedule of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2018	50
Schedule of Allocated Administrative Expenses for the year ended June 30, 2019	51
Schedule of Allocated Administrative Expenses for the year ended June 30, 2018	52
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 <i>Government Auditing Standards</i>	53-54

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 years ended June 30, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits 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.

Opinions

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, 2019 and 2018, and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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 audits 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 **MONTH**, **2020**, 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 CPAs
Sacramento, California

MONTH __, 2020

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REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 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, 2019 and 2018. This discussion and analysis should be read in conjunction with the financial statements, which can be found on pages 17 to 44 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 statements 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 statements of revenues, expenses, and changes in net position report all of RWA's revenues and expenses during the periods indicated. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. interest income, pension expense and amounts due to vendors).

The statements 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 20 to 44 of this report.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

Condensed Statements of Net Position

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Current Assets	\$ 2,377,261	\$ 2,484,247	\$ (106,986)	\$ 6,153,058	\$ (3,668,811)
Capital Assets	-	528	(528)	3,947	(3,419)
Total Assets	2,377,261	2,484,775	(107,514)	6,157,005	(3,672,230)
Deferred Outflows	338,121	369,915	(31,794)	236,571	133,344
Total Assets and Deferred Outflows	2,715,382	2,854,690	(139,308)	6,393,576	(3,538,886)
Current Liabilities	402,707	813,531	(410,824)	4,758,327	(3,944,796)
Non-Current Liabilities	354,726	380,437	(25,711)	245,599	134,838
Total Liabilities	757,433	1,193,968	(436,535)	5,003,926	(3,809,958)
Deferred Inflows	159,304	190,231	(30,927)	123,424	66,807
Net Position:					
Invested in capital assets	-	528	(528)	3,947	(3,419)
Restricted	498,043	443,603	54,440	405,501	38,102
Unrestricted	1,300,602	1,026,360	274,242	856,778	169,582
Total net position	\$ 1,798,645	\$ 1,470,491	\$ 328,154	\$ 1,266,226	\$ 204,265

Fiscal Year 2019 Compared to Fiscal Year 2018

Total current assets have decreased \$106,986 and reflect a decrease in grant receivables from the prior year by \$190,427 due to completion of some of the multi-year grants. The June 30, 2019 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 decrease in grant receivables was offset by an increase in cash and restricted cash from the prior year by \$106,466.

The deferred outflows net decrease of \$31,794 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 decreased by \$10,136 and \$21,568 related to OPEB and pension, respectively.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

There was a \$410,824 decrease in current liabilities in fiscal year 2019 due to a decrease in subscription program advances of \$264,547 due to reflecting fees collected for incurred subscription program expenses and a decrease of \$164,266 in accounts payable and accrued liabilities which was caused by the timing of vendor payments.

RWA's non-current liability decreased by \$25,711 due to a decrease in the net pension liability by \$64,574, offset by an increase in unearned revenue by \$44,634 due to additional Powerhouse Science center collections in advance of obligations.

The decrease of \$30,927 in deferred inflows represents a decrease of \$20,647 in unamortized OPEB adjustments caused by timing of when they are reflected in OPEB expense as a result of GASB 75. Additionally, the deferred inflows related to the pension decreased \$9,368 primarily due to changes in assumptions by CalPERS as of the June 30, 2018 measurement date.

Restricted net position increased \$54,440 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 \$1,300,602 reflects an increase of \$274,242, due to net income of \$328,154 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.

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.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

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.

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REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

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

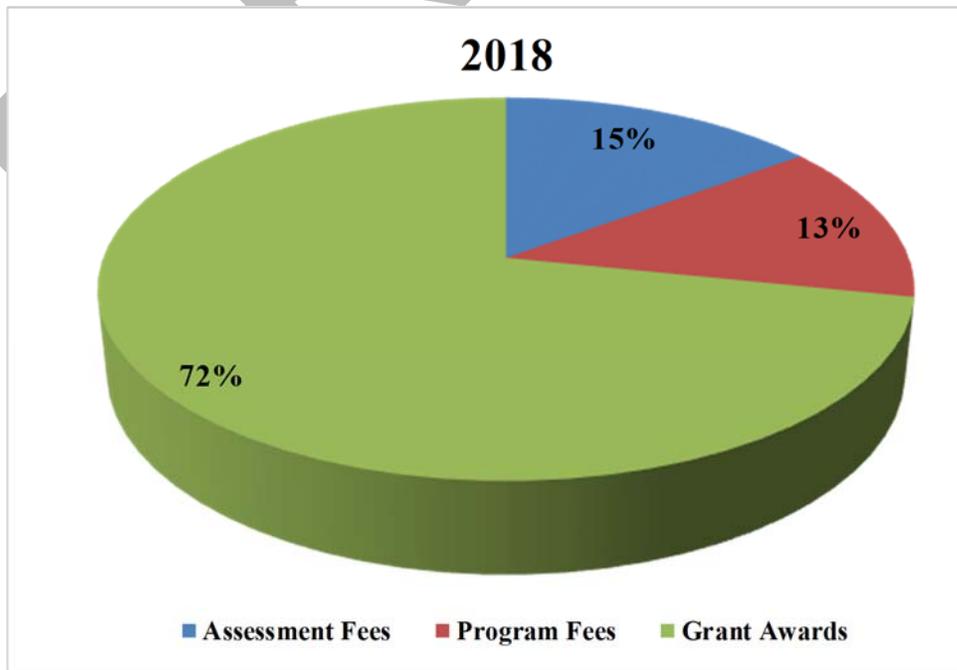
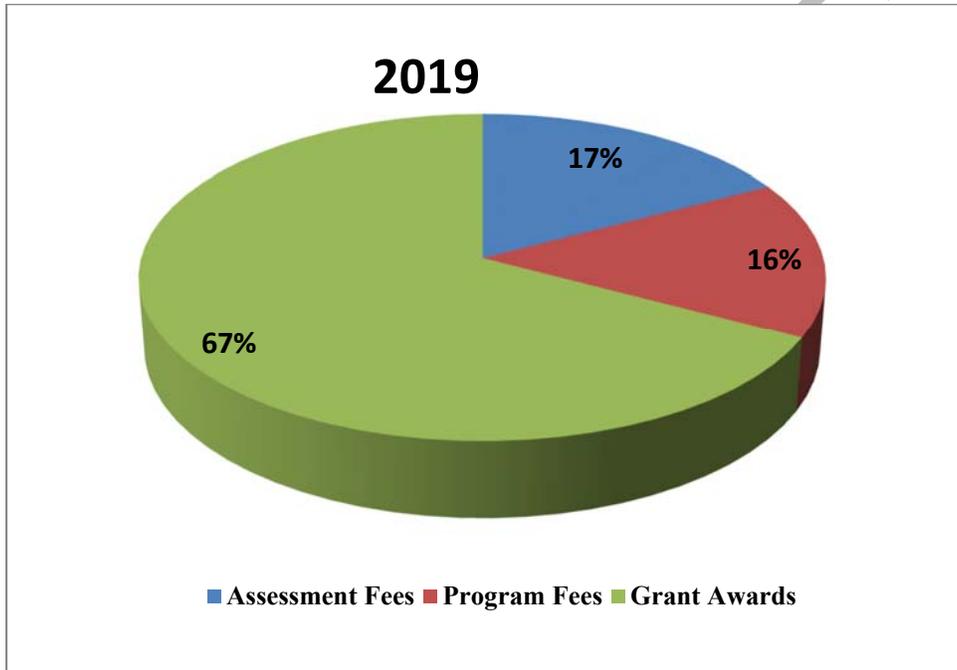
For the fiscal years ending June 30, the following condensed schedules of revenues, expenses, and changes in net position are presented:

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Operating revenues:					
Assessment Income	\$ 983,632	\$ 972,713	\$ 10,919	\$ 835,231	\$ 137,482
Subscription Program Fees	874,826	878,471	(3,645)	1,248,759	(370,288)
Incentives, Grants and Reimbursements	3,836,394	4,699,626	(863,233)	5,745,315	(1,045,689)
Other Income	9,437	15,541	(6,104)	15,669	(128)
Total Operating Revenues	<u>5,704,289</u>	<u>6,566,351</u>	<u>(862,062)</u>	<u>7,844,974</u>	<u>(1,278,623)</u>
Interest Income	56,392	32,439	23,953	16,647	15,792
Total Revenues	<u>5,760,681</u>	<u>6,598,790</u>	<u>(838,109)</u>	<u>7,861,621</u>	<u>(1,262,831)</u>
Operating Expenses:					
Administrative Expenses	961,613	1,032,799	(71,186)	966,023	66,776
Core Program Expenses	25,000	50,000	(25,000)	-	50,000
Subscription Program Direct Expenses	863,950	2,350,581	(1,486,631)	1,884,677	465,904
Grant Awards	3,581,964	2,906,624	675,340	4,736,700	(1,830,076)
Total Operating Expenses	<u>5,432,527</u>	<u>6,340,004</u>	<u>(907,477)</u>	<u>7,587,400</u>	<u>(1,247,396)</u>
Increase in Net Position	<u>328,154</u>	<u>258,786</u>	<u>69,368</u>	<u>274,221</u>	<u>(15,435)</u>
Net Position, July 1	<u>1,470,491</u>	<u>1,211,705</u>	<u>258,786</u>	<u>992,005</u>	<u>219,700</u>
Net Position, June 30	<u>\$ 1,798,645</u>	<u>\$ 1,470,491</u>	<u>\$ 328,154</u>	<u>\$ 1,266,226</u>	<u>\$ 204,265</u>

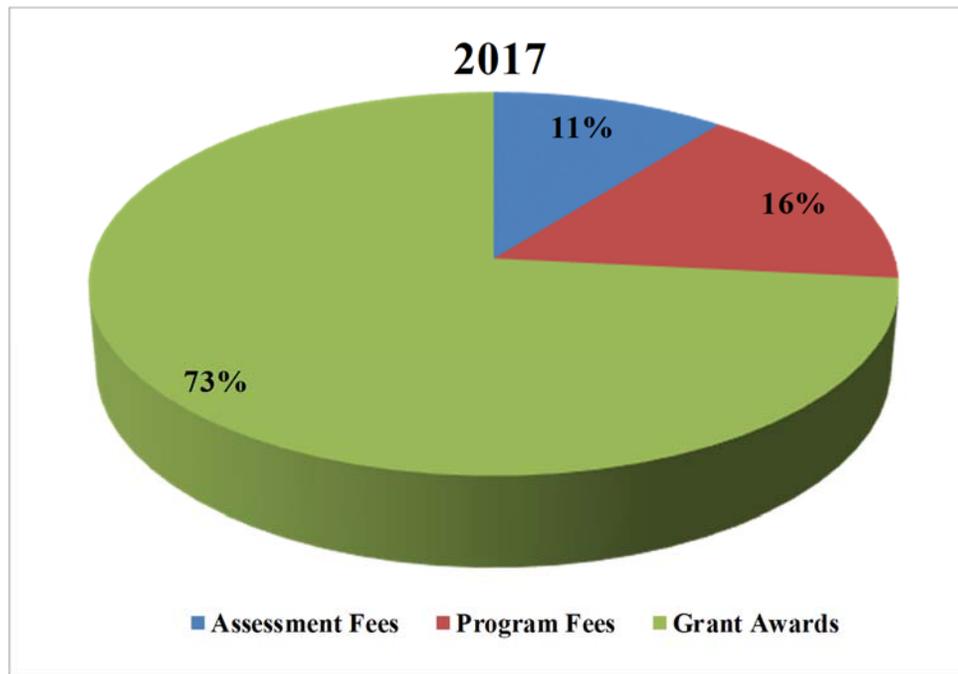
REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

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:



REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018



Fiscal Year 2019 Compared to Fiscal Year 2018

Operating revenues – Operating revenues totaled \$5,704,289 and was \$862,062 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 \$10,919 increase in assessment fees is due to a 1% increase for the year ended June 30, 2019 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 2019, 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 2014 Integrated Regional Water Management Drought Proposition 84 Grant (2014 Drought Prop 84), the Prop 84 Round 3 grant, the Direct Install, the United States Bureau of Reclamation (USBR) / CALFED Programs and the Landscape Imagery project. Program fees are not expected to be comparable from year to year. The program fees increased overall by \$5,515 mainly due to the Landscape Imagery and the Prop 84 Round 3 projects. For the detail of fees earned by program, see the Program Schedule of Revenues, Expenses and Changes in Net Position in the supplementary section of the financial statements.

Incentives, grants, and reimbursements – In fiscal year 2019, RWA earned grant awards from the WEP, 2018 IRWM Update, direct install, 2014 Drought Prop 84, Prop 84, and the Prop 84 Round 3 grants. These programs contributed largely to the overall \$870,266 decrease in grant awards:

- 1) The 2018 IRWM update decreased by \$81,769. This grant provided funding from the Water Quality, Supply and Infrastructure Improvement Act (Proposition 1) for the purpose of developing or completing a new, or updating an existing IRWM Plan.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

- 2) The 2014 Water energy program was completed in 2018 with a decrease of \$1,664,730. This \$2,500,000 grant from DWR was to provide funding from the Greenhouse Gas Reduction Fund to assist in financing projects associated with Section 2 of the Budget Act of 2013.
- 3) The 2014 Drought Prop 84 grant revenue decreased by \$1,030,082. This grant provided funding from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 to assist in financing projects associated with the American River Basin Integrated Regional Water Management (IRWM) Plan.
- 4) The Prop 84 Round 3 grant decreased by \$85,987. This grant provided funding from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 to Grantee to assist in financing projects associated with the American River Basin IRWM Plan.

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

- 1) The Prop 84 grant revenue increased by \$1,772,429 in fiscal year 2019. 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 District Install project expenses increased by \$188,451 as a result of RWA working with a contractor to install high efficiency fixtures using funds provided by the City of Sacramento.

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 decreased by \$66,075 from the previous fiscal year which included a decrease of \$106,264 in staffing costs and a decrease of \$2,891 in depreciation, offset by an increase of \$6,410 in office expenses and an increase of \$36,670 in professional fees. The decrease in staffing costs were due to the Executive Director retiring and the position being vacant for almost 4 months and a reduction in pension expense as a result of the pension liability decrease offset by an increase in payments made toward the unfunded pension liability. Professional fees increased as a result of recruiting fees paid to replace the Executive Director. Net expenses after allocation to RWA were lower than the previous year by \$71,186 in part due to the decreased 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, 2019, core expenses decreased \$25,000 related to the payment for the Powerhouse Science Center exhibits.

Subscription Program Direct Expenses – During fiscal year 2019, RWA incurred subscription program expenses from the core program, WEP, Prop 50, Prop 84 implementation, Direct Install, the Landscape Imagery Programs. Program expenses are not expected to be comparable from year to year. The program expenses decreased overall by \$1,483,446, as follows:

- 1) The core program subscription direct expenses decreased by \$177,138 and include the regional reliability costs of \$138,371, labor compliance costs of \$1,600, ARB study costs of \$12,395, \$17,381 for the 2018 IRWM update this year and \$120,000 for the government relations program.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

Cost decreases were mostly in the area of the IRWM update program, which decreased \$95,901 and the regional reliability project, which decreased \$45,018.

- 2) The 2014 Water Energy grant expenses decreased by \$1,593,014 due to the completion of the program in fiscal year 2018.
- 3) The WEP administration costs of \$302,386 increased by \$71,345 and represents administering public outreach about water saving and awareness.
- 4) The landscape imagery program had consulting costs of \$84,892 and increased \$28,952 during 2019.
- 5) The Direct Install program is a new program that had consulting expenses of \$188,451 in fiscal year 2019.

Grant Awards – In fiscal year 2019, RWA earned grant awards from the WEP, Prop 84, 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 \$672,155 increase in grant awards expense:

- 1) The Prop 84 \$16 million grant award is in the seventh year of this program. There was \$2,507,500 in eligible costs that were incurred by the participants for grant reimbursement which reflects an increase in grant awards of \$1,772,429.
- 2) WEP grant awards increased \$19,922 during the year for a total of \$385,837.
- 3) The 2014 drought grant started in fiscal year 2015. Grant distributions decreased in fiscal year 2019 by \$1,038,959 for a total of \$522,542.
- 4) The Prop 84 Round 3 grant decreased \$81,237 for a total of \$162,900.

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.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

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:

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

- 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.

REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 and 2018

	2019	2018	Increase (Decrease)	2017
Furniture	\$ 14,464	\$ 14,464	\$ -	\$ 14,464
Equipment	17,307	17,307	-	17,307
Website Development	15,604	15,604	-	15,604
Leasehold Improvements	17,951	17,951	-	17,951
Gross Capital Assets	65,326	65,326	-	65,326
Less Accumulated Depreciat	(65,326)	(64,798)	(528)	(61,379)
Net Capital Assets	\$ -	\$ 528	\$ (528)	\$ 3,947

Economic factors and assumptions for fiscal year June 30, 2020

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, 2020.

- 1) A total 5% increase on general membership and 3% on associate membership fees is proposed to fully implement the strategic plan staffing, plus continuing to pay sums towards the unfunded pension liability. Some member's actual increase may be slightly different if water connections changed from the previous year.
- 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 and the legislative program manager. SGA does pay for 20% of the project assistant position.
- 4) Subscription program revenues provide approximately 10% 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. Additional members have joined which yielded an additional \$13,000, which will be credited back to the agencies on their FY20 invoice.
- 6) 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 40% by RWA and 60% 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.

REGIONAL WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 and 2018

- 7) Staff salaries are within ranges assigned by the 2017 total compensation survey and reflect a possible 4% increase for merit plus 2% COLA. Beginning in fiscal year 2019, staff pays the full 7% employee share of their pension contributions. There is considerable uncertainty in salary and benefit projections for FY20 as salaries for a new Executive Director for a full year and a Finance manager for more than one-half of the year are yet to be determined.
- 8) Benefit costs also include projected increases for OPEB and health care. Benefits also include estimates for future OPEB costs for new employees.
- 9) RWA continues to plan for additional CalPERS pension payments for the unfunded liability. The planned additional payment in FY20 is \$15,000.
- 10) Office cost increases are based upon estimated increases in fiscal year 2020 and also include the increased office lease agreement costs. For FY21 and beyond, office costs are estimated at 3% annual increases unless specific increases have been identified.
- 11) 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 \$22,000 for general consulting costs.
- 12) Other includes office equipment purchases. A portion of the funding for FY20 comes from unused office move costs that were designated from FY18 to be used for the conference room and other office improvements.
- 13) Core program expenses include costs associated with the Powerhouse Science Center partnership and return of approximately \$13,000 to members for previous contributions to Powerhouse. IRWM costs are also considered part of core expenses.
- 14) Combined core and subscription expenses versus revenues net a projected decrease in cash outflow of approximately \$66,900. 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

STATEMENTS OF NET POSITION JUNE 30, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and Investments	\$ 1,293,107	\$ 1,018,426
Restricted Cash and Investments	849,112	1,017,327
Grants/Incentives Receivable	108,536	298,963
Accounts Receivable	44,666	29,832
Receivable from Sacramento Groundwater Authority	56,048	95,733
Other Assets	25,792	23,966
Total Current Assets	2,377,261	2,484,247
Capital Assets, Net	-	528
Total Assets	2,377,261	2,484,775
DEFERRED OUTFLOWS		
Pension	155,616	177,274
Other Post Employment Benefits (OPEB)	182,505	192,641
Total Deferred Outflows	338,121	369,915
TOTAL ASSETS AND DEFERRED OUTFLOWS	2,715,382	2,854,690
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	95,669	259,935
Compensated Absences	54,701	67,080
Grants Payable	73,912	43,544
Subscription Program Advances	153,425	417,972
Unearned Revenue	25,000	25,000
Total Current Liabilities	402,707	813,531
Non-Current Liabilities		
Compensated Absences	4,800	2,800
Net Pension Liability	89,817	154,391
Net OPEB Liability	84,722	92,493
Unearned Revenue	175,387	130,753
Total Non-Current Liabilities	354,726	380,437
Total Liabilities	757,433	1,193,968
DEFERRED INFLOWS		
Rent	-	912
Unamortized Pension Adjustments	36,514	45,882
Unamortized OPEB Adjustments	122,790	143,437
Total Deferred Inflows	159,304	190,231
NET POSITION		
Net Investment in Capital Assets	-	528
Restricted	498,043	443,603
Unrestricted	1,300,602	1,026,360
Total Net Position	\$ 1,798,645	\$ 1,470,491

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

REGIONAL WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES:		
Assessment Income	\$ 983,632	\$ 972,713
Subscription Program Fees	874,826	878,471
Incentives, Grants, and Reimbursements	3,836,394	4,699,626
Other Income	<u>9,437</u>	<u>15,541</u>
Total Operating Revenues	<u>5,704,289</u>	<u>6,566,351</u>
OPERATING EXPENSES:		
Administrative Expenses	961,613	1,032,799
Core Program Expenses	25,000	50,000
Subscription Program Direct Expenses	863,950	2,350,581
Grant Awards	<u>3,581,964</u>	<u>2,906,624</u>
Total Operating Expenses	<u>5,432,527</u>	<u>6,340,004</u>
OPERATING INCOME	271,762	226,347
OTHER INCOME:		
Interest Income	<u>56,392</u>	<u>32,439</u>
INCREASE IN NET POSITION	<u>328,154</u>	<u>258,786</u>
Net Position, Beginning of Year	<u>1,470,491</u>	<u>1,211,705</u>
NET POSITION, End of Year	<u><u>\$ 1,798,645</u></u>	<u><u>\$ 1,470,491</u></u>

REGIONAL WATER AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	2019	2018
CASH FLOWS USED BY OPERATING ACTIVITIES:		
Cash received from members and participants	\$ 1,623,711	\$ 1,438,600
Cash received from SGA	519,338	479,815
Cash received from grants and other sources	4,036,258	8,150,282
Cash paid to employees, related benefits and taxes	(1,155,991)	(1,173,558)
Cash paid to suppliers	(1,418,349)	(2,759,790)
Cash paid to subscription program participants	(3,551,596)	(6,395,144)
Net Cash Provided (Used) by Operating Activities	53,370	(259,795)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash	53,096	24,197
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	106,466	(235,598)
CASH AND CASH EQUIVALENTS, Beginning of Year	2,035,753	2,271,351
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,142,219	\$ 2,035,753
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET:		
Cash and investments	\$ 1,293,107	\$ 1,018,426
Restricted cash and investments	849,112	1,017,327
	\$ 2,142,219	\$ 2,035,753
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 271,762	\$ 226,347
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	528	3,419
Change in operating assets and liabilities:		
Grants/Incentives receivable	190,427	3,435,115
Accounts receivable	(14,834)	(5,877)
Receivable from SGA	39,685	5,273
Other assets	1,470	6,943
Accounts payable and accrued liabilities	(164,266)	(18,571)
Compensated absences	(10,379)	4,496
Grants payable	30,368	(3,488,520)
Subscription program advances	(264,547)	(329,558)
Net pension liability	(52,283)	(5,011)
Net OPEB liability	(18,283)	(11,231)
Unearned revenue	44,634	(77,149)
Deferred inflows - rent	(912)	(5,471)
Net cash provided (used) by operating activities	\$ 53,370	\$ (259,795)

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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.

Future Pronouncements – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying and disclosing fiduciary activities of state and local governments. An activity meeting the criteria would be reported in a fiduciary fund in the basic financial statements of the government. Four fiduciary funds would potentially be reported under this statement: Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and custodial funds. This Statement is effective for periods beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. Under this Statement, a lease is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

RWA will analyze the impact of these new Statements prior to the effective dates listed above.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, the disclosure of contingent assets, deferred

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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:

	2019	2018
Valuation Date (VD)	June 30, 2017	June 30, 2016
Measurement Date (MD)	June 30, 2018	June 30, 2017
Measurement Period (MP)	July 1, 2017 to June 30, 2018	July 1, 2016 to June 30, 2017

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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:

	2019	2018
Valuation Date	June 30, 2017	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2017
Measurement Period	July 1, 2017 to June 30, 2018	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 years ended June 30, the advances by subscription programs are as follows:

	2019	2018
Prop 84 Program management	\$ 49,553	\$ 68,478
2014 Drought PM	27,583	29,482
Lobbying Subscription Program	26,806	86,806
RWA Prop 84 R3 Program management	18,412	17,964
Powerhouse Science Center	13,785	-
CALFED Meter	7,543	-
Regional Water Bank	7,000	-
WEP Prop 84 R3 Program management	1,661	6,272
SRCS D Water Suppliers	1,082	-
Direct Install	-	200,000
Prop. 50 - \$25 million grant	-	8,593
ARB Study	-	377
	\$ 153,425	\$ 417,972

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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:

	2019	2018
Powerhouse Science Center	\$ 200,387	\$ 155,753
Less: Current Portion	25,000	25,000
Non-Current Portion	\$ 175,387	\$ 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 the 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 \$498,043 and \$443,603 as of June 30, 2019 and 2018, respectively.

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

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

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

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

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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 2019, the minimum assessment was \$6,081 and a maximum assessment was \$70,523. 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 \$13,400 per year in 2019 and \$12,900 in 2018, subject to adjustments from time to time by the RWA Board. Lastly, RWA affiliates pay an annual fee of \$750 per year.

During fiscal years ended June 30, 2019 and 2018, RWA also assessed for the Powerhouse Science Center water exhibits that RWA will sponsor. In fiscal year 2020 agencies will be refunded for the remainder of the approximately \$13,000 from previous contributions 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 years 2019 and 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 \$479,653 and \$474,542 for the years ended June 30, 2019 and 2018, respectively. The Statement of Revenues, Expenses, and Changes in Net Position reflect the net expenses of RWA after reimbursement by SGA. The Statement of Cash Flows 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

2. CASH AND INVESTMENTS

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

	2019	2018
Cash and Investments	\$ 1,293,107	\$ 1,018,426
Restricted Cash and Investments	849,112	1,017,327
	<u>\$ 2,142,219</u>	<u>\$ 2,035,753</u>

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

	2019	2018
Deposits with financial institutions	\$ 211,189	\$ 157,817
Investments in LAIF	1,931,030	1,877,936
	<u>\$ 2,142,219</u>	<u>\$ 2,035,753</u>

Investments Authorized by RWA's Investment Policy

RWA's investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). RWA is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members 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, 2019 was \$24,584,685,280. 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, 2019 is \$105,814,483,092. 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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, 2019 and 2018 was approximately 173 days and 193 days, respectively.

Disclosures Relating to Credit Risk

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

Concentration of Credit Risk

LAIF has a separate investment policy, governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments. RWA has 90% and 92% of its cash invested in LAIF for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018, RWA's bank balance was \$921,308 and \$226,839, respectively. The RWA bank balance is covered 100% by FDIC insurance up to \$250,000. From time to time RWA will be exposed to custodial credit risk since RWA can receive large deposits and write large checks due to grant activity. RWA does bank with a long-standing reputable national bank to mitigate some of this risk.

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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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

	2019	2018
Water Efficiency Program	\$ 498,043	\$ 443,603
Direct Install	-	200,000
Powerhouse Science Center	214,172	155,753
Prop 84 Program Management	49,553	68,478
2014 Drought Program Management	27,583	29,482
Lobbying Subscription Program	26,806	86,806
RWA Prop 84 Round 3 Program Management	18,412	17,964
CALFED Meter	7,543	-
Regional Water Bank	7,000	-
Prop. 50 - \$25 Million grant	-	8,593
WEP Prop 84 3 Program management	-	6,272
ARB Study	-	376
	\$ 849,112	\$ 1,017,327

3. CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2018	Increases	Decreases	June 30, 2019
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	(64,798)	(528)	-	(65,326)
Capital Assets, Net	\$ 528	\$ (528)	\$ -	\$ -

	Balance			Balance
	June 30, 2017	Increases	Decreases	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)
Fixed Assets, Net	\$ 3,947	\$ (3,419)	\$ -	\$ 528

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

4. OPERATING LEASE COMMITMENTS

Office Lease

RWA is obligated under an operating lease agreement for office space. RWA's rental expense was \$30,814 and \$19,497 for the years ended June 30, 2019 and 2018, respectively. Subsequent to June 30, 2019, 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,	
2020	\$ 32,340
2021	35,035
2022	35,574
2023	35,574
2024	<u>5,929</u>
Total minimum lease payments	<u>\$ 144,452</u>

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 years ended June 30, 2019 and 2018.

Minimum lease payments are as follows:

Year Ending June 30,	
2020	<u>\$ 1,928</u>
Total minimum lease payments	<u>\$ 1,928</u>

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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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, 2018 and 2017 measurement periods are 9.635% and 9.055%, respectively.

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 years ended June 30, 2019 and 2018, the employer required contributions to the plan were \$49,412 and \$49,160, respectively. RWA also made additional non-required employer pension contributions of \$63,000 and \$42,000 for the years ended June 30, 2019 and 2018, respectively, 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, 2018 for the year ended June 30, 2019. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. As of June 30, 2019 and 2018, RWA’s proportionate share of the Plan’s NPL was \$89,817 and \$154,391, respectively.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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, 2018 measurement date. The following table shows RWA's employer allocation factors for the Plan as of the measurement dates for June 30, 2018 and 2017:

2018:

Proportion - June 30, 2018	.002383%
Proportion - June 30, 2017	<u>.003917%</u>
Change - decrease	<u>(.001534)%</u>

2017:

Proportion - June 30, 2017	.003917%
Proportion - June 30, 2016	<u>.004247%</u>
Change - decrease	<u>(.000330)%</u>

For the measurement period ended June 30, 2018 and 2017, RWA incurred a pension expense of \$52,284 and \$86,419, respectively.

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

	2019	2018
Contributions after measurement date	\$ 114,840	\$ 91,160
Difference between actual and expected experience	3,446	534
Changes in assumptions	10,239	66,299
Net difference between projected and actual earnings on plan investments	444	14,994
Adjustments due to differences in proportions	<u>26,647</u>	<u>4,287</u>
	<u>\$ 155,616</u>	<u>\$ 177,274</u>

The \$114,840 and \$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 years ended June 30, 2020 and 2019, respectively.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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

	2019	2018
Difference between actual and expected experience	\$ 1,173	\$ 7,655
Changes in assumptions	2,509	5,055
Differences between employer contributions and the employer's proportionate share of contributions	20,778	7,304
Adjustments due to differences in proportions	12,054	25,868
	\$ 36,514	\$ 45,882

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

2019:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2019	\$ (654)
2020	5,540
2021	183
2022	(807)

2018:

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

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

Actuarial Assumptions

For the measurement period ended June 30, 2018, the TPL was determined by rolling forward the June 30, 2017 results. For the measurement period ended June 30, 2017, the TPL was determined by rolling forward the June 30, 2016 results. The TPL was based on the following actuarial methods and assumptions:

For the Year Ending June 30	2019	2018
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	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 2.50% (2.75% for 2018) until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% (2.75% for 2018) thereafter	

⁽¹⁾ The mortality table used in the June 30, 2017 valuation was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 9090 of scale MP 2016. The mortality table used in the June 30, 2016 valuation was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2017 valuation table experience study report based on CalPERS demographic data 1997 to 2011. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Changes in Assumptions

In 2018, demographic assumptions and inflation rates were changed in accordance to the CalPERS Experience Study and Review of Actual Assumptions December 2017. The inflation rate for CalPERS was lowered from 2.75% to 2.5%. There were no changes in the discount rate in 2018. 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, 2018 and 2017 (the measurement date) was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal years ended June 30, 2018 and 2017.

The tables below reflect the long-term expected real rate of return by asset class as of June 30. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation as follows:

Asset Class(a)	June 30, 2018			June 30, 2017		
	New Strategic Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)	New Strategic Allocation	Real Return Years 1 - 10(d)	Real Return Years 11+(e)
	Global Equity	50.0%	4.80%	5.98%	47.0%	4.90%
Fixed Income	28.0%	1.00%	2.62%	19.0%	0.80%	2.27%
Inflation Assets	0.0%	0.77%	1.81%	6.0%	0.60%	1.39%
Private Equity	8.0%	6.30%	7.23%	12.0%	6.60%	6.63%
Real Estate	13.0%	3.75%	4.93%	11.0%	2.80%	5.21%
Liquidity	1.0%	0.00%	-0.92%	2.0%	-0.40%	-0.90%
Infrastructure and Forestland				3.0%	3.90%	5.36%
Total	<u>100.0%</u>			<u>100.0%</u>		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92 used for this period.
- (d) An expected inflation of 2.5% used for this period.
- (e) An expected inflation of 3.0% used for this period.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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 dates June 30, 2018 and 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 at June 30, 2018	\$ 144,271	\$ 89,817	\$ 44,866
Proportionate Share of Plan's NPL at June 30, 2017	\$ 240,673	\$ 154,391	\$ 82,931

Payable to the Pension Plan

At June 30, 2019 and 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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	<u>7</u>
Total	<u>10</u>

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, 2019, RWA's cash contributions were \$58,425 in payments to the trust and the estimated implied subsidy was \$26,552, resulting in total payments of \$84,977. 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2018, 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, 2019 total 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 both the June 30, 2019 and 2018 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 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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 6/30/2018			
Measurement Date 6/30/2017	\$ 1,073,522	\$ 981,029	\$ 92,493
Changes During the Period:			
Service Cost	64,152	-	64,152
Interest Cost	78,135	-	78,135
Net Investment Income	-	69,696	(69,696)
Employer Contributions	-	73,980	(73,980)
Administrative Expenses	-	(520)	520
Other Expenses		(1,297)	1,297
Benefit Payments	(42,919)	(42,919)	-
Investment Experience		8,199	(8,199)
Net Changes in Fiscal Year 2018-2019	99,368	107,139	(7,771)
Balance at Fiscal Year Ending 6/30/2019			
Measurement Date 6/30/2018	\$ 1,172,890	\$ 1,088,168	\$ 84,722

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

	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 periods ended June 30:

	Discount Rate -1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate +1% (8.00%)
Net OPEB liability (asset), June 30, 2018	\$ 210,003	\$ 84,722	\$ (20,355)
Net OPEB liability (asset), June 30, 2017	\$ 208,309	\$ 92,493	\$ (4,808)

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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 periods ended June 30:

	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) at June 30, 2018	\$ (37,081)	\$ 84,722	\$ 241,145
Net OPEB liability (asset) at June 30, 2017	\$ (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)

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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

For the fiscal years ended June 30, 2019 and 2018, RWA recognized OPEB expense of \$66,694 and \$62,749, respectively. As of fiscal years ending June 30, deferred outflows of resources related to OPEB are from the following sources:

	Deferred Outflows of Resources	Deferred Outflows of Resources
OPEB contributions subsequent to measurement date	\$ 84,977	\$ 73,980
Changes in assumptions	97,528	118,661
Total	\$ 182,505	\$ 192,641

As of fiscal years ended June 30, deferred inflows of resources related to OPEB are from the following sources:

	Deferred Inflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,901	\$ 120,330
Net differences between projected and actual earnings on OPEB plan investments	23,889	23,107
Total	\$ 122,790	\$ 143,437

The \$84,977 and \$73,980 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 and 2017 measurement dates will be recognized as a reduction of the net OPEB liability during the fiscal years ended June 30, 2020 and 2019, respectively. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020:

For the Fiscal Year Ending June 30	Net Deferred Outflows/ (Inflows) of Resources
2020	\$ (7,714)
2021	(7,714)
2022	(7,713)
2023	(1,936)
2024	(185)

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

2019:

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, 2019 and 2018 is sufficient to set aside the designations for budget purposes.

The designations as of June 30 are as follows:

<u>Board Designations</u>	<u>2019</u>	<u>2018</u>
Operating Fund	\$ 672,700	\$ 628,100
Membership Dues	142,700	137,200
Strategic Plan Fund	49,748	109,748
Subscription Programs	19,700	25,400
Office Move	12,100	
Total Board Designations	\$ 896,948	\$ 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, 2019 and 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

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:

<u>Balance</u> <u>June 30, 2018</u>	<u>Increases</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2019</u>
\$ 912	-	\$ (912)	\$ -

<u>Balance</u> <u>June 30, 2017</u>	<u>Increases</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 6,383	-	\$ (5,471)	\$ 912

9. COMPENSATED ABSENCES

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

<u>Balance</u> <u>2018</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2019</u>	<u>Due Within</u> <u>One Year</u>	<u>Long-term</u>
\$ 69,880	\$ 69,149	\$ (79,528)	\$ 59,501	\$ 54,701	\$ 4,800

<u>Balance</u> <u>2017</u>	<u>Earned</u>	<u>Used</u>	<u>Balance</u> <u>2018</u>	<u>Due Within</u> <u>One Year</u>	<u>Long term</u>
\$ 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.

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

RWA's deductibles and maximum coverage are as follows:

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability	\$ 5,000,000	\$ 55,000,000	None
Public Officials Liability	5,000,000	55,000,000	None
Cyber Liability	-	3,000,000	None
Property Coverage	100,000	500,000,000	\$1,000 - \$25,000/\$50,000
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, 2019 and 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 program completion. Program completion is considered an eligibility requirement. Since these retention payments are withheld until the program is complete, the revenues related to these eligible and allowable costs are not reflected in the financial statements until the program 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 \$1,469,443 and \$1,050,287 at June 30, 2019 and 2018, respectively, and is not currently reflected in the financial statements.

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

REGIONAL WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 and 2018

remaining \$100,000 to Powerhouse. RWA will provide on-going input for these exhibits and the related programming and materials provided at Powerhouse. RWA levied 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 \$479,653 and \$474,542 for the years ended June 30, 2019 and 2018 which represents 33% and 31% of RWA's total administrative expenses, respectively. Additionally, RWA relies upon subscription-based programs to pay for approximately 17% 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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REGIONAL WATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION

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

	Measurement Date				
	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.002383%	0.003917%	0.004247%	0.012618%	0.013650%
Proportionate share of the net pension liability	\$ 89,817	\$ 154,391	\$ 147,540	\$ 346,165	\$ 337,276
Covered - employee payroll	\$ 536,680	\$ 466,290	\$ 365,294	\$ 592,756	\$ 565,797
Proportionate share of the net pension liability as a percentage of covered payroll	16.74%	33.11%	40.39%	58.40%	59.61%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	75.87%	78.40%	79.82%
RWA fiduciary net position as a percentage of the RWA pension liability	95.45%	90.24%	89.09%	83.50%	83.03%

Notes to Schedule:

For the June 30, 2018 measurement date, the inflation rate was lowered from 2.75% to 2.5%.

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					
	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Contractually required contribution (actuarially determined)	\$ 51,840	\$ 49,160	\$ 47,566	\$ 44,595	\$ 70,182	\$ 62,822
Contributions in relation to the actuarially determined contributions	114,840	91,160	89,566	181,995	70,182	62,822
Contribution deficiency (excess)	\$ (63,000)	\$ (42,000)	\$ (42,000)	\$ (137,400)	\$ -	\$ -
Covered - employee payroll	\$ 511,721	\$ 536,680	\$ 466,290	\$ 365,294	\$ 592,756	\$ 565,797
Contributions as a percentage of covered - employee payroll	22.44%	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	June 30, 2011
Methods and Assumptions Used to Determine Contribution Rates						
Actuarial Cost Method	Entry age normal					
Amortization Method	Level percentage of payroll, closed					
Remaining amortization period	Varies, not more than 30 years					
Asset valuation method	Market Value	Market Value	Market Value	Market Value	Market Value	15-year smoothed market
Investment Rate of Return	7.375%	7.50%	7.50%	7.50%	7.50%	7.50%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%	3.00%	3.00%	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 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter					

Omitted years: GASB Statement No. 68 was implemented during fiscal year 2015, therefore only 6 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	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 64,152	\$ 57,930
Interest Cost	78,135	71,699
Actual and Expected Experience Difference		(141,761)
Assumption Changes		139,794
Benefit Payments	<u>(42,919)</u>	<u>(40,972)</u>
Net change in OPEB Liability	99,368	86,690
Total OPEB Liability - Beginning	<u>1,073,522</u>	<u>986,832</u>
Total OPEB Liability - Ending (a)	<u>\$ 1,172,890</u>	<u>\$ 1,073,522</u>
Plan Fiduciary Net Position		
Employer Contributions	\$ 73,980	\$ 72,745
Net Investment Income	77,895	90,150
Benefit Payments	(42,919)	(40,972)
Administrative Expenses	(520)	(460)
Other Expenses	<u>(1,297)</u>	
Net change in plan fiduciary net position	107,139	121,463
Plan fiduciary net position - Beginning	<u>981,029</u>	<u>859,566</u>
Plan fiduciary net position - Ending (b)	<u>\$ 1,088,168</u>	<u>\$ 981,029</u>
Net OPEB Liability (a) - (b) = (c)	<u>\$ 84,722</u>	<u>\$ 92,493</u>
Plan fiduciary net position as a percentage of OPEB liability (b)/(a)	92.78%	91.38%
Covered Payroll (d)	\$ 834,157	\$ 752,115
Net OPEB Liability as a percentage of covered payroll (c)/(d)	10.16%	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	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution (ADC) (a)	\$ 84,977	\$ 73,980
Contributions in Relation to ADC	<u>(84,977)</u>	<u>(73,980)</u>
Contribution Deficit (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (b)	\$ 799,048	\$ 833,750
ADC as a % of covered employee payroll (a)/(b)	10.63%	8.87%

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

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REGIONAL WATER AUTHORITY

PROGRAM SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2019

	Agency Core Program	Water Efficiency Program	PROP 50 \$25 M Grant	PROP 84	2014 Drought PROP 84	Direct Install	PROP 84 Round 3	USBR CALFED Program	Landscape Imagery Program	Total RWA
Operating Revenues										
Assessment Income	\$ 983,632	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 983,632
Subscription Program Fees	217,618	492,840	4,304	18,925	1,899	-	23,150	-	116,090	874,826
Incentives, Grants, and Reimbursements	29,166	399,032	-	2,507,500	546,477	188,451	162,900	2,868	-	3,836,394
Other Income	7,311	2,126	-	-	-	-	-	-	-	9,437
Total Operating Revenues	<u>1,237,727</u>	<u>893,998</u>	<u>4,304</u>	<u>2,526,425</u>	<u>548,376</u>	<u>188,451</u>	<u>186,050</u>	<u>2,868</u>	<u>116,090</u>	<u>5,704,289</u>
Operating Expenses										
Administrative Expenses	709,808	177,532	3,580	18,840	25,835	-	23,150	2,868	-	961,613
Core Program Expenses	20,000	5,000	-	-	-	-	-	-	-	25,000
Subscription Program Direct Expenses	290,597	299,201	724	85	-	188,451	-	-	84,892	863,950
Grant Awards	-	389,023	-	2,507,500	522,541	-	162,900	-	-	3,581,964
Total Operating Expenses	<u>1,020,405</u>	<u>870,756</u>	<u>4,304</u>	<u>2,526,425</u>	<u>548,376</u>	<u>188,451</u>	<u>186,050</u>	<u>2,868</u>	<u>84,892</u>	<u>5,432,527</u>
Net Operating Income	<u>217,322</u>	<u>23,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>31,198</u>	<u>271,762</u>
Interest Income	<u>56,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,392</u>
Net Income (Loss)	<u>\$ 273,714</u>	<u>\$ 23,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 31,198</u>	<u>328,154</u>
Net Position, Beginning of the Year										<u>1,470,491</u>
Net Position, End of the Year										<u>\$ 1,798,645</u>

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	<u>1,324,105</u>	<u>821,899</u>	<u>2,822</u>	<u>753,165</u>	<u>135,000</u>	<u>1,584,276</u>	<u>1,664,730</u>	<u>255,741</u>	<u>24,613</u>	<u>6,566,351</u>
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	<u>1,135,859</u>	<u>801,313</u>	<u>2,822</u>	<u>753,165</u>	<u>135,000</u>	<u>1,584,276</u>	<u>1,620,638</u>	<u>250,991</u>	<u>55,940</u>	<u>6,340,004</u>
Net Operating Income	<u>188,246</u>	<u>20,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,092</u>	<u>4,750</u>	<u>(31,327)</u>	<u>226,347</u>
Interest Income	<u>32,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,439</u>
Net Income (Loss)	<u>\$ 220,685</u>	<u>\$ 20,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,092</u>	<u>\$ 4,750</u>	<u>\$ (31,327)</u>	<u>258,786</u>
Net Position, Beginning of the Year										<u>1,211,705</u>
Net Position, End of the Year										<u>\$1,470,491</u>

REGIONAL WATER AUTHORITY

SCHEDULE OF ALLOCATED ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 is:

	Staff Expenses	Office Expenses	Professional Fees	Depreciation	Total Administrative Expenses
RWA Administrative Expenses	\$ 1,081,430	\$ 124,890	\$ 234,418	\$ 528	\$ 1,441,266
Allocated to Sacramento Groundwater Authority	(367,504)	(54,686)	(57,463)	-	(479,653)
Total RWA Administrative Expenses - Net of SGA allocation	713,926	70,204	176,956	528	961,613
Allocated Administrative Expenses to Subscription Programs					
Water Efficiency Program	(159,167)	(11,092)	(7,273)	-	(177,532)
Proposition 50 - \$25 Million Grant	(3,580)	-	-	-	(3,580)
Proposition 84 Grant	(18,840)	-	-	-	(18,840)
2014 Drought Proposition 84	(25,835)	-	-	-	(25,835)
Proposition 84 Round 3	(23,150)	-	-	-	(23,150)
USBR CalFED Program	(2,868)	-	-	-	(2,868)
Total Allocated Administrative Expenses - Subscription Programs	(233,440)	(11,092)	(7,273)	-	(251,805)
Net Agency Administrative Expenses - Agency Core Program	\$ 480,486	\$ 59,112	\$ 169,683	\$ 528	\$ 709,808

REGIONAL WATER AUTHORITY

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

The allocation of administrative expenses for the year ended June 30, 2018 is:

	<u>Staff Expenses</u>	<u>Office Expenses</u>	<u>Professional Fees</u>	<u>Depreciation</u>	<u>Total Administrative Expenses</u>
RWA Administrative Expenses	\$ 1,187,694	\$ 118,480	\$ 197,748	\$ 3,419	\$ 1,507,341
Allocated to Sacramento Groundwater Authority	<u>(385,890)</u>	<u>(50,303)</u>	<u>(38,349)</u>	<u>-</u>	<u>(474,542)</u>
Total RWA Administrative Expenses - Net of SGA allocation	<u>801,804</u>	<u>68,177</u>	<u>159,399</u>	<u>3,419</u>	<u>1,032,799</u>
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	<u>(6,821)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,821)</u>
Total Allocated Administrative Expenses - Subscription Programs	<u>(245,104)</u>	<u>(13,031)</u>	<u>(11,540)</u>	<u>-</u>	<u>(269,675)</u>
Net Agency Administrative Expenses - Agency Core Program	<u>\$ 556,700</u>	<u>\$ 55,146</u>	<u>\$ 147,859</u>	<u>\$ 3,419</u>	<u>\$ 763,124</u>

DRAFT

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated **Month 2020**.

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.

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 CPAs
Sacramento, California**

MONTH __, 2020

DRAFT

March 25, 2020

AGENDA ITEM 5: OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING REPORT

BACKGROUND:

This item is a report back from the February 19, 2020 Executive Committee meeting. The Executive Committee requested that staff direct the RWA actuary to provide funding illustrations using CalPERS Strategy 2 funding option at various discount rates ranging from 6.35% to 6.50% as well as a funding option within these parameters that excludes funding implicit liability. A summary of the requested actuarial illustrations is attached.

STAFF RECOMMENDATION:

Presentation and Discussion: Josette Reina-Luken, Financial and Administrative Services Manager

Action: Recommend RWA Board OPEB Funding Strategy

**Actuarial Determined Contribution (ADC) for RWA in CalPERS OPEB Strategy 1 & 2 (funding both explicit and implicit OPEB liability)
Using discount rates ranging from 6.35% up to 6.50%.**

Explicit subsidy: Portion of premiums or other direct payment by RWA toward retiree health costs.

Implicit subsidy: Projected excess of retiree health claims over premiums charged for retiree coverage.

*Implicit subsidy is reduced when retirees reach age 65 and are assumed to migrate to Supplemental Medicare plans, which have no implicit subsidy liability.

Funding Strategy	Discount Rate	Subsidy	Fiscal Year End	Amort Period	Amort Type	(1) Normal Cost	(2) Amortize UAAL	(3) Interest to FYE	(4) ADC (1)+(2)+(3)	(5) Explicit Benefit Payments	(6) Implicit Subsidy Amts (Reclassify)	Trust Contribution (Refund) (4) - (5) - (6)
STRATEGY 1	6.90%	Explicit & Implicit	6/30/2021	8	Closed	78,624	(23,800)	3,783	58,607	57,814	40,257	(39,464)
			6/30/2022	7	Closed	81,179	(24,150)	3,935	60,964	52,871	26,683	(18,589)
STRATEGY 2	6.35%	Explicit & Implicit	6/30/2021	8	Closed	86,067	(11,874)	4,711	78,904	57,814	40,257	(19,167)
			6/30/2022	7	Closed	88,864	(12,302)	4,862	81,424	52,871	26,683	1,870
STRATEGY 2	6.40%	Explicit & Implicit	6/30/2021	8	Closed	85,353	(12,988)	4,631	76,996	57,814	40,257	(21,075)
			6/30/2022	7	Closed	88,127	(13,409)	4,782	79,499	52,871	26,683	(55)
STRATEGY 2	6.50%	Explicit & Implicit	6/30/2021	8	Closed	83,946	(15,198)	4,469	73,217	57,814	40,257	(24,854)
			6/30/2022	7	Closed	86,675	(15,605)	4,620	75,689	52,871	26,683	(3,865)
STRATEGY 2	6.40%	Explicit Only	6/30/2021	8	Closed	66,166	(42,682)	1,503	24,986	57,814	-	(32,828)
			6/30/2022	7	Closed	68,316	(42,819)	1,632	27,129	52,871	-	(25,742)

RWA OPEB TRUST BALANCE at 07/01/2019 \$1,188,139 starting balance
RWA OPEB TRUST BALANCE at 12/31/2019 \$1,315,028 10.6% increase
RWA OPEB TRUST BALANCE at 03/19/2020 \$1,027,948 21.8% decrease

March 25, 2020

AGENDA ITEM 6: DEVELOPMENT OF FISCAL YEAR 2019 – 2020 BUDGET

BACKGROUND:

This item is to further examine the FY2021 budget information that was presented during the RWA Board Meeting on March 19, 2020 in light of the FY2019 Financial Audit Report and current year budget projections.

STAFF RECOMMENDATION:

Presentation and Discussion: Josette Reina-Luken, Financial and Administrative Services Manager



Regional Water Authority
BUILDING ALLIANCES IN NORTHERN CALIFORNIA



Regional Water Authority

Fiscal Year 2020-21 Budget Overview

March 25, 2020

Overview

- Budget Projections
- Membership & Dues
- Revised Budget Projections
- Budget Savings
- Budget Outlook

Budget Projections

Budget Result	FY20	FY21
Core Program	(\$156,800)	(\$142,300)
Subscription Program	\$89,900	\$117,165
Combined Total	(\$66,900)	(\$25,135)

FY20 Core Budget deficit was offset mostly by depletion of the **Strategic Plan Fund (\$50k)** and **Non-designated cash (\$98k)**.

FY21 Core Budget deficit is to be offset by reduction of Operating Fund designation 4.5 months or higher increase in dues (already at 18%).





Membership & Dues

RWA MEMBERSHIP – 21 Members

- FY20 budget increased dues by 5%
- FY21 projected dues increase at 18%
- FY21 estimated dues increase at 10%

ASSOCIATE MEMBERSHIP – 5 Members

- FY20 Associate Dues – 3% increase
- FY21 estimated Associate Dues – 5% increase

AFFILIATE MEMBERSHIP – 10 Members

- FY20 Affiliate Dues - \$750
- FY21 Affiliate Dues - \$750



Revised Budget Projections

Budget Result	FY20	FY21
Core Program	(\$156,800)	(\$142,300)
Subscription Program	\$89,900	\$117,165
Combined Total	(\$66,900)	(\$25,135)

FY20 Core Budget deficit of (\$156,800) was offset mostly by depletion of the **Strategic Plan Fund (\$50k)** and **Non-designated cash (\$98k)**.

FY21 Core Budget deficit of (\$142,300) will be offset by FY19 **Non-designated cash balance (\$95k higher per audit)** and **FY20 Revenue Projections Increase (\$50k)** better than expected (project revenue & interest income).





Budget Savings

FY21 Potential Budget Savings:

- Staffing cost savings = \$70,000
- Advancement of Strategic Plan Expense = \$20,000

Total Savings = \$90,000

FY21 Additional Expenditures:

- Unfunded PERS liability = \$22,000
- Shift in WEP to 50% = \$21,000
- Server Replacement = \$11,000 (RWA share)
- Increase in Professional Services = \$36,000

Total Additional Expenditures = \$90,000



Budget Outlook

- FY21 Budget benefits from FY19 and FY20 years
- Future expenditures have been adjusted as of FY21
- FY22 going forward will be dependent upon increase in revenues to balance the budget
- Delayed increases in dues may result in higher increases in the out years
- Budget results may not always be achieved



Questions and Discussion

March 25, 2020

AGENDA ITEM 7: CHECK SIGNING AUTHORITY POLICY UNDER THE COVID-19 STATE OF EMERGENCY (RWA POLICY 500.6)

BACKGROUND:

RWA Policy 500.6 defines who may sign checks for the RWA. The policy requires that under certain circumstances, a check must be signed by two individuals depending on the amount, which would include the Board Chair or Vice Chair, in addition to the Executive Director (ED), Manager of Technical Services (MTS), or the Finance and Administrative Services Manager (FASM). For example, for amounts over \$10,000 paid from the General Fund Account, two signatures are required. A copy of policy 500.6 is attached.

While the policy allows for either the ED, MTS, or FASM to sign checks, in practice, the ED signs checks unless he is out of the office for an extended period.

The RWA banks with the Bank of America. The Bank of America does not require two signatures on a check and will process a check with one signature.

The various State and Local orders to shelter in place and social distancing will make the acquisition of two signatures impractical for the near future. RWA staff proposes that checks that require two signatures be authorized by the Board Chair or Vice Chair via email approval for the duration of the emergency. The emails will be archived and made available to auditors or others as necessary. Checks will be signed by the FASM for the duration of the emergency with the approval of the ED.

Staff request input by the Executive Committee on this proposed practice.

STAFF RECOMMENDATION:

Discussion: Jim Peifer, Executive Director

REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL

Policy Type : Fiscal Management
Policy Title : Check Signing Authority Policy
Policy Number : 500.6
Date Adopted : March 13, 2008
Date Amended : March 11, 2010
July 10, 2014

CHECK SIGNING AUTHORITY POLICY

Only persons authorized by the Board of Directors may sign checks or transfer funds from or between depositories. The following persons are authorized to sign checks or transfer funds of RWA:

- RWA Chair
- RWA Vice Chair
- Executive Director
- Finance and Administrative Services Manager
- Manager of Technical Services

I. General Fund Account

- A. For amounts up to \$10,000, **one** of the following signatures is required:
- Executive Director
 - Finance and Administrative Services Manager
 - Manager of Technical Services
- B. For amounts over \$10,000, the following signatures are required:
- The RWA Board Chair, or RWA Vice-Chair, and **one** of the following:
 - Executive Director
 - Manager of Technical Services
 - Finance and Administrative Services Manager
- C. For grant/incentive reimbursement checks payable to participants up to \$20,000, one of the following signatures is required:
- Executive Director
 - Finance and Administrative Services Manager
 - Manager of Technical Services

March 25, 2020

- D. For grant/incentive reimbursement checks payable to participants over \$20,000, the following two signatures are required:
The RWA Board Chair or RWA Vice Chair, and **one** from the following:
- Executive Director
 - Manager of Technical Services
 - Finance and Administrative Services Manager
- E. Payroll and CalPERS standard pension and health benefit electronic payments do not require signatures and can exceed the \$10,000 limit per payment. These electronic payments require approval by the Executive Director evidenced by his signature on supporting documentation.
- F. The Executive Director should sign checks under the \$10,000 limit or \$20,000 for grant/incentive reimbursement limit, and cosign checks above these limits whenever feasible. In rare instances, when the Executive Director is unavailable to sign and a check is needed, upon verbal or written approval from the Executive Director the Manager of Technical Services or the Finance and Administrative Services Manager may be authorized to sign a check. This approval should be documented by the Executive Director's signature on the supporting invoice/receipt as soon as practical.
- G. The Executive Director receives a reimbursement check for miscellaneous expenses approximately once per month. The RWA Chair reviews and approves the expense reimbursement form prior to a reimbursement check being processed. The Finance and Administrative Services Manager, or the RWA Chair is authorized to sign this check.
- H. A person otherwise authorized by this Policy to sign checks on behalf of RWA is prohibited from signing any check on which he/she or their agency is the payee.

II. Investment Account(s)

- A. For amounts up to \$10,000, except transfers between the General Fund Account and LAIF Account as provided in Part III, the following **two** signatures are required:
- Executive Director
 - Finance and Administrative Services Manager
- B. For amounts over \$10,000, except transfers between the General Fund Account and LAIF Account as provided in Part III, the following **two** signatures are required:
- RWA Board Chair
 - Executive Director

March 25, 2020

- C. In the event the Chair is unavailable or is prohibited from signing, the Vice Chair is authorized to sign.

III. Transfer of Funds

- A. Transfer of funds in either direction between General Fund and LAIF accounts can be executed using electronic or phone procedures by either of the following individuals:
 - Executive Director
 - Finance and Administrative Services Manager
- B. All transfers of funds between accounts shall be reviewed by the Executive Director and approval for such transfers evidenced by the Executive Director's signature on the documentation for the transfer.

March 25, 2020

AGENDA ITEM 8: SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

BACKGROUND:

At the March 11, 2020, Sacramento Central Groundwater Authority (SCGA) Board meeting, the SCGA Board directed the Chair and Vice Chair to “bring a roadmap for getting from A to B” with regard to the potential for the RWA to provide staffing services for the SCGA. There was a request during the SCGA Board meeting to establish a joint committee of the RWA, SGA and SCGA chairs and vice chairs for the purpose of facilitating discussions between the three boards. The joint committee would be known as a “2x2x2 committee.” At the March 19, 2020 RWA Board Meeting, Chair Schmitz appointed herself and Vice Chair Sean Bigley to an ad hoc committee which would be part of the 2x2x2 committee.

The purpose of this item is to discuss this topic and to provide direction to RWA staff.

STAFF RECOMMENDATION:

Discussion: Jim Peifer, Executive Director

March 25, 2020

AGENDA ITEM 9: LEGISLATIVE/REGULATORY UPDATE

BACKGROUND:

The Legislature is on recess until April 13th. That recess will likely mirror public health guidelines and potentially may be extended. Legislation is not being considered an essential service. There are larger questions about how to conduct legislation and maintain necessary public access to the process during this time.

With all of that in mind, the typical legislative deadlines are made by the Legislature and can be changed by the Legislature. That means that with the exception of Constitutional deadlines to pass a budget by June 15th and pass legislation that has been in print for 72 hours by August 31st most all other rules can be waived. Given the uncertainty of this situation it makes sense for RWA to be prepared for the legislative process to move quickly if and when the Legislature resumes. The following are several bills that staff is asking the Executive Committee to take positions on.

AB 2095 (Cooper), sponsored by Elk Grove Water District. Would authorize the legislative body of a local agency to make, by ordinance, any violation of an ordinance regarding water theft, subject to an administrative fine or penalty of \$1,000 for a first offense, \$2,000 for a second offense, and \$3,000 for third and subsequent offenses. **Recommendation: Support**

AB 2148 (Quirk), requires the Strategic Growth Council (Council), by July 1, 2021, to establish guidelines for the formation of regional climate adaptation planning groups. Requires the Council, by July 1, 2022, to develop criteria for the development of regional climate adaptation plans. **Recommendation: Support and amend**

AB 2296 (Quirk), establishes a fund stabilization program for local primacy agencies. This bill is identical to the final version of AB 402 which RWA went neutral on. There is a request to support this fund through the State General Fund that RWA should support. **Recommendation: Neutral on AB 2296; Support General Fund request to support the program**

AB 2560 (Quirk), establishes a process that the Water Board must follow for the creation or revision of Response Levels (RL) and Notification Levels (NL). **Recommendation: Support**

AB 2840 (Rubio), is a spot bill that may be amended to address MCL compliance periods. **Recommendation: Watch**

SB 996 (Portantino), establishes a Constituents of Emerging Concern (CEC) program to research, develop information and, if necessary, provide

March 25, 2020

recommendations to the state board on CEC's in drinking water. **Recommendation: Support**

[SB 1188 \(Stern\)](#), would require DWR to include in the Water Plan update a discussion of various strategies for increasing regional water resilience.

Recommendation: Support and amend

[SB 1258 \(Stern\)](#), would enact the California Climate Technology and Infrastructure Financing Act to require the California Infrastructure and Economic Development Bank, in consultation with specified agencies, to administer the Climate Catalyst Revolving Fund, which the bill would establish to provide financial assistance to projects that may include enhanced water supply or improved water quality.

Recommendation: Watch

[SB 1280 \(Monning\)](#), expands the authority of the Water Board to force consolidations with systems with 500 connections or under. **Recommendation:**

Watch

[SB 1320 \(Stern\)](#), requires the office of planning and development to create a California Climate Change Assessment, every 2 years. Additionally, the bill would require the assessment to assess and report the impacts and risks of climate change and identify potential solutions to inform legislative policy. Among the issues the climate assessment would look at are "impacts, risks and solutions to" water supply and water quality from climate change. **Recommendation: Support and amend**

[SB 1329 \(Wilk\)](#), would establish the Climate Innovation Grant Program, to be funded with voluntary "tax check offs" and administered by the Strategic Growth Council or another entity identified by the council. The bill would establish the Climate Innovation Fund, a special fund, in the State Treasury and would continuously appropriate the moneys in the fund to the council for purposes of the program. The Climate Innovation Fund can be used to address water supply reliability and quality.

Recommendation: Support and amend

[SB 1362 \(Stern\)](#), would require the state air resources control board, no later than July 1, 2021, to adopt a comprehensive strategy to achieve carbon neutrality in the state by no later than December 31, 2045. Among other things the strategy is required prioritize the development of co-benefits, water quality is listed among co-benefits. **Recommendation: Watch**

[SB 1386 \(Moorlach\)](#), is a spot bill intended to address legal action on the ability of water agencies to charge property related fees for fire hydrants. Sponsors have shared language and several RWA members have had an opportunity to weigh in on that language. **Recommendation: Support**

March 25, 2020

STAFF RECOMMENDATION:

Information and Discussion: Ryan Ojakian, Legislative and Regulatory Affairs
Manager

Action: Adopt Positions on Legislation

March 25, 2020

AGENDA ITEM 10: EXECUTIVE DIRECTOR'S REPORT

An oral report will be provided.



OFFICE OF THE GOVERNOR

March 13, 2020

The Honorable Secretary David Bernhardt
Department of the Interior
1849 C Street, N.W.
Washington, DC 20240

Dear Secretary Bernhardt,

I am writing to request federal support for the Sacramento Regional Water Bank, an innovative water storage project sponsored by the Regional Water Authority. The project will enable local water providers to increase their use of groundwater during dry periods, improving water supply reliability and bolstering the region's resilience to the impacts of climate change.

The Sacramento Regional Water Bank will expand the conjunctive water use capabilities of local water providers by re-operating the existing system as well as adding new conjunctive use facilities. The project would enable increased use of groundwater during dry periods, ensuring more reliable supplies for local communities while making surface water available to help meet local environmental needs. During wet periods, increased surface water diversion and reduced groundwater use would allow the groundwater basin to recharge.

Under the Water Infrastructure Improvements for the Nation Act of 2016 (WIIN Act), the Secretary of the Interior may participate in state-led storage projects in California if requested by the Governor, and if the California Water Commission has made a determination of consistency with Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act. The Commission determined the project to be consistent with Proposition 1 in August 2019, finding that it will increase water supply reliability, assist in the sustainable use of the groundwater basin, and reduce the impact of drought.

California shares the Department of the Interior's commitment to investing in new water storage. Projects like the Sacramento Regional Water Bank, which aim to bolster resiliency by expanding conjunctive use capabilities to support sustainable groundwater management, are an important component of the state's innovative efforts to build a more resilient, sustainable water system for the future. I respectfully ask you to consider this project for WIIN Act funding.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gavin Newsom', with a long horizontal flourish extending to the right.

Gavin Newsom
Governor of California

March 25, 2020

AGENDA ITEM 11: DIRECTORS' COMMENTS