

**BAY AREA WATER SUPPLY  
& CONSERVATION AGENCY**

FINANCIAL STATEMENTS  
JUNE 30, 2012

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**CHAVAN & ASSOCIATES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
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SAN JOSE, CA 95129

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**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

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**JUNE 30, 2012**

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**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

ELECTED OFFICIALS AND MANAGEMENT TEAM  
JUNE 30, 2012

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BOARD OF DIRECTORS

Larry Klein, City of Palo Alto  
Randy Breault, Guadalupe Valley Water District  
Bill Quirk, City of Hayward  
Tom Chambers, Westborough Water District  
John Kasten, Town of Hillsborough  
Marty Laporte, Stanford University  
Dan Quigg, City of Millbrae  
Mike Kasperzak, City of Mountain View  
Kelly Fergusson, City of Menlo Park  
Armando Gomez, City of Milpitas  
Ken Coverdell, Coastside County Water District  
Rob Guzzetta, California Water Service Company  
Irene O'Connell, City of San Bruno  
Rosalie O'Mahony, City of Burlingame  
Sepi Richardson, City of Brisbane  
Jamie McLeod, City of Santa Clara  
Tom Piccolotti, North Coast County Water District  
Chuck Reed, City of San Jose  
Jim Griffith, City of Sunnyvale  
Barbara Pierce, City of Redwood City  
Robert Anderson, Purissima Hills Water District  
Michael Guingona, City of Daly City  
Louis Vella, Mid-Peninsula Water District  
John H. Weed, Alameda County Water District  
Ruben Abrica, City of East Palo Alto  
Charlie Bronitsky, City of Foster City

MANAGEMENT TEAM

Arthur Jensen, CEO  
Deborah Grimes, Office Manager  
Christine Tang, Senior Administrative Analyst  
Nicole Sandkulla, Water Resources Planning Manager  
Lourdes Enriquez, Assistant to the CEO  
Anona Dutton, Water Resource Planner  
Aaron Porter, Administrative Assistant

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bay Area Water Supply & Conservation Agency  
San Mateo, California

We have audited the accompanying financial statements of the business-type activities of the Bay Area Water Supply & Conservation Agency ("BAWSCA") as of and for the fiscal year ended June 30, 2012, which collectively comprise BAWSCA's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of BAWSCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of BAWSCA as of June 30, 2012, and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated January 7, 2013 on our consideration of BAWSCA's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America requires the presentation of the management's discussion and analysis (MD&A) 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 (GASB), 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. BAWSCA has elected not to present the MD&A that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements. While it is a requirement of GASB to include the MD&A as a supplement to the financial statements, management feels the MD&A is not essential to BAWSCA's financial reporting and that there is



**Chavan & Associates, LLP**  
Certified Public Accountants

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no benefit to including the MD&A with the financial statements. This treatment is consistent with many entities similar in size to BAWSCA, and is consistent with BAWSCA's report presentation in prior years.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BAWSCA's financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*C & A CP*

January 7, 2013  
San Jose, California



## **BASIC FINANCIAL STATEMENTS**

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

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**ASSETS**

Current Assets:

Cash and investments	\$	3,197,645
Assessments receivable		150,844
Subscription Conservation programs receivables: Washing Machine Rebate		2,614
Subscription Conservation programs receivables: other		72,949
Prepaid expenses		<u>31,321</u>

Total Current Assets 3,455,373

Property and equipment - net		14,875
Deposit		<u>8,253</u>

TOTAL ASSETS \$ 3,478,501

**LIABILITIES**

Current Liabilities:

Accounts payable	\$	384,230
Accrued expenses		32,501
Accrued compensated absences		54,959
Unearned revenue		<u>338,965</u>

TOTAL LIABILITIES \$ 810,655

**NET ASSETS**

Invested in capital assets, net of related debt	\$	14,875
Unrestricted		<u>2,652,971</u>

TOTAL NET ASSETS \$ 2,667,846

The notes to the basic financial statements are an integral part of this statement.

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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OPERATING REVENUE:	
Assessments	\$ 2,344,283
Long-term Reliable Water Supply Strategy	978,863
Subscription Conservation programs	<u>791,833</u>
Total operating revenue	<u>4,114,979</u>
OPERATING EXPENSES:	
Consultants	979,801
Administration	1,237,544
Other operating expenses	187
Depreciation	4,102
Long-term Reliable Water Supply Strategy	460,353
Subscription conservation programs	<u>786,780</u>
Total operating expenses	<u>3,468,767</u>
OPERATING INCOME	646,212
NON-OPERATING REVENUES:	
Interest income	<u>11,150</u>
Total non-operating revenues	<u>11,150</u>
CHANGE IN NET ASSETS	657,362
NET ASSETS - BEGINNING	<u>2,010,484</u>
NET ASSETS - ENDING	<u>\$ 2,667,846</u>

The notes to the basic financial statements are an integral part of this statement.

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from assessments	\$ 2,282,487
Cash received from Long-term Reliable Water Supply Strategy	978,863
Cash received from Subscription Conservation programs	1,033,574
Cash received from other operating sources	7,246
Cash paid for employee services and other operating expenses	(2,652,885)
Cash paid from Long-term Reliable Water Supply Strategy	(401,280)
Cash paid for Subscription Conservation programs	(651,206)
Net Cash Provided by Operating Activities	<u>596,799</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of property and equipment	<u>(4,366)</u>
Net Cash Used for Capital Related Financing Activities	<u>(4,366)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>11,150</u>
Net Cash Provided by Investing Activities	<u>11,150</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	603,583
CASH AND CASH EQUIVALENTS - BEGINNING	<u>2,594,062</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,197,645</u>
Reconciliation of operating income to net cash provided by (used for)	
operating activities	
Operating income	\$ 646,212
Adjustments to reconcile operating loss to net	
cash provided by (used for) operating activities:	
Depreciation	4,102
Change in operating assets and liabilities:	
Increase in accounts receivable	(61,796)
Increase in Subscription Conservation programs receivables: Washing Machine Rebate	22,279
Decrease in Subscription Conservation programs receivables: other	13,242
Increase in prepaid expenses	(531)
Increase in deposits	7,246
Increase in accounts payable	(230,101)
Decrease in accrued expenses	(1,849)
Decrease in accrued compensated absences	(8,225)
Increase in unearned revenue	<u>206,220</u>
Net Cash Provided by Operating Activities	<u>\$ 596,799</u>

The notes to the basic financial statements are an integral part of this statement.

# **BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012**

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### **NOTE 1 - SUMMARY OF ORGANIZATION**

Bay Area Water Supply & Conservation Agency ("BAWSCA") was formed on May 27, 2003. BAWSCA currently represents the interests of 24 cities and water districts, and 2 private utilities, in Alameda, Santa Clara and San Mateo counties that purchase water on a wholesale basis from the San Francisco regional water system.

BAWSCA was enabled by Assembly Bill No. 2058 and has the authority to coordinate water conservation, supply and recycling activities for its members; acquire water and make it available to other agencies on a wholesale basis; finance projects, including improvements to the regional water system; and build facilities jointly with other local public agencies or on its own to carry out BAWSCA's purposes.

BAWSCA is the only regional entity having the authority to represent the needs of the cities, water districts and private utilities (wholesale customers) that depend on the regional water system. BAWSCA provides the ability for the customers of the regional system to work with San Francisco to ensure the water system gets fixed, and to work with its members to meet local responsibilities.

BAWSCA is governed by a 26 member Board of Directors comprised of community leaders appointed by the cities and water districts that are members of BAWSCA, and two private utility service areas; Stanford University and California Water Service Company.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of Presentation and Accounting*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement.

BAWSCA is accounted for as an enterprise fund, which is used to account for operations similar to a private business enterprise where the intent of BAWSCA is that the costs and expenses, including depreciation, of providing services to the members on a continuing basis be financed or recovered primarily through user charges.

As an enterprise fund, BAWSCA presents financial information on the economic resources measurement focus and uses the full accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities of the enterprise are recorded on its statement of net assets. Under the accrual basis of accounting, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when liabilities are incurred.

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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**Statement of Net Assets** - The statement of net assets is designed to display the financial position of BAWSCA. BAWSCA's net assets are classified into three categories as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. BAWSCA had no restrictions as of June 30, 2012.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Statement of Revenues, Expenses, and Changes in Net Assets** - The statement of revenues, expenses, and changes in net assets is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Revenues are reported by major source with operating revenues classified from BAWSCA's primary operating resources and all other revenue reported as non-operating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating.

BAWSCA applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

### *Budgets and Budgetary Accounting*

BAWSCA must adopt a budget prior to July 1 of each year for the following fiscal year. The budget for the fiscal year beginning July 01, 2011, was adopted by the Board of Directors in May of 2011.

### *Cash and Investments*

BAWSCA's cash deposits are considered to be cash on hand and cash in banks. For purposes of the statement of cash flows, BAWSCA considers all highly liquid investments with maturity of

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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three months or less when purchased to be cash equivalents. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

BAWSCA participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

*Receivables*

Receivables include amounts due from member assessments, water conservation programs, grants and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2012.

*Capital Assets*

Capital Assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available.

The Agency depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Agency depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency has assigned the useful lives listed below to capital assets:

Equipment	5 years
Furniture and fixtures	7 years

*Compensated Absences*

BAWSCA has a policy whereby employees can accumulate unused vacation which is reported as compensated absences, a liability in the statement of net assets.

*Revenue and Expenditure Recognition*

BAWSCA has an agreement with Pacific Gas & Electric ("PG&E") to provide BAWSCA with rebate account management, marketing, processing, and administrative services for a Washing Machine Rebate Program.

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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Conservation program expenses are recorded in the period that PG&E processes and pays the rebates, which is when the expense is considered measurable and the liability is incurred. Program revenues are recorded when the expense is recorded. All pass-through revenues and expenses are reported separately at gross, in accordance with accounting principles generally accepted in the United States of America.

Amounts collected in advance for the washing machine rebate program are recorded as unearned revenue until the rebates are processed and paid. For the year ended June 30, 2012, cash was collected in advance only for the Washing Machine Rebate Program and was accounted for separately from other conservation programs and BAWSCA's general operational activities.

### *Accounting Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

### *Implemented New Accounting Pronouncements*

**Summary of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (Issued 12/10).** The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard did **not** have a significant impact on the BAWSCA's financial statements.

**Summary of Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 5 (Issued 06/11).** The objective of this Statement is to clarify whether an effective hedging relationship continues after



# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement were implemented as of June 30, 2012 and did **not** have a significant impact on the BAWSCA's financial statements.

### *Upcoming New Accounting Pronouncements*

**Summary of Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11).** This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the BAWSCA's financial statements.

**Summary of Statement No. 65 Items Previously Reported as Assets and Liabilities (Issued 03/12).** This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The implementation of this standard will **not** have a significant impact on the BAWSCA's financial statements.

**Summary of Statement No. 67 Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12).** This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions,

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The determination of the impact on the BAWSCA's financial statements from the implementation of this standard is pending as of the issuance date of this report.

**Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12).** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the BAWSCA's financial statements from the implementation of this standard is pending as of the issuance date of this report.

### NOTE 3 - CASH AND INVESTMENTS

As of June 30, 2012, BAWSCA had a cash balance of \$3,197,645 at Borel Bank & Trust and cash invested in the Local Agency Investment Fund (LAIF) with a fair value of \$3,069,385. The bank balances are insured by Federal Deposit Insurance Company ("FDIC") up to \$250,000 per interest bearing accounts at each bank. Noninterest bearing accounts are fully insured. The differences between the bank balances and the carrying amount are due to reconciling items such as deposits in transit and outstanding checks. BAWSCA's cash in bank exceeded the insured limit by \$11,732 as of June 30, 2012.

#### *Collateral and Categorization Requirements*

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

#### *Investment Policy*

BAWSCA's investment policy follows the California Government Code which authorizes BAWSCA to invest in its own bonds, certain time deposits, obligations of the U.S. Treasury,

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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agencies and instrumentalities, commercial paper, bankers' acceptances with maturities not to exceed 270 days, and medium-term notes issued by corporations operating within the U.S., commercial paper rated P-1 or higher by Moody's or A-1 by Standard & Poor's commercial paper record, repurchase agreements of obligations of the U.S. Government or its agencies for a term of one year or less and the Local Agency Investment Fund.

### *Local Agency Investment Fund*

LAIF allows local agencies such as BAWSCA to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2012, was approximately \$62.68 billion. Of that amount, 95.27% is invested in non-derivative financial products and 4.73% in structured notes and asset-backed securities. The average maturity for the investment in LAIF is 270 days.

### *General Reserve*

BAWSCA maintains a general reserve (the "General Reserve") which is invested in LAIF. At the end of each year, excess funds are to be transferred into the General Reserve. BAWSCA's general reserve was \$916,897 as of June 30, 2012.

### *Risk Disclosures*

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *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, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates.
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the BAWSCA's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. BAWSCA does not have a policy for custodial credit risk for deposits. However, the

# BAY AREA WATER SUPPLY & CONSERVATION AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

- *Concentration of Credit Risk* - BAWSCA's investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code.

Although authorized to invest in more vehicles, BAWSCA manages its investment risks by limiting its investments to LAIF.

### NOTE 4 - OPERATING LEASES

On May 6, 2011, BAWSCA entered into a lease for office space on the 6<sup>th</sup> floor at 155 Bovet Road in San Mateo, CA. The lease commenced on August 1, 2011 and expires on September 30, 2016. The future minimum lease payments were as follows as of June 30, 2012:

<u>Fiscal Year</u>	<u>Minimum Lease Payments</u>
2013	\$ 89,976
2014	92,670
2015	95,454
2016	98,316
2017	24,759
Total minimum lease payments	<u>\$ 401,175</u>

Rent expense for the fiscal year ended June 30, 2012 was \$82,144.

### NOTE 5 - EMPLOYEE BENEFITS

#### *Plan Description*

BAWSCA contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

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state statute and BAWSCA’s resolution. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento CA 95814.

*Funding Policy*

BAWSCA employees are required to contribute seven percent of their annual salary to PERS. BAWSCA is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. For the fiscal year ended June 30, 2012, the required employer contribution rate was 12.060%.

*Annual Pension Cost*

For the fiscal year ended June 30, 2012, BAWSCA’s annual pension cost of \$88,327 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of three years.

*Three Year Trend Information*

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 97,398	100	0
6/30/2011	99,433	100	0
6/30/2012	88,327	100	0

**NOTE 6 - RISK MANAGEMENT**

BAWSCA is exposed to various risk of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In an effort to manage its risk exposure, BAWSCA is a member of the Special District Risk Management Authority ("SDRMA"). SDRMA is a risk-pooling self-insurance authority created for the purpose of arranging and administering programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

As a member of the SDRMA, BAWSCA participated in the general and auto liability, public officials' and employees' errors and omissions and employment practices liability program,

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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which retained coverage of up to \$2.5 million. BAWSCA's general liability deductible is \$500 for general liability property damage, and \$1,000 for auto liability property damage. BAWSCA is insured for \$200 million of each worker's compensation claim through the SDRMA pool. Excess workers' compensation employer's liability is covered up to \$5 million. There were no accrued losses for insurance claims as of June 30, 2012. There were no settlements that exceeded insurance coverage for fiscal year ended June 30, 2012.

Special District Risk Management Authority is a not-for-profit public agency formed under California Government Code Section 6500 *et seq.* and provides a full-service risk management program for California's local governments. For more than 20 years, SDRMA has provided comprehensive property, liability and workers' compensation protection with rates that are consistently 15% below average market rates.

Condensed financial information for SDRMA for the fiscal year ended June 30, 2011 is as follows:

Total Assets	\$ 93,151,195
Total Liabilities	<u>48,064,871</u>
Net Assets	<u>\$ 45,086,324</u>
Total Revenues	\$ 39,887,783
Total Expenses	<u>(27,647,655)</u>
Change in Net Assets	<u>\$ 12,240,128</u>

**SUPPLEMENTAL INFORMATION**

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSET - BUDGET AND ACTUAL (BUDGET BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual (Budget Basis)	Variance
OPERATING REVENUE	\$ 2,516,812	\$ 2,516,812	\$ 2,344,283	\$ (172,529)
OPERATING EXPENSES:				
Consultants:				
Reliability	834,907	834,907	703,695	131,212
Fair Pricing	283,000	283,000	196,132	86,868
Administration	112,000	112,000	136,364	(24,364)
Subtotal Consultants	<u>1,229,907</u>	<u>1,229,907</u>	<u>1,036,191</u>	<u>193,716</u>
Administration:				
Salaries and benefits	1,075,875	1,075,875	1,019,036	56,839
Rent	81,000	81,000	82,144	(1,144)
Other supplies and services	177,900	177,900	144,589	33,311
Subtotal Administration	<u>1,334,775</u>	<u>1,334,775</u>	<u>1,245,769</u>	<u>89,006</u>
Other operating expenses	<u>2,500</u>	<u>2,500</u>	<u>187</u>	<u>2,313</u>
Total operating expenses	<u>2,567,182</u>	<u>2,567,182</u>	<u>2,282,147</u>	<u>285,035</u>
OPERATING INCOME (LOSS)	(50,370)	(50,370)	62,136	112,506
NON-OPERATING REVENUE (EXPENSE):				
Capital outlay	(6,000)	(6,000)	(4,366)	1,634
Budgeted contingencies	(46,523)	(46,523)	-	46,523
Interest income	-	-	11,150	11,150
Total non-operating revenue (expense)	<u>(52,523)</u>	<u>(52,523)</u>	<u>6,784</u>	<u>59,307</u>
CHANGE IN NET ASSETS	(102,893)	(102,893)	68,920	171,813
NET ASSETS - BEGINNING	<u>2,010,484</u>	<u>2,010,484</u>	<u>2,010,484</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 1,907,591</u>	<u>\$ 1,907,591</u>	<u>\$ 2,079,404</u>	<u>\$ 171,813</u>
RECONCILIATION OF BUDGET BASIS TO GAAP:				
Changes in Net Assets - Budget Basis			\$ 68,920	
Change in compensated absences			8,225	
Capital outlay			4,366	
Conservation program expenses			61,443	
Long-term Reliable Water Supply Strategy Revenue			978,863	
Long-term Reliable Water Supply Strategy Expense			(460,353)	
Depreciation			<u>(4,102)</u>	
Changes in Net Assets - GAAP Basis			657,362	
Net Assets - Beginning			<u>2,010,484</u>	
Net Assets - Ending			<u>\$ 2,667,846</u>	



**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**COMBINING SCHEDULE OF NET ASSETS  
JUNE 30, 2012**

	<u>LTRWSS Fund</u>	<u>Subscription Fund</u>	<u>Operating Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 1,261,534	\$ 558,012	\$ 1,378,099	\$ 3,197,645
Assessments receivable	-	-	150,844	150,844
Subscription Conservation programs receivables: Washing Machine Rebate	-	2,614	-	2,614
Subscription Conservation programs receivables: other	-	71,534	1,415	72,949
Prepaid assets	-	-	31,321	31,321
Due from other funds	-	-	64,049	64,049
<b>Total Current Assets</b>	<b>1,261,534</b>	<b>632,160</b>	<b>1,625,728</b>	<b>3,519,422</b>
Property and equipment - net	-	-	14,875	14,875
Deposit	-	-	8,253	8,253
<b>TOTAL ASSETS</b>	<b><u>\$ 1,261,534</u></b>	<b><u>\$ 632,160</u></b>	<b><u>\$ 1,648,856</u></b>	<b><u>\$ 3,542,550</u></b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 151,109	\$ 104,530	\$ 128,591	\$ 384,230
Accrued expenses	-	-	32,501	32,501
Accrued compensated absences	-	-	54,959	54,959
Unearned revenue	-	338,965	-	338,965
Due to other funds	-	64,049	-	64,049
<b>TOTAL LIABILITIES</b>	<b><u>\$ 151,109</u></b>	<b><u>\$ 507,544</u></b>	<b><u>\$ 216,051</u></b>	<b><u>\$ 874,704</u></b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ 14,875	\$ 14,875
Unrestricted	1,110,425	124,616	1,417,930	2,652,971
<b>TOTAL NET ASSETS</b>	<b><u>\$ 1,110,425</u></b>	<b><u>\$ 124,616</u></b>	<b><u>\$ 1,432,805</u></b>	<b><u>\$ 2,667,846</u></b>

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	LTRWSS Fund	Subscription Fund	Operating Fund	Total
<b>OPERATING REVENUE:</b>				
Assessments	\$ -	\$ -	\$ 2,344,283	\$ 2,344,283
Long-term Reliable Water Supply Strategy	978,863	-	-	978,863
Subscription Conservation programs	-	791,833	-	791,833
<b>Total operating revenue</b>	<b>978,863</b>	<b>791,833</b>	<b>2,344,283</b>	<b>4,114,979</b> <sup>1</sup>
<b>OPERATING EXPENSES:</b>				
Legal services	22,128	-	445,602	467,730
Engineering services	-	-	176,904	176,904
Financial services	-	-	33,630	33,630
Strategic communications	-	-	190,971	190,971
Water conservation programs	-	749,056	37,724	786,780
Water resources planning	-	1,418	118,499	119,917
Advertising	-	-	436	436
Automobile	-	-	7,800	7,800
Depreciation	-	-	4,102	4,102
Director fees	-	-	16,904	16,904
Filing fees	-	-	180	180
Insurance	-	-	13,451	13,451
Meetings	-	-	14,522	14,522
Dues and subscriptions	-	-	18,165	18,165
Sponsorships	-	-	11,002	11,002
Miscellaneous	-	-	50	50
Professional services	437,593	-	12,787	450,380
Office	381	1,698	133,917	135,996
Payroll tax expense	-	-	13,937	13,937
Salaries	-	-	762,161	762,161
Employee benefits	-	-	239,877	239,877
Employee leave	-	-	(8,225)	(8,225)
Temporary personnel	-	178	3,130	3,308
Recruitment	-	-	500	500
Training	-	-	2,293	2,293
Travel and entertainment	251	-	5,745	5,996
<b>Total operating expenses</b>	<b>460,353</b>	<b>752,350</b>	<b>2,256,064</b>	<b>3,468,767</b>
<b>OPERATING INCOME</b>	<b>518,510</b>	<b>39,483</b>	<b>88,219</b>	<b>646,212</b>
<b>NON-OPERATING REVENUES:</b>				
Interest income	-	26	11,124	11,150
<b>Total non-operating revenues</b>	<b>-</b>	<b>26</b>	<b>11,124</b>	<b>11,150</b>
<b>CHANGE IN NET ASSETS</b>	<b>518,510</b>	<b>39,509</b>	<b>99,343</b>	<b>657,362</b>
<b>NET ASSETS - BEGINNING</b>	<b>591,915</b>	<b>85,107</b>	<b>1,333,462</b>	<b>2,010,484</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 1,110,425</b>	<b>\$ 124,616</b>	<b>\$ 1,432,805</b>	<b>\$ 2,667,846</b>

**OTHER INDEPENDENT AUDITOR'S REPORT**



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

Board of Directors  
Bay Area Water Supply & Conservation Agency

We have audited the financial statements of the business-type activities of the Bay Area Water Supply & Conservation Agency ("BAWSCA") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

Management of BAWSCA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered BAWSCA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BAWSCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BAWSCA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

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

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

January 7, 2013  
San Jose, California

**San Francisco Bay Area  
Water Users Association**

Financial Statements  
With Accountants' Compilation Report  
June 30, 2012



**CHAVAN & ASSOCIATES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
1475 SARATOGA AVE, SUITE 180  
SAN JOSE, CA 95129

# San Francisco Bay Area Water Users Association

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To the Board of Directors  
San Francisco Bay Area Water Users Association

We have compiled the accompanying statement of financial position of the San Francisco Bay Area Water Users Association (a nonprofit organization) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

*C & A LLP*

September 8, 2012  
San Jose, California

**San Francisco Bay Area Water Users Association**

Statement of Financial Position

June 30, 2012

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ASSETS

Current Assets:

Cash and Cash Equivalents \$ 9,390

Property and Equipment:

Computer Equipment 13,372

Furniture and Fixtures 32,458

Accumulated Depreciation (45,830)

TOTAL ASSETS \$ 9,390

NET ASSETS

Unrestricted \$ 9,390

TOTAL NET ASSETS \$ 9,390

See accountants' compilation report



**San Francisco Bay Area Water Users Association**

Statement of Activities

For the Year Ended June 30, 2012

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OPERATING REVENUE	\$ -
OPERATING EXPENSES	<u>-</u>
OPERATING LOSS	-
NON-OPERATING REVENUE	
Interest income	<u>19</u>
CHANGE IN NET ASSETS	19
NET ASSETS - BEGINNING	<u>9,371</u>
NET ASSETS - ENDING	<u>\$ 9,390</u>

See accountants' compilation report

**San Francisco Bay Area Water Users Association**

Statement of Cash Flows

For the Year Ended June 30, 2012

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Cash flows from operating activities:	
Changes in net assets	<u>\$        19</u>
Net cash provided by operating activities	<u>            19</u>
Net decrease in cash and cash equivalents	19
Cash and cash equivalents at beginning of year	<u>          9,371</u>
Cash and cash equivalents at end of year	<u><u>          \$  9,390</u></u>

See accountants' compilation report