

**STANISLAUS REGIONAL WATER AUTHORITY**

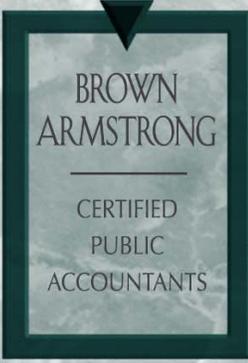
**FINANCIAL STATEMENTS AND  
OTHER INFORMATION**

**FOR THE YEAR ENDED  
JUNE 30, 2014**

**STANISLAUS REGIONAL WATER AUTHORITY  
YEARS ENDED JUNE 30, 2014**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Stanislaus Regional Water Authority  
Modesto, California

We have audited the accompanying financial statements of the governmental activities and general fund of the Stanislaus Regional Water Authority (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Authority, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As noted in Note 1 of the financial statements, during the year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style.

Bakersfield, California  
November 24, 2014

**STANISLAUS REGIONAL WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

The following narrative provides an overview and analysis of the financial activities of the Stanislaus Regional Water Authority (the Authority) for the fiscal year ended June 30, 2014. It is provided in order to enhance the information in the financial audit and should be reviewed together with that report.

### **THE PURPOSE OF THE AUTHORITY**

The Authority was established by the Cities of Ceres, Modesto, and Turlock (Participants) on September 26, 2011. The Participants are interested in finding and evaluating surface water supply options and facilities to serve municipal and industrial water to the customers within their service areas. Each of the cities is authorized to develop, obtain, and serve a municipal and industrial water supply, pursuant to California law. The Participants are working with the Turlock Irrigation District (TID) to develop a Regional Surface Water Supply Project (RSWSP) that will provide a safe and reliable high quality surface water supply for the long-term drinking water needs of each participating city. The Participants have formed a Joint Powers Authority for the purpose of making responsible decisions related to the development and operation of the future RSWSP.

### **FINANCIAL HIGHLIGHTS**

The liabilities of the Authority exceeded assets at the close of the 2014, creating a deficit of \$97 (net position).

- Total net position increased by \$4,580 in the current year, and decreased \$3,229 in the prior year.
- Total Authority revenues were \$94,833 and \$83,821 for the years 2014 and 2013, respectively.

### **THE BASIC FINANCIAL STATEMENTS**

The basic financial statements comprise the government-wide financial statements and the fund financial statements; these two sets of financial statements provide two different views of the Authority's financial activities and financial position.

#### *The Government-Wide Financial Statements*

The government-wide financial statements provide a long-term view of the Authority's activities as a whole and comprise the statement of net position and the statement of activities. The statement of net position provides information about the financial position of the Authority as a whole, including all its capital assets and long-term liabilities. The statement of activities provides information about the Authority's revenues and all its expenses. The statement of activities explains in detail the change in net position for the year.

The statement of net position and the statement of activities present information about the following:

- **Governmental activities** – All of the Authority's basic services are considered to be governmental activities, including formation, financing, construction, and maintenance activities. These services are supported by formation deposits, special facilities taxes, and annual maintenance assessments.

Government-wide financial statements are prepared on the accrual basis of accounting, which means they measure the flow of all economic resources of the Authority as a whole, similar to that used by the private sector.

The following is a condensed Statement of Net Position:

**Statement of Net Position - Governmental Activities**

	<u>2014</u>	<u>2013</u>
Cash and investments	\$ -	\$ 2,108
Interest receivable	-	9
Due from other governments	<u>29,741</u>	<u>22,207</u>
 Total assets	 <u>\$ 29,741</u>	 <u>\$ 24,324</u>
 Current and other liabilities	 <u>\$ 29,838</u>	 <u>\$ 29,001</u>
 Net position:		
Unrestricted	<u>(97)</u>	<u>(4,677)</u>
 Total net position	 <u>\$ (97)</u>	 <u>\$ (4,677)</u>

The following is a condensed Statement of Activities:

**Statement of Activities - Governmental Activities**

	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 94,929	\$ 83,765
General revenues:		
Investment earnings (loss)	<u>(96)</u>	<u>56</u>
 Total revenues	 94,833	 83,821
Expenses:		
General government	<u>90,253</u>	<u>87,050</u>
 Change in net position	 4,580	 (3,229)
 Net position, July 1	 <u>(4,677)</u>	 <u>(1,448)</u>
 Net position, June 30	 <u>\$ (97)</u>	 <u>\$ (4,677)</u>

### *Fund Financial Statements*

The fund financial statements report the Authority's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Authority's General Fund. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

The fund financial statements provide detailed information about the Authority's most significant fund, called a major fund. The major fund presents the major activities of the Authority for the year, and may change from year to year as a result of changes in the pattern of the Authority's activities. The Authority's General Fund is presented here as a major fund; its purpose is explained in Note 1 to the financial statements.

The Authority's fund is a governmental fund; a financial statement for this fund is prepared on the modified accrual basis of accounting, which means it measures only current financial resources and uses.

The following is a condensed Statement of Revenue, Expenditures, and Changes in Fund Balance:

#### **Statement of Revenue, Expenditures, and Changes in Fund Balance General Fund**

	<u>2014</u>	<u>2013</u>
Revenue	\$ 94,833	\$ 83,821
Expenditures	<u>90,253</u>	<u>87,050</u>
Excess of revenues over expenditures	4,580	(3,229)
Fund Balance (Deficit) - July 1	<u>(4,677)</u>	<u>(1,448)</u>
Fund Balance (Deficit) - June 30	<u><u>\$ (97)</u></u>	<u><u>\$ (4,677)</u></u>

### **FINANCIAL ACTIVITIES OF THE AUTHORITY AS A WHOLE**

This analysis focuses on the net position and changes in net position of the Authority's governmental activities in the government-wide statement of net position and statement of activities that follow.

As of June 30, 2014, total assets of \$29,741 were offset by liabilities of \$29,838, while as of June 30, 2013, total assets of \$24,324 were offset by liabilities of \$29,001. The Authority's net position from governmental activities increased to \$(97) in 2014 from \$(4,677) in 2013. This increase occurred because the General Fund revenues exceeded expenditures. This increase is the change in net position reflected in the statement of activities. All of the Authority's net position is unrestricted.

### **FISCAL YEAR 2014 GOVERNMENTAL ACTIVITIES**

The Authority's fiscal year 2014 revenue was primarily from operating grants and contributions of \$94,929, along with investment earnings (loss) of \$(96). Authority expenses of \$90,253 in fiscal year 2014 were for operating expenses and contractual services.

## **THE AUTHORITY'S FUND FINANCIAL STATEMENTS**

At June 30, 2014, the Authority's governmental fund reported a deficit balance of \$(97), which is an increase of \$4,580 compared with last year. This increase represented the excess of revenues over expenditures for the year.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

These Component Unit Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances. Questions about this report should be directed to the City of Modesto, Accounting Division, P.O. Box 642, Modesto, California 95353.

**STANISLAUS REGIONAL WATER AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	2014
<b><u>ASSETS</u></b>	
Due from other governments	\$ 29,741
Total Assets	\$ 29,741
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ 29,092
Accrued interest payable	12
Due to the City of Modesto	734
Total Liabilities	29,838
<b><u>NET POSITION</u></b>	
Unrestricted	(97)
Total Net Position	(97)
Total Liabilities and Net Position	\$ 29,741

See accompanying notes to basic financial statements.

**STANISLAUS REGIONAL WATER AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities			
General government	\$ 90,253	\$ 94,929	\$ 4,676
Total Expenses	\$ 90,253	\$ 94,929	4,676
<b><u>GENERAL REVENUES</u></b>			
			(96)
			(96)
		Change in net position	4,580
		Net position beginning	(4,677)
		Net position ending	\$ (97)

See accompanying notes to basic financial statements.

**STANISLAUS REGIONAL WATER AUTHORITY  
BALANCE SHEETS  
GENERAL FUND  
JUNE 30, 2014**

	2014
<b><u>ASSETS</u></b>	
Due from other governments	\$ 29,741
Total Assets	\$ 29,741
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ 29,092
Accrued interest payable	12
Due to the City of Modesto	734
Total Liabilities	29,838
<b><u>FUND BALANCE</u></b>	
Unassigned	(97)
Total Fund Balance (Deficit)	(97)
Total Liabilities and Fund Balance	\$ 29,741

See accompanying notes to basic financial statements.

**STANISLAUS REGIONAL WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	2014
<b><u>REVENUES</u></b>	
Intergovernmental	\$ 94,929
Charges for services	-
Interest	(138)
Net change in fair value of investments	42
Total Revenues	94,833
<b><u>EXPENDITURES</u></b>	
Operating expenses	55,050
Contractual services	35,203
Total Expenditures	90,253
Net Change in Fund Balance	4,580
Fund Balance (Deficit), July 1	(4,677)
Fund Balance (Deficit), June 30	\$ (97)

See accompanying notes to basic financial statements.

**STANISLAUS REGIONAL WATER AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description and Reporting Entity

The Stanislaus Regional Water Authority (the Authority) was established by the Cities of Ceres, Modesto, and Turlock (Participants) on September 26, 2011. The Participants are interested in finding and evaluating surface water supply options and facilities to serve municipal and industrial water to the customers within their service areas. Each of the cities is authorized to develop, obtain, and serve a municipal and industrial water supply, pursuant to California law. The Participants are working with the Turlock Irrigation District (TID) to develop a Regional Surface Water Supply Project (RSWSP) that will provide a safe and reliable high quality surface water supply for the long-term drinking water needs of each participating city. The Participants have formed a Joint Powers Authority for the purpose of making responsible decisions related to the development and operation of the future RSWSP.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies. All financial transactions initiated by the Authority are processed and accounted for by the City of Modesto's financial system.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Authority. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates which direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) fees, fines and charges paid by the recipients who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

Separate financial statements are provided for the governmental fund.

C. Basis of Presentation, Basis of Accounting, and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. If revenues are considered unavailable, then they are recorded as deferred revenue on the balance sheet, such as property taxes levied but unavailable for expenditures during the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days at the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (Continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The financial statements include the activities of various funds and account groups for which the Authority has oversight responsibility. The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Account groups are no longer presented as such in the financial statements, but the information is incorporated in the governmental activities column of the government-wide statement of net position. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority groups and reports the various funds in the financial statements as follows:

**Governmental Funds:**

The **General Fund** is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

D. Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Actual results could differ from these estimates.

E. Cash and Cash Equivalents

Cash and investments (including restricted assets) are held in the City of Modesto's investment pool and are reported as cash and cash equivalents on the statement of net position and balance sheet because funds can spend cash at any time without prior notice or penalty. Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

F. Capital Assets

The Authority is required to record all of its capital assets, including any infrastructure, at their historical costs, and to depreciate those assets over their estimated useful lives. However, title to all assets acquired or constructed by the Authority will be turned over to their respective Participant upon completion and acceptance. Accordingly, capital outlay expenditures are reported in the Authority's fund financial statements. The Authority has no capital assets as of June 30, 2014.

G. Long-Term Debt

The Authority has no long-term debt as of June 30, 2014.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### H. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Authority itself, using the Authority's highest level of decision-making authority (the Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the Authority *intends* to use for a specific purpose. Intent can be expressed by the Authority at either the highest level of decision-making authority or by an official or body to which the Authority delegates the authority. This is also the classification for residual funds in the Authority's special revenue grants fund.
- **Unassigned** - The residual classification for the Authority's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Authority establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the Authority through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, followed by the unrestricted committed, assigned, and unassigned resources as they are needed.

### I. Accounting Standards Update

During the fiscal year ending June 30, 2014, the Authority implemented the following Governmental Accounting Standards Board (GASB) standards:

**GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities***. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

**GASB Statement No. 66 – *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62***. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

**GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25***. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### I. Accounting Standards Update (Continued)

**GASB Statement No. 70** – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. There was no effect on the Authority's accounting or financial reporting as a result of implementing this standard.

Recently released standards by GASB affecting future fiscal years are as follows:

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Authority has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Authority has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

**GASB Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68*. The provisions of this statement will be applied simultaneously with the provisions of GASB Statement No. 68.

## **NOTE 2 – CASH AND INVESTMENTS**

Cash and investments of the Authority are pooled with other City of Modesto funds. The Authority's portion of this pooled amount was \$0 at June 30, 2014. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. Detailed information concerning the City of Modesto's pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto's Comprehensive Annual Financial Report for the year ended June 30, 2014.

## **NOTE 3 – FUND DEFICIT**

As of June 30, 2014, the General Fund had a deficit net position value of \$97. This deficit is expected to be financed through future higher contributions from the Participants.

## **NOTE 4 – RELATED PARTY TRANSACTIONS**

The Authority reimburses the City of Modesto for administrative and other costs incurred by the City of Modesto on the Authority's behalf. During the years ending June 30, 2014 and 2013, contractual service expenditures of \$35,203 and \$55,740, respectively, were allocated to the Authority from the City of Modesto.

## **NOTE 5 – SUBSEQUENT EVENTS**

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards generally accepted in the United States of America. These subsequent events have been evaluated through November 24, 2014, which is the date the basic financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**STANISLAUS REGIONAL WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

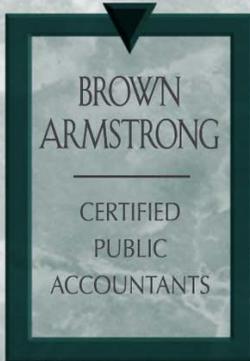
	Budget		General Fund	Variance with Final Budget
	Original	Final		
<b><u>REVENUES</u></b>				
Intergovernmental	\$ 1,367,000	\$ 1,367,000	\$ 94,929	\$ 1,272,071
Interest	-	-	(138)	138
Net change in fair value of investments	-	-	42	(42)
	<u>1,367,000</u>	<u>1,367,000</u>	<u>94,833</u>	<u>1,272,167</u>
<b><u>EXPENDITURES</u></b>				
Operating expenses	1,217,285	1,217,285	55,050	1,162,235
Contractual services	149,715	149,715	35,203	114,512
	<u>\$ 1,367,000</u>	<u>\$ 1,367,000</u>	<u>90,253</u>	<u>\$ 1,276,747</u>
Net Change in Fund Balance			4,580	
Fund Balance (Deficit) July 1			<u>(4,677)</u>	
Fund Balance (Deficit) June 30			<u>\$ (97)</u>	

**STANISLAUS REGIONAL WATER AUTHORITY  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING**

The Stanislaus Regional Water Authority (the Authority) operates under the general laws of the State of California and annually adopts a budget for the General Fund to be effective July 1 for the ensuing fiscal year. The budget must be approved by each of the legislative bodies of parties to the joint powers agreement. From the effective date of the budget, which is adopted and controlled at the fund level, the amounts stated therein as proposed expenditures become appropriations. The Authority may amend the budget by approval from each of the legislative bodies of the parties to the agreement during the fiscal year. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures, based on the authorized encumbered appropriation carried over. All appropriations lapse at year-end. Annual budgets are adopted using a basis of accounting consistent with accounting principles generally accepted in the United States of America.

**OTHER REPORT**



# BROWN ARMSTRONG

*Certified Public Accountants*

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

To the Board of Directors  
Stanislaus Regional Water Authority  
Modesto, 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 governmental activities and general fund, of the Stanislaus Regional Water Authority (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 24, 2014.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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.

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## **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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
November 24, 2014

**STANISLAUS REGIONAL WATER AUTHORITY  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2014**

None.

**STANISLAUS REGIONAL WATER AUTHORITY  
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2014**

**2013-1: EXPENDITURE CUT-OFF – FINANCIAL REPORTING**

Criteria:

In accordance with accounting standards generally accepted in the United States of America, internal controls should be designed to provide reasonable assurance of achieving effective and reliable financial reporting, or in compliance with applicable laws and regulations.

Condition:

During our audit procedures, it was noted that the Stanislaus Regional Water Authority (the Authority) failed to properly perform cut-off procedures to properly record expenditures in their appropriate accounting period based on when they were incurred, and not dependent on when those actual expenditures were paid.

Cause:

The Authority lacked proper procedures and internal controls to ensure the financial statements were complete and accurate for each reporting period.

Effect:

The Authority's financial statements were originally misstated in understating its expenditures and liabilities for the reporting period ending June 30, 2013. However, these issues were identified during the audit and were correctly adjusted by management prior to the issuance of the final statements.

Recommendation:

We recommend that the Authority implement proper internal control procedures to perform cut-off procedures on invoices paid subsequent to the financial reporting period to properly determine accurate and complete reporting of activities of the Authority in the respective financial reporting period in accordance with accounting standards generally accepted in the United States of America.

Management Response/Corrective Action Plan:

The Finance department will be adding procedures to extend the timeline for processing Accounts Payable accruals for the fiscal year reporting period to ensure we capture any invoices that might have been processed late by the departments. Additionally, the Finance department had new staff members who will be provided additional training on how to determine when vendor invoices need to be accrued to the appropriate fiscal year. The Finance department will continue to monitor that these process changes will help minimize the error in missing any invoices that were not accrued into the correct fiscal year.

Current year update:

Implemented.