

BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2011 and 2010**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bay Area Clean Water Agencies

We have audited the financial statements of the Bay Area Clean Water Agencies (BACWA) as of and for the years ended June 30, 2011 and June 30, 2010, which collectively comprise the BACWA basic financial statements as listed in the table of contents. These financial statements are the responsibility of BACWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance as to whether the financial statements referred to above 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the Bay Area Clean Water Agencies as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Maze & Associates

August 19, 2011

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BAY AREA CLEAN WATER AGENCIES
Management's Discussion and Analysis
June 30, 2011 and 2010

This section presents management's discussion and analysis of the Bay Area Clean Water Agencies (BACWA) financial condition and activities as of and for the years ended June 30, 2011 and 2010. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Agency's basic financial statements. The MDA represents management's examination and analysis of the Agency's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Bay Area Dischargers Association (BADA) was created as a public entity in accordance with the terms of a Joint Powers Agreement, dated January 4, 1984, for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System (the Bay) with emphasis on pollution-related effects. Renamed BACWA on February 22, 2001, it is composed of BADA's five original signatory agencies ("BACWA principals"): East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA members contribute funds to cover operating expenses based on an annual workplan and budget, in accordance with sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-three affiliate members that contribute a minimum of \$7,500 and \$1,500 annually, respectively.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The financial statements include a *statement of net assets*, a *statement of revenues, expenses, and changes in fund net assets*, a *statement of cash flows*, and *notes to the financial statements*. The report also contains other required supplementary information in addition to the basic financial statements. BACWA's financial statements include:

The *statement of net assets* presents information on the Agency's assets and liabilities, with the difference between the two reported as net assets. It provides information about the nature and amount of resources and obligations at year-end.

The *statement of revenues, expenses, and changes in net assets* presents the results of the Agency's operations over the course of the fiscal year and information as to how the *net assets* changed during the year.

BAY AREA CLEAN WATER AGENCIES
Management's Discussion and Analysis
June 30, 2011 and 2010

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt.

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 9 to 13 of this report.

Financial Analysis:

The following summarizes net assets at June 30, 2011 and 2010, together with changes from the prior year.

Summary of Net Assets (Table 1)
June 30, 2011 and 2010

	Year ended June 30		Variance
	2011	2010	
Current assets	\$ 3,232,310	\$ 3,174,417	\$ 57,893
Current liabilities	214,849	964,703	(749,854)
Net assets:			
Restricted for operating projects	651,505	2,083,462	(1,431,957)
Unrestricted	2,365,956	126,252	2,239,704
Total net assets	\$ 3,017,461	\$ 2,209,714	\$ 807,747

- Unrestricted Net assets increased by \$2,239,704 and Restricted Net assets decreased by \$1,431,957. Restricted Net assets apply to Proposition 50 grant funds to be reimbursed to agencies.
- Current liabilities decreased by \$749,854. Proposition 50 grant funds and disbursements are reflected on the Statements of Revenues, Expenses and Changes in Net Assets.

BAY AREA CLEAN WATER AGENCIES
Management's Discussion and Analysis
June 30, 2011 and 2010

The following summarizes revenues, expenses and changes in fund net assets for the years ended June 30, 2011 and 2010, together with changes from the prior year.

**Summary of Revenues, Expenses
and Changes in Fund Net Assets (Table 2)**
June 30, 2011 and 2010

Assets	<u>Year ended June 30</u>		
	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Operating expenses	\$ (2,598,699)	\$ (1,187,130)	\$ 1,411,569
Loss before capital contribution	(2,598,699)	(1,187,130)	1,411,569
Nonoperating revenues	15,125	23,461	(8,336)
Contributions from members	<u>3,391,322</u>	<u>1,137,506</u>	<u>2,253,816</u>
Change in net assets	\$ <u><u>807,747</u></u>	\$ <u><u>(26,163)</u></u>	\$ <u><u>833,910</u></u>

- BACWA had no operating revenue in 2011 or 2010, as its funding comes from contributions from members.
- Contributions from members increased by \$2,253,816, which includes Proposition 50 grant reimbursements.
- Nonoperating revenues for the years ended June 30, 2011 and 2010 consisted primarily of interest income. The decrease of \$8,336 is due to a decrease in interest rates.
- Operating expenses increased by \$1,411,569, which includes Proposition 50 grant disbursements.

Request for Information

This financial report is designed to provide viewers with a general overview of The Bay Area Clean Water Agencies' finances and demonstrate BACWA's accountability for the monies it manages. If you have any questions about this report, or need additional information, please contact: the Executive Director, Amy Chastain, PO Box 24055, MS702, Oakland, CA 94623.

BAY AREA CLEAN WATER AGENCIES
 STATEMENTS OF NET ASSETS
 JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	\$ (72,566)	\$ 126,252
Restricted cash and cash equivalents	3,195,600	2,995,600
Accounts receivable	105,434	48,137
Accrued interest receivable	3,842	4,428
Total assets	3,232,310	3,174,417
LIABILITIES		
Accounts payable	214,349	964,703
Other deferred credits	500	
Total liabilities	214,849	964,703
NET ASSETS		
Restricted	651,505	2,083,462
Unrestricted	2,365,956	126,252
Total net assets	\$ 3,017,461	\$ 2,209,714

See accompanying notes to financial statements

BAY AREA CLEAN WATER AGENCIES
STATEMENTS OF REVENUE, EXPENSE
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating expense:		
Professional services	\$ (965,334)	\$ (933,573)
General and administrative	(314,097)	(253,557)
Grants and other	<u>(1,319,269)</u>	<u>-</u>
Total operating expense	<u>(2,598,699)</u>	<u>(1,187,130)</u>
Nonoperating revenue:		
Interest income	<u>15,125</u>	<u>23,461</u>
(Loss) before member contributions	(2,583,575)	(1,163,669)
Member contributions and other receipts	<u>3,391,322</u>	<u>1,137,506</u>
Changes in net assets	807,747	(26,163)
Total net assets - beginning	<u>2,209,714</u>	<u>2,235,877</u>
Total net assets - ending	<u>\$ 3,017,461</u>	<u>\$ 2,209,714</u>

See accompanying notes to financial statements

BAY AREA CLEAN WATER AGENCIES
 STATEMENTS OF CASH FLOWS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Cash paid for supplies and services	\$ (3,347,996)	\$ (695,656)
Cash flows from noncapital financing activities:		
Cash received from member contributions and other receipts	3,333,467	1,244,741
Cash flows from investing activities:		
Interest received on investments	15,711	29,906
Net increase in cash and cash equivalents	1,182	578,991
Cash and equivalents at beginning of period	3,121,852	2,542,861
Cash and equivalents at end of period	\$ 3,123,034	\$ 3,121,852
Reconciliation of net operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (2,598,699)	\$ (1,187,130)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Changes in operating assets and liabilities:		
Accounts payable	(749,297)	491,474
Net cash flow used by operating activities	\$ (3,347,996)	\$ (695,656)

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Bay Area Clean Water Agencies (BACWA) was organized on January 4, 1984 as the Bay Area Dischargers Association (BADA), and changed its name to BACWA effective February 22, 2001. BACWA was established for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System with emphasis on pollution-related effects. BACWA is composed of five original BADA signatory agencies: East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA principals and other members contribute funds to cover operating expenses based on an annual work plan and budget, in accordance with Sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-three affiliate members that contribute a minimum of \$7,500 and \$1,500 annually, respectively.

BACWA has the following special programs. Each special program's revenues and expenses are tracked separately from BACWA's other revenues and expenses.

- *The Air Issues and Regulations Committee (AIR)* was created in 1987 to provide air quality information to publicly owned treatment works. On July 1, 1994, AIR became a group within BACWA, with revenues provided by participating agencies and expenditures determined by those agencies.
- *The Clean Estuary Partnership (CEP)* was organized in August 2001 as a collaboration between BACWA, the San Francisco Bay Regional Water Quality Control Board and the Bay Area Stormwater Management Agencies Association to develop and implement water quality attainment strategies, including total maximum daily loads, for the San Francisco Bay-Delta and its tributaries. This program was closed on September 21, 2009.
- *San Francisco Bay Area Pollution Prevention Group (SFBAPPG)* was created in 1990 to develop regional public education programs regarding water pollution. In fiscal year 2002, BAPPG became part of BACWA. BAPPG expenses are funded by contributions from participating agencies and by BACWA.
- *State Proposition 50 (Prop50)* is a California Department of Water Resources (DWR) program to administer funds consistent with the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. BACWA applied for and was awarded a Prop 50 grant, State grant No. 4600007654. The Prop 50 revenue and expenses include disbursements from DWR, disbursements to participating agencies, and administrative costs.
- *The Integrated Regional Water Management Plan (IRWMP)* is a Proposition 50 program. BACWA participated in the coordination and development of the program for the San Francisco Bay Area in 2003. BACWA has the responsibilities over the wastewater and water recycling services area of the program. The program was closed during Fiscal 2010.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *The Water Quality Attainment Strategies (WQAS)* is a program to develop and fund regional projects that benefit participants. The program changed its name to the Clean Bay Collaborative during Fiscal Year 2010. Revenues come from contributions from program participants and expenditures are determined by the BACWA principals.
- *The Regional Water Recycling Committee (RWR)* was established in 2007 to promote water recycling in order to protect the environment, develop reliable water supply and to sustain our economic viability in the Bay Area region.
- *California Wastewater Climate Change Group (CWCCG)* was formed in early 2007 to develop greenhouse gas emission protocols specific to wastewater treatment processes for use by all BACWA and other California wastewater agencies, and to work with the California Climate Action Registry to have protocols recognized and accepted. Management of CWCCG was transferred to another legal entity, the California Association of Sanitation Agencies, during the 2010 fiscal year.
- *Water Conservation Campaign (WCC)* was established in 2007 to promote preservation and protection of Bay Area Water Supplies.
- *Water/Wastewater Operator Training (WOT)* was a program formed with Solano County Community College to provide water operators with educational training to help them understand the standard environmental rules and regulations related to water and wastewater.

B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position of BACWA in accordance with accounting standards generally accepted in the United States of America. As BACWA is exclusively comprised of governmental entities, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

BACWA as a proprietary enterprise is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

BACWA distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing deliverable goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for BACWA include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BACWA does not apply statements of Financial Accounting Standards Board (FASB) and interpretations issued after November 30, 1989. BACWA applies all applicable GASB pronouncements as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Assets – The statement of net assets is designed to display the financial position of BACWA. BACWA’s fund equity is reported as net assets, which is the excess of all of the Agency’s assets over all its liabilities. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets and are described below:

Invested in capital assets describes an agency’s capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Assets which is not restricted to use.

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. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

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

C. *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 that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. *Cash and Cash Equivalents*

BACWA considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Allocation of Costs

In accordance with the adopted work plan and approved budget for the year ended June 30, 2011, all costs incurred by BACWA for general overhead and for programs with general benefit are shared by BACWA members consistent with the terms of the Joint Powers Agreement establishing the agency, between each of the original signatory members.

Costs incurred for programs of special benefit are allocated in direct proportion to the benefits received as approved by BACWA's Executive Board.

AIR, CEP, SFBAPPG, IRWMP, WQAS, RWR, CWCCG, Prop 50, WCC and WOT have their own budgets, and their expenditures are funded from their own separate revenues.

NOTE 2 - CASH AND INVESTMENTS

A. Composition

BACWA's cash and cash equivalents consisted of the following at June 30:

	2011	2010
Demand deposits with banks	(\$72,566)	\$ 126,252
Local Agency Investment Fund	3,195,600	2,995,600
	\$3,123,034	\$3,121,852

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of BACWA's cash on deposit or first trust deed mortgage notes with a value of 150% of BACWA's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in BACWA's name and places BACWA ahead of general creditors of the institution pledging the collateral. BACWA has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

BACWA's investments are carried at fair value, as required by generally accepted accounting principles. BACWA adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2011.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BACWA generally manages its interest rate risk by holding investments to maturity. BACWA's only investment in the California Local Agency Investment Fund has a maturity date of less than twelve months.

E. Local Agency Investment Fund (LAIF)

BACWA is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. BACWA reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain State funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011, these investments matured in an average of 237 days.

NOTE 3 – RELATED PARTY TRANSACTION

As BACWA does not have any employees, EBMUD provides BACWA with ongoing treasury, accounting and auditing pass-through costs, and certain technical (laboratory) services, which are reimbursed by BACWA and the related organizations on no less than a quarterly basis. Total reimbursements for the year ended June 30, 2011 and 2010, were \$37,162 and \$40,000 respectively, and are primarily reflected in the general and administrative expenditures on the Statement of Revenues, Expenditures, and Changes in Net Assets.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 4 – RISK MANAGEMENT

BACWA's liability and property risks are insured by commercial insurance carriers. Selected insurance coverage includes:

<u>Coverage</u>	<u>Policy Limit</u>
Bodily injury	\$5,000,000
Property damage	5,000,000
Personal injury	5,000,000
Non-owned and hired automobile liability	5,000,000
Public officials, errors and omissions	5,000,000
Fire damage liability	1,000,000
Employment practices liability	2,000,000

Any liability BACWA may have for uninsured claims is limited to general liability claims. However, BACWA has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported.