

SACRAMENTO GROUNDWATER AUTHORITY

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

JUNE 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sacramento Groundwater Authority
Citrus Heights, California

We have audited the accompanying basic financial statements of the Sacramento Groundwater Authority as of and for the years ended June 30, 2008 and 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits 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 audits provide 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 Sacramento Groundwater Authority as of June 30, 2008 and 2007 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008, on our consideration of Sacramento Groundwater Authority'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.

The management's discussion and analysis on pages 3 through 12 and budgetary comparisons on pages 22 through 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cook CPA Group

Roseville, California
November 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sacramento Groundwater Authority (SGA) is a joint powers authority created to collectively manage, protect, and sustain the Sacramento region's North Area Groundwater Basin, which includes all of Sacramento County north of the American River. The following discussion and analysis of the SGA financial performance provides an overview of the financial activities for the fiscal years ending June 30, 2008 and 2007. This discussion analysis should be read in conjunction with the financial statements, which can be found on pages 13 to 23 of this report.

Description of Basic Financial Statements

SGA maintains its accounting records in accordance with generally accepted accounting principles for a special revenue fund type of the governmental fund group as prescribed by the Government Accounting Standards Board. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The accounts of SGA are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The basic financial statements include governmental fund balance sheet/statement of net assets. The statements of revenues, expenditures, and changes in fund balance/statement of activities; and statement of revenues, expenditures, and changes in fund balance – budget and actual on pages 22 and 23 is required supplementary information by the Governmental Accounting Standards Board.

The balance sheets include SGA as a special revenue fund with assets, liabilities and fund balance. It also includes adjustments to comply with Governmental Accounting Standards Board Statement 34 balance sheet format with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether SGA's financial position is improving or deteriorating.

The statements of revenues, expenditures, and changes in fund balance and statement of activities report all of SGA's revenues and expenditures/expenses during the periods indicated. This statement reflects the operating activity as both a special revenue fund and then also converts to a statement of activity. All changes in the fund balance and net assets are reported as soon as the underlying event is measurable and available. Thus, revenues and expenditures/expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. interest income and amounts due to vendors).

The statements of revenues, expenditures, and changes in fund balance – budget to actual illustrate the actual results compared to the legally adopted budget on a fund basis. The fund basis does not include depreciation expense and includes net fixed asset purchases as expenditures.

The financial statements can be found on pages 13 to 14.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 15 to 20 of this report.

Condensed Financial Information

For the fiscal years ending June 30, the following condensed comparative balance sheets using a net assets basis are presented:

	<u>2008</u>	<u>2007</u>
Current Assets	\$565,739	\$429,457
Capital Assets	<u>12,455</u>	<u>10,222</u>
Total Assets	<u>\$578,194</u>	<u>\$439,679</u>
Liabilities	\$227,044	\$ 129,559
Net Assets:		
Invested in capital assets	12,455	10,222
Unrestricted	<u>338,695</u>	<u>299,898</u>
Total net assets	<u>\$ 351,150</u>	<u>\$ 310,120</u>

Current Assets

Current assets consisted of cash and cash equivalents, grants receivable, interest receivable and prepaid expenses. Current assets increased mainly due to an increase in cash of \$188,955 from receiving approximately \$166,300 annual membership fees in advance of the new fiscal year ending June 30, 2009. This increase in cash was offset by a decrease in grants receivable from fiscal year 2007 for collecting amounts due from the Department of Water Resources AB 303 Grant (AB 303). This groundwater model project grant was completed during fiscal year 2008. While the SGA continually pursues grant opportunities as they become available, amounts due from grants can be expected to vary from year to year, depending upon the availability of grant awards, as well as the timing of fulfilling grant obligations.

Capital Assets

Net capital assets include office furniture, field and office equipment, and leasehold improvements, net of accumulated depreciation. The overall increase in capital assets costs reflects asset purchases, asset dispositions and annual depreciation.

Liabilities

Current liabilities of \$226,737 that are due within one year include amounts due to vendors, unearned revenue, and a payable to Regional Water Authority (RWA), the Administrative Service Manager for RWA. Unearned revenue of \$166,300 was received in advance of the new fiscal year 2009. This liability was offset by a decrease in year end accounts payable of \$68,900

due to vendor payments made in fiscal year 2008 for the AB303 grant for fiscal year 2007 expenses and liabilities. The current liabilities also include \$51,410 due to RWA. The balance of liabilities represent deferred rent derived from lease incentives and is amortized over the remaining lease life.

Net Assets Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$12,455 and increased a net \$2,233 over the prior year due to \$9,014 of annual depreciation which was partially offset by \$11,247 in new equipment. Approximately 4% of net assets are invested in capital assets.

Unrestricted Net Assets

Unrestricted net assets consisted of net assets that did not meet the definition of “restricted” or “invested in capital assets.” Over time, increases or decreases in net assets may serve as a useful indicator of whether SGA’s financial position is improving or deteriorating.

Unrestricted net assets of \$338,695 reflect an increase of \$38,797 over the prior year. These unrestricted net assets may be used to meet SGA’s ongoing obligations to member agencies and creditors. For fiscal year 2008, approximately \$191,683 of unrestricted net assets have been designated as follows: an operating fund of \$175,000 to mitigate current and future risks due to revenue shortfalls and unanticipated expenses and a budget carryover of \$16,683 to complete work in fiscal year 2009 for the biennial basin management report and groundwater management plan update program. See Note 4 of Notes to Basic Financial Statements for the detail and types of designations.

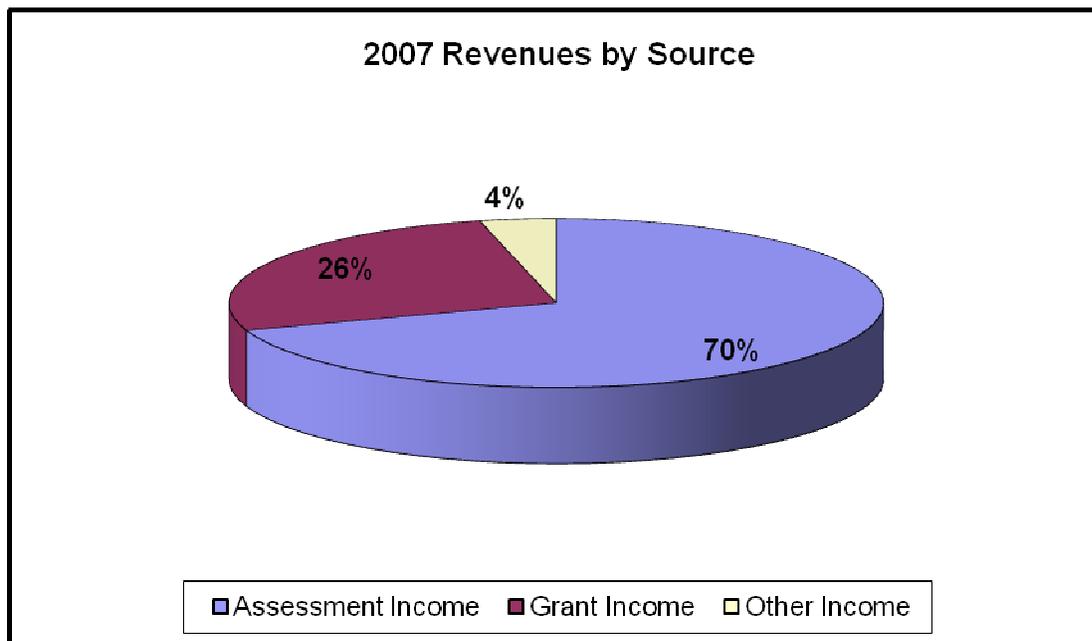
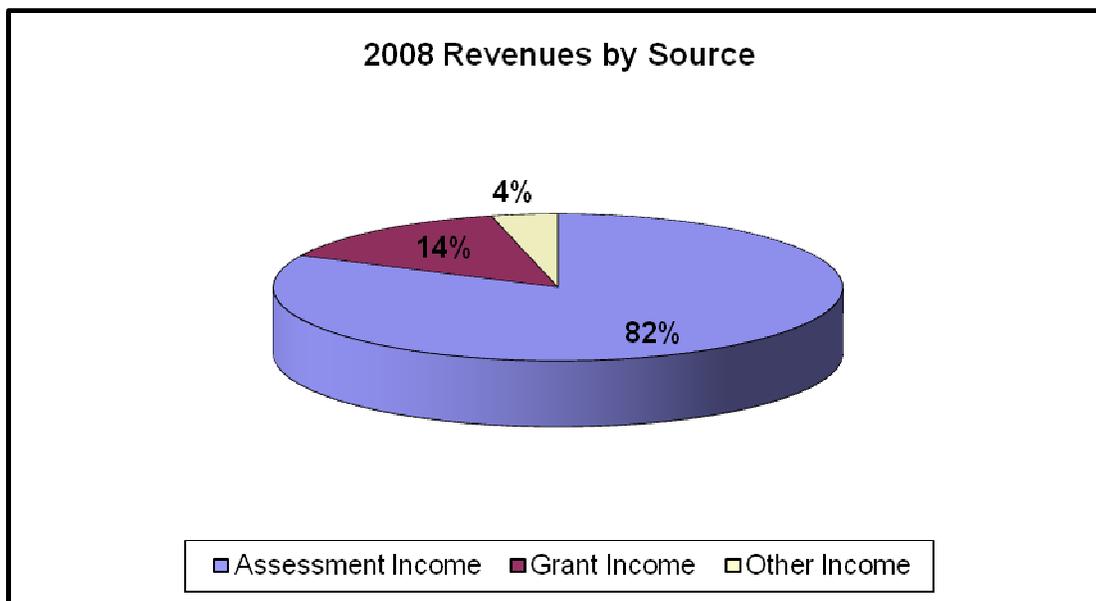
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

For the fiscal years ending June 30, the following condensed Statements of Revenues, Expenses and Changes in Net Assets are presented:

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Assessment Income	\$458,188	\$449,352
Grant Awards	<u>78,970</u>	<u>170,866</u>
Total Operating Revenues	\$537,158	\$620,218
Non-operating income	<u>21,063</u>	<u>24,065</u>
Total revenues	<u>\$558,221</u>	<u>\$644,283</u>
Operating Expenses:		
Shared and direct expenditures	457,976	458,902
Project Expenses	<u>59,215</u>	<u>184,057</u>
Total Operating Expenses	<u>517,191</u>	<u>642,959</u>
Increase in Net Assets	41,030	1,324
Net Assets July 1	<u>310,120</u>	<u>308,796</u>
Net Assets June 30	<u>\$ 351,150</u>	<u>\$ 310,120</u>

Operating Revenues

SGA's operating revenues are substantially derived from assessment fees and grant awards. Assessment fees are paid by members and are designed to fund the core SGA activities. Grants and incentives are awarded to SGA either from state, federal, or local agencies to fund water related projects.



Analytical Review of Operating Revenues

Operating revenues totaled \$537,158 or \$83,060 lower than in the previous year. The decrease is primarily due to a decrease in grant income.

State, federal and local government grants will vary from year to year based upon availability and applicability to member agencies. The grant income over the past two years comes from the AB303 grant award for an update of the Integrated Groundwater and Surface Water Model (IGSM) for the SGA area and totals \$249,836.

From the previous year, assessment fee income increased by \$8,836. This 2% increase in fees was a result of a small modification to the fee structure adopted fiscal year 2008. The annual fees did not anticipate covering the expenditures to carry out the organizational objectives. However, as noted later, annual fees exceeded expenses during fiscal year 2008 as SGA did not incur some expected costs during the year. SGA had planned on using designations to pay for the difference between fees and expenses in fiscal year 2008 as it has over the last few years. However, SGA did not need to use this designation in fiscal year 2008.

Historically, SGA's assessment fees were based upon a three year running average of the volume (acre-feet per year) of groundwater extracted in the north basin area. However, this assessment fee methodology presented a unique challenge. The goal of SGA members was to reduce groundwater extraction. So, as the members were meeting their goal, SGA's revenue would continue to decline unless rates were raised. SGA's operational activities are independent of groundwater extraction. Therefore, in developing the fiscal year June 30, 2007 budget and beyond, the assessment fee methodology was changed to mitigate this inherent operational problem.

SGA assessment fees are now based upon two components: a groundwater fee and a base administrative fee formula, reflecting the member's capacity to pump water. In fiscal year 2008, the groundwater fee was \$3.25 per acre foot, based upon a running five year average of historical volume, which was calculated as 86,127 acre-feet. The base administrative fee formula minimum fee was \$6,000 per member plus .75 cents per connection for connections greater than 6,000. In fiscal year 2008, the modifications to the fee structure resulted in changing the ratio of fee coverage for the base administrative fee from 40% to the range of 30% to 35%.

Non-operating revenue

Non-operating revenue of \$21,063 represents interest income and reflects a decrease of \$3,002 largely due to lower interest earnings from declining interest rates.

Operating expenses

Operating expenses fall into two major categories, shared and direct administration expenses and project expenses. Administrative expenses pay for the baseline SGA strategy and activities.

Analytical Review of Operating Expenses

The operating expenses totaled \$457,976 and are comparable to the previous year's expenses of \$458,902. SGA had expected to have significant increases in expenses but did not during fiscal year 2008 in the following areas: salaries and benefits due to the departure of the Executive Director in March 2008 offset by increased consulting expenses from hiring an interim Executive Director, plus savings from program management consulting expenses for programs that did not occur and have been deferred.

Analytical Review of Project Expenses

The project expenses totaled \$59,215 and are \$124,842 lower than in the previous year. Project expenses will vary from year to year as they typically represent finite projects that may span one or more years. The project expenses are connected to the AB303 grant award from DWR. This project occurred over the past two fiscal years and overall, the expenses closely match the grant award income.

Capital Assets

Capital asset investment includes office furniture, office and field equipment and leasehold improvements as of June 30, 2008 and amounts to \$12,455 net of accumulated depreciation. During fiscal year 2008, SGA purchased \$11,247 of equipment. Except for field equipment related specifically to SGA, capital asset acquisitions are co-owned with RWA and each authority pays 50% of the acquisition cost.

	<u>2008</u>	<u>2007</u>
Furniture	\$14,759	\$14,759
Equipment	38,124	28,617
Leasehold Improvements	<u>3,165</u>	<u>3,165</u>
Total	<u>\$56,048</u>	<u>\$46,541</u>

Additional information on the furniture and equipment can be found in note 3 on page 19 of this report.

Condensed Budgetary Analysis

For the fiscal year ending June 30, 2008, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	Budget	Actual	Favorable (Unfavorable)
Revenues			
Assessment Income	\$457,900	\$458,188	\$ 288
Grant Income	49,900	78,970	29,070
Interest and Other Income	<u>12,400</u>	<u>21,026</u>	<u>8,626</u>
Total Revenues	520,200	558,184	37,984
Expenditures			
Staff Expenses	335,700	250,946	84,754
Office Expenses	56,900	47,560	9,340
Professional Fees	184,000	150,456	33,544
Capital Outlay and Equipment	6,000	11,210	(5,210)
Program Expenses	<u>49,900</u>	<u>59,215</u>	<u>(9,315)</u>
Total Expenditures	632,500	519,387	113,113
Excess of Expenditures over Revenue	<u>(112,300)</u>	<u>38,797</u>	<u>151,097</u>
Fund Balance, July 1, 2007	<u>299,898</u>	<u>299,898</u>	<u>-</u>
Fund Balance, June 30, 2008	<u>\$187,598</u>	<u>\$338,695</u>	<u>\$151,097</u>

SGA begins preparing the budgets approximately in February or March and finalizes and adopts the budget by May of the preceding fiscal year. Overall, SGA's financial results were significantly positive compared to the expected budget by approximately \$151,100. Significant budget versus actual variances are as follows:

Total Revenues

Total revenues were greater than anticipated due to the grant income earned from the AB 303 Grant. The AB 303 grant award totals \$249,840 of which \$78,970 was earned in fiscal year 2008. Over the two year period, the total grant of \$249,840 has been earned and awarded, so the difference between expected and earned grant award in fiscal year 2008 is a timing difference based upon completion goals of outlined in the grant award.

Compared to budget, SGA benefited from a greater than expected interest earnings due to maintaining higher cash investment balances from not incurring expenditures as anticipated.

Staff Expenses

Staff expenses are budgeted based upon costs from an allocation of staffing time under the Administrative Services Agreement with RWA. However, only actual time and overhead is charged to SGA. Actual costs incurred were lower than expected largely due to the departure of the Executive Director in March 2008.

Office Expenses

Office expenses are shared 50/50 with RWA as part of the administrative services agreement. These costs came in lower than budgeted due to careful cost management and were approximately \$4,000 lower than the previous year's actual expenditures.

Professional Fees

Overall consulting fees came in lower than budgeted due to not embarking on some planned projects and were in part delayed due to the Executive Director's departure. Some of these projects included updating the groundwater management plan, preparing a biennial basin management report, monitoring water quality/levels, regional contamination issues, and short-term banking/exchange programs. These unspent funds were partially offset by incurring additional administrative consulting fees for interim Executive Director Services and recruiting fees to hire a new Executive Director.

Capital Outlay and Equipment

Capital outlay and equipment represents purchases of office and field equipment. Actual costs exceeded budget due to data loggers (field equipment) purchased using grant funds from fiscal year 2006.

Program Expenses

Program expenses were budgeted at \$49,900 with actual expenses totaling \$59,215 and relate to the AB 303 grant program. The timing of program expenses can be difficult to predict. Overall, the program expenses are within budget over the two year time period and were finalized in fiscal year 2008.

Economic factors and assumptions for fiscal year June 30, 2009

SGA assessment fees continue to be based upon two components: a groundwater fee and a base administrative fee formula. For several previous years, SGA had been budgeting for expenditures to exceed fees and been using designations to pay for this difference. Over time, it was expected that the fees would need to be raised to balance expenses with fees. In adopting the fiscal year June 30, 2009 budget, a significant budget increase was adopted as part of a multi-year step to more closely match revenues and expenses. This budget had anticipated the revised fiscal year 2008 expenditures would exceed revenues by \$33,600. However, as noted above, actual results were significantly better than expected by approximately \$151,100. Nevertheless, the budget was adopted well before the end of the year. As part of the annual budget process,

any positive or negative budget affects from the prior year is considered in the fiscal year 2010 budget.

Major budget assumptions used in adopting the June 30, 2009 budget include:

- 1) The groundwater fee is \$3.85 per acre-foot, representing an 18% increase in total groundwater fees, based upon a running five year average of historical volume, calculated as 85,918 acre-feet.
- 2) The minimum base administrative fee is set at \$6,690 plus 84 cents per connection for connections over 6,000, also representing an 18% increase in total base administrative fees. The base administrative fee, including the minimum \$6,690 fee, is set to increase annually by the overall percentage of expense increase for administrative costs. The new fee schedule increases the percentage that the base administrative fee contributes ranging from 30% to 35%.
- 3) SGA's program budget reflects anticipated grant revenues and related expenses in the amount of \$175,000 to evaluate the potential threats to groundwater sustainability resulting from contamination. The Department of Water Resources (grantor) pays in arrears, which causes a time lag between the payment of expenses and receipt of income;
- 4) For future year projections, the acre-feet extracted is budgeted to decline from 86,127 in 2008 to an estimated 69,981 in fiscal year ending June 30, 2013. This assumption will most likely require modification as members' plans and projects to pump water and the actual acre-feet extracted will be lower or higher.
- 5) Staffing expenses are expected to increase up to 6% including the cost of living allowance. Health related expenses are expected to increase by 10%.
- 6) General expenses are expected to increase 3%.
- 7) The program manager is allocated at 70% to SGA reflecting workload activities between SGA and RWA subscription program activities.
- 8) SGA will continue to be managed pursuant to a joint services contract with the RWA. Common costs for staffing, office, professional fees, and other expenses are shared with RWA at a 50/50 split, resulting in 2.2 full time equivalent employees dedicated for SGA administration.
- 9) The SGA reimburses RWA for administrative costs. The amount of shared expenditures planned for fiscal year June 30, 2009 is \$440,950.
- 10) SGA's planned expenditures exceed collected revenues by \$47,200 in the new fiscal year and are expected to be funded from the operating fund. This operating fund is a designation from an accumulation of previous years' successful program activities in excess of program expenses and watchful cost management in carrying out the business activities. This funding from the operating fund follows the overall proposed SGA designation policy for operating funds.
- 11) SGA has begun a multi-year process of setting aside funds for its estimated obligation for the Other Post Retirement Benefits (OPEB) obligation to RWA by establishing a \$21,000 designation. This amount is not expected to fully fund SGA's obligation to RWA. While RWA is the employer for the administrative staff, SGA does share in 50% of the OPEB obligation. RWA has yet to determine the OPEB related costs and has been paying these costs on a pay-as-you-go-basis. As noted during the budget adoption process, the actual OPEB obligation to RWA is most likely significantly higher than the earlier estimate of \$42,000 by a factor of 500% to 800%.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ending June 30, 2009.

In October 2008, RWA received a preliminary OPEB analysis with a range of total annual costs of \$15,574 to \$88,818, depending upon prefunding decisions. The funding policy will drive the annual required contribution to fund OPEB and have an impact on SGA's future budgets. RWA will develop a funding policy during fiscal year 2009. See Note 7 – Contingencies which discusses the range of annual required contributions and actuarial accrued liability.

In fiscal year 2009, SGA has been awarded a \$250,000 grant from the Department of Water Resources 2008 Local Groundwater Assistance Grant Program for a study assessing water quality risks to long-term groundwater sustainability in northern Sacramento County. The assessment, which will be completed as part of SGA's Groundwater Management Program, will provide a valuable tool for local agencies to use in developing plans and strategies to mitigate threats to groundwater quality and sustainability. SGA will incur costs on behalf of the grant over an 18 month time period and seek reimbursement for this activity using this grant award.

Requests for Information

This financial report is designed to provide a general overview of SGA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance and Administrative Services Officer, Regional Water Authority, 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610.

SACRAMENTO GROUNDWATER AUTHORITY
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007

	June 30, 2008		June 30, 2007	
	Special Revenue Fund	Adjustments (Note 6)	Statement of Net Assets	Statement of Net Assets
ASSETS				
Cash and Cash Equivalents	\$ 559,640	-	\$ 559,640	\$ 370,685
Grants Receivable	-	-	-	52,144
Interest Receivable	3,227	-	3,227	4,034
Other Assets	2,872	-	2,872	2,594
Capital assets, net	-	12,455	12,455	10,222
	\$ 565,739	12,455	578,194	\$ 439,679
LIABILITIES				
Accounts Payable	\$ 9,068	-	\$ 9,068	\$ 77,969
Payable to Regional Water Authority	51,410	-	51,410	50,756
Unearned Revenue	166,259	-	166,259	-
Deferred Rent	307	-	307	834
	227,044	-	227,044	129,559
FUND BALANCES				
Fund balances				
Designated	191,683	(191,683)	-	-
Unreserved	147,012	(147,012)	-	-
	338,695	(338,695)	-	-
Total liabilities and fund balances	\$ 565,739			
NET ASSETS				
Invested in capital assets		12,455	12,455	10,222
Unrestricted		338,695	338,695	299,898
		\$ 351,150	\$ 351,150	\$ 310,120

SACRAMENTO GROUNDWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE/
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	June 30, 2008			June 30, 2007
	Special Revenue Fund	Adjustments (Note 6)	Statement of Activities	Statement of Activities
REVENUES				
Assessment Income	\$ 458,188	\$ -	\$ 458,188	\$ 449,352
Grant Awards	78,970	-	78,970	170,866
Interest Income and Other	21,026	37	21,063	24,065
Total revenue	558,184	37	558,221	644,283
EXPENDITURES/EXPENSES				
Shared and Direct Expenses:				
Wages and Salaries	180,503	-	180,503	184,593
Employee Benefits	64,013	-	64,013	72,670
Travel, Training and Meetings	8,881	-	8,881	10,391
Rent	12,576	-	12,576	12,549
Insurance	9,804	-	9,804	9,345
Depreciation and Amortization	-	9,014	9,014	8,086
Capital outlay and equipment	11,210	(11,210)	-	-
Telephone	3,568	-	3,568	3,315
Dues and Subscriptions	3,087	-	3,087	4,913
Printing, Supplies and Postage	11,085	-	11,085	11,689
Computer Maintenance	4,989	-	4,989	7,743
Audit and Banking	10,365	-	10,365	13,674
Legal	46,648	-	46,648	33,909
Consultants	93,443	-	93,443	86,025
	460,172	(2,196)	457,976	458,902
Project Expenses				
Consultants	59,215	-	59,215	184,057
	59,215	-	59,215	184,057
Total expenditures/expenses	519,387	(2,196)	517,191	642,959
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	38,797	(38,797)		
EXCESS OF EXPENDITURES OVER REVENUES	-	2,233		
CHANGE IN NET ASSETS	-	41,030	41,030	1,324
FUND BALANCES/NET ASSETS				
Beginning of the year	299,898	10,222	310,120	308,796
End of the year	\$ 338,695	\$ 12,455	\$ 351,150	\$ 310,120

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of reporting entity – Sacramento Groundwater Authority (SGA) was formed under a Joint Exercise of Powers Agreement on July 1, 1998 to collectively manage the Sacramento region’s North Area Groundwater Basin, which includes all of Sacramento County north of the American River. The members of SGA are governmental units in and around the greater Sacramento area of the State of California. SGA was created for the purposes of protecting, preserving, and enhancing the groundwater resources in the North Area Basin for current and future beneficial uses of all water users in SGA’s boundaries.

SGA is governed by a board comprised of a representative from each of the member agencies. The representatives are appointed by the member agencies and serve four-year terms.

Types of funds – SGA accounts for its financial position and results of operations in accordance with generally accepted accounting principles to governmental units. Accordingly, SGA uses governmental funds. SGA has no proprietary or fiduciary funds.

Governmental Fund Type:

Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted for specified purposes.

Basis of accounting – The Special Revenue fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, financing sources are recognized when they become available and measurable. Expenditures and other financing uses are recognized as the related fund liabilities are incurred.

Governmental-wide financial statements – The statements of net assets and the statements of activities display information about SGA as a whole. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This presentation differs from the manner in which the governmental fund financial statements are prepared. Therefore, Note 6 details the adjustments with brief explanations to identify the major differences between the fund financial statements and the governmental-wide financial statements.

Net assets are the difference between assets and liabilities. Net assets invested in capital assets are furniture and equipment net of accumulated depreciation.

Fund financial statements – Fund financial statements present the special revenue fund of SGA. SGA is considered a special-purpose government and has elected to combine the fund financial statements and the government-wide statements and show the reconciliation from the fund financial statements to the government-wide statements in the adjustment column.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments – SGA participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. Based on information obtained from LAIF, the investment in LAIF has been recorded at fair value.

Revenue recognition – The major sources of revenue for SGA are assessments and grants. Each of the 14 member water districts, cities and service districts pays annual assessments to SGA. These assessments are based upon two components: a groundwater fee and a base administrative fee formula. The groundwater fee component is based upon a historical five-year running average of acre-foot of water pumped and was set at \$3.25 and \$3.00 per acre foot for the fiscal years ending June 30, 2008 and 2007, respectively. The base administrative fee formula for the fiscal year ending June 30, 2008, calculated based upon the number of connections, was set at a minimum of \$6,000 for the first 6,000 connections and then .75 cents per connection for each connection after 6,000. For the fiscal year ending June 30, 2007, the base administrative fee formula was set at \$1.00 per connection, with a minimum of \$6,000 and a maximum of \$25,000.

In the year ended June 30, 2005, SGA was awarded a state grant in the amount of \$249,840 to update the groundwater model. The total of this grant was received in fiscal years 2007 and 2008.

Unearned Revenue – Annual membership assessment fees received in advance of the next fiscal year are recognized as a liability and classified as unearned revenue. During the fiscal year ending June 30, 2008, SGA received \$166,259 in annual membership assessment fees in advance of fiscal year June 30, 2009.

Related party shared expenses – SGA is managed by the same staff that manages the Regional Water Authority (RWA). RWA was created in 1990 under another Joint Exercise of Powers Agreement. Many of the members of SGA are also members of the RWA. Under an Administrative Services Agreement, SGA and RWA are equally responsible for all common costs incurred to operate the joint office unless specific agreements differ. During the fiscal year, SGA shared 50% of all common joint office costs including administrative staff and the executive director. SGA also agreed to pay 70% for the senior project staff. SGA reimbursed RWA for these expenses of \$371,193 and \$350,017 for 2008 and 2007, respectively.

Capital assets – The accounting treatment over property and equipment depends on whether they are reported in the government-wide or fund financial statements. In the government-wide statements, property and equipment are accounted for as capital assets. Property and equipment capitalized consist of office furniture and office and field equipment acquisitions capitalized at cost. Depreciation is computed and recorded by the straight-line method on property and equipment with an estimated useful life of five years. In the fund financial statements, capital outlay expenditures include both acquisitions and repairs and maintenance expenditures. Depreciation is not provided for in the fund financial statement.

Budget – SGA's governing board must approve a budget within 90 days of July 1st. SGA's governing board satisfied these requirements. Any revisions to the budget would be approved by SGA's governing board.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates in financial statements – In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain amounts in the financial statements for the year ended June 30, 2007 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2008. Such reclassifications had no effect on net assets at June 30, 2007 or loss in net assets for the year then ended.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments in the statement of net assets consist of the following:

	2008	2007
Deposits with financial institutions	\$ 179,916	\$ 122,793
Investments in LAIF	<u>379,724</u>	<u>247,892</u>
	<u>\$ 559,640</u>	<u>\$ 370,685</u>

Investments Authorized by SGA’s Investment Policy

SGA’s investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF). The investment policy does not contain any specific provisions intended to limit SGA’s exposure to interest rate risk, credit risk and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment’s sensitivity to the changes in market interest rates increases as the length of maturity increases. At June 30, 2008, the average maturity of the investments contained in the LAIF investment pool was approximately 212 days.

Disclosures Relating to 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 risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

LAIF has a separate investment policy, governed by California Government Code Sections 16480-16481.2, that provides credit standards for its investments.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and SGA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure local Governmental unit deposits by pledging first trust deed mortgage notes having a value of 150% of the secured deposits.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

At June 30, 2008 and 2007, SGA's bank balances were \$184,152 and \$125,369, respectively. Bank balances in excess of \$100,000 are not insured and could be considered a custodial credit risk. The SGA maintains bank balances with Bank of America.

Investment in State Investment Pool

SGA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The fair value of the investment in this pool is reported in the accompanying financial statements at amounts based upon SGA's pro-rate share of the fair value provided by LAIF for the entire LAIF portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are reported on an amortized cost basis and is approximately 99.99% of fair value.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of the furniture and equipment at cost and estimated cost is as follows:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	28,617	11,247	(1,740)	38,124
Leasehold Improvements	3,165	-	-	3,165
Total	46,541	11,247	(1,740)	56,048
Less accumulated depreciation	(36,319)	(9,014)	1,740	(43,593)
Fixed Assets, Net	<u>\$10,222</u>	<u>\$2,233</u>	<u>\$0</u>	<u>\$12,455</u>

NOTE 4 – BOARD DESIGNATED RESERVE

During the fiscal year ending June 30, the Board of Directors designated funds as follows:

	2008	2007
Operating Reserve	\$ 175,000	\$ 221,500
Management Plan Reports	16,683	-
	<u>\$ 191,683</u>	<u>\$ 221,500</u>

The operating reserve target balance is approved by the Board on an annual basis during the budget process and follows policy Financial Designation/Reserve Policy No. 400.2. The June 30, 2008 and 2007 operating reserve designation was approved at the April 10, 2008 and April 12, 2007 Board Meetings, respectively. Additionally, the Board designated unused budgeted funds from the fiscal year 2008 for the management plan reports be spent in the year ending June 30, 2009 to complete these projects.

NOTE 5 – RETIREMENT COMMITMENTS

SGA does not contract directly with CalPERS for its retirement program. Currently, Regional Water Authority (RWA), who manages SGA, contracts with CalPERS administration of the pension plan for the employees shared by these entities. SGA is responsible for a pro-rata share of the pension expense in relationship to the shared salary expenses between RWA and SGA based upon the Administrative Services Agreement.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 6– RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

The governmental fund balance sheet is converted to the statement of net assets by recording the capital assets of \$12,455 net of accumulated depreciation.

For the year ending June 30, 2008, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation and amortization expense of \$9,014 and decreasing capital outlay expense by \$11,210 to reflect recording those amounts as capital assets.

NOTE 7– CONTINGENCIES

Grants

In fiscal year 2009, SGA has been awarded a \$250,000 grant from the Department of Water Resources 2008 Local Groundwater Assistance Grant Program for a study assessing water quality risks to long-term groundwater sustainability in northern Sacramento County. The assessment, which will be completed as part of SGA's Groundwater Management Program, will provide a valuable tool for local agencies to use in developing plans and strategies to mitigate threats to groundwater quality and sustainability. SGA will incur costs on behalf of the grant over an 18 month time period and seek reimbursement for this activity using this grant award.

Other Postemployment Benefits (OPEB)

While SGA is not the employer of the administrative staff, it does share in the liability for Other Post Retirement Benefits (OBEB) by the Administrative Services Agreement with RWA. RWA will be required to recognize OPEB expenses under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) during fiscal year 2010.

Currently, RWA pays for these costs on a pay-as-you-go basis. SGA reimburses its share of these costs on a pay-as-you-go basis. In October 2008, RWA received a preliminary actuarial analysis of the OPEB. The actuarial accrued liability cost of these benefits will only be reflected in the financial statements once GASB 45 is adopted. RWA has yet to determine its funding methodology and whether it will adopt funding prospectively or retrospectively. The annual RWA costs range from \$15,574 to \$88,818 depending upon prefunding decisions. SGA would reimburse RWA for its share of these costs. RWA's actuarial accrued liability estimated at July 1, 2008 ranges from \$381,801 to \$603,893, depending upon prefunding decisions.

The decision whether or not to prefund and at what level will be discussed in the fiscal year 2009 in preparation of the fiscal year 2010 budget process. These costs could have a significant impact on both RWA's and SGA's operating budget in the coming fiscal years, depending upon the funding decisions. Additionally, the above annual required contributions will change in future periods as the employee group and cost data change.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO GROUNDWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budget	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES			
Assessment Income	\$ 457,900	\$ 458,188	\$ 288
Grant Awards	49,900	78,970	29,070
Interest and Other Income	12,400	21,026	8,626
Total Revenues	<u>520,200</u>	<u>558,184</u>	<u>37,984</u>
EXPENDITURES			
Wages and Salaries	224,700	180,503	44,197
Employee Benefits	96,500	64,013	32,487
Travel and Training	14,500	6,430	8,070
Rent	14,000	12,576	1,424
Insurance	10,500	9,804	696
Telephone	3,900	3,568	332
Dues and Subscriptions	6,000	3,087	2,913
Printing and Supplies	11,750	7,606	4,144
Postage	3,750	3,479	271
Computer Maintenance	4,000	4,989	(989)
Meetings	3,000	2,451	549
Audit and Banking	10,000	9,398	602
Legal Counsel Expense - General	50,000	46,648	3,352
Payroll and Banking Services	1,100	967	133
Capital Outlay and Equipment	6,000	11,210	(5,210)
Consulting Expenses - General Support Services	22,900	53,763	(30,863)
Consulting Expenses - Program Management	100,000	39,680	60,320
Consulting Expenses - AB 303 Grant	49,900	59,215	(9,315)
Total Expenditures	<u>632,500</u>	<u>519,387</u>	<u>113,113</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(112,300)	38,797	151,097
Fund Balance, July 1, 2007	<u>299,898</u>	<u>299,898</u>	<u>-</u>
Fund Balance, June 30, 2008	<u><u>\$ 187,598</u></u>	<u><u>\$ 338,695</u></u>	<u><u>\$ 151,097</u></u>

SACRAMENTO GROUNDWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	Budget	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES			
Assessment Income	\$ 449,400	\$ 449,352	\$ (48)
Grant Awards	249,900	170,866	(79,034)
Interest and Other Income	6,400	24,277	17,877
Total Revenues	<u>705,700</u>	<u>644,495</u>	<u>(61,205)</u>
EXPENDITURES			
Wages and Salaries	203,500	184,593	18,907
Employee Benefits	95,400	72,670	22,730
Travel and Training	13,000	8,394	4,606
Rent	14,000	12,549	1,451
Insurance	10,500	9,345	1,155
Telephone	4,100	3,315	785
Dues and Subscriptions	4,500	4,913	(413)
Printing and Supplies	11,800	8,731	3,069
Postage	3,800	2,958	842
Computer Maintenance	6,500	7,743	(1,243)
Meetings	2,000	1,997	3
Audit and Banking	12,500	12,768	(268)
Legal Counsel Expense - General	50,000	33,909	16,091
Payroll and Banking Services	1,100	906	194
Capital Outlay and Equipment	1,000	1,460	(460)
Consulting Expenses - General Support Services	16,300	19,945	(3,645)
Consulting Expenses - Program Services	75,000	66,080	8,920
Consulting Expenses - AB 303 Grant	249,900	184,057	65,843
Total Expenditures	<u>774,900</u>	<u>636,333</u>	<u>138,567</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(69,200)	8,162	77,362
Fund Balance, July 1, 2006	<u>291,736</u>	<u>291,736</u>	<u>-</u>
Fund Balance, June 30, 2007	<u><u>\$ 222,536</u></u>	<u><u>\$ 299,898</u></u>	<u><u>\$ 77,362</u></u>

OTHER REPORT

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Sacramento Groundwater Authority
Citrus Heights, California

We have audited the financial statements of Sacramento Groundwater Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated November 25, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sacramento Groundwater Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Groundwater Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sacramento Groundwater Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Sacramento Groundwater Authority'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*.

We noted certain matters that we reported to management of Sacramento Groundwater Authority in a separate letter dated November 25, 2008.

This report is intended solely for the information and use of management, the board of directors, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Cook CPA Group

Roseville, California
November 25, 2008