

**SACRAMENTO GROUNDWATER AUTHORITY**

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

**JUNE 30, 2009 and 2008**

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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, 2009 and 2008, 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, 2009 and 2008 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 December 8, 2009, 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 23 through 24 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  
December 8, 2009

## 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, 2009 and 2008. This discussion analysis should be read in conjunction with the financial statements, which can be found on pages 13 to 24 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 and the statement of revenues, expenditures, and changes in fund balance/statement of activities. Additionally, the statement of revenues, expenditures, and changes in fund balance – budget and actual is included as required supplementary information on pages 23 and 24 of this report.

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/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 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. Expenditures/expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. amounts due to vendors). Revenues are reported when available (i.e. grant awards).

The statements of revenues, expenditures, and changes in fund balance – budget and 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 and 14 of this report.

**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 21 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>2009</u>	<u>2008</u>
Current Assets	\$458,083	\$565,739
Capital Assets	<u>11,105</u>	<u>12,455</u>
Total Assets	<u>\$469,188</u>	<u>\$578,194</u>
Liabilities	\$211,061	\$227,044
Net Assets:		
Invested in capital assets	11,105	12,455
Unrestricted	<u>247,022</u>	<u>338,695</u>
Total Net Assets	<u>\$ 258,127</u>	<u>\$ 351,150</u>

#### *Current Assets*

Current assets consisted of cash and cash equivalents, grants receivable, accounts receivable, amounts due from Regional Water Authority (RWA)<sup>1</sup>, interest receivable and other assets. Current assets decreased \$107,656 from the previous year. A significant portion of the decrease is largely due to a decrease in cash of \$137,797 from the one-time payment to RWA for SGA's share of Other Post Employment Benefits (OPEB) of \$183,654 for the fiscal year ending June 30, 2009. See Analytical Review of Operating Expenses for additional information in regards to the OPEB expense paid by SGA during fiscal year 2009. SGA had an increase of \$21,050 in grants receivable related to the groundwater contamination grant (AB 303) as a result of incurring expenses in fulfillment of the grant agreement.

#### *Capital Assets*

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

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<sup>1</sup> Regional Water Authority (RWA) is the administrative service manager for SGA. RWA and SGA share common operating costs as discussed in Note 1, Summary of Significant Accounting Policies. Common operating costs include staffing and related benefit costs.

### *Liabilities*

Current liabilities of \$211,061 that are due within one year include amounts due to vendors, and a payable to the RWA and have decreased approximately \$16,000 from the previous year. A significant portion of current liabilities is reflected in unearned revenue of \$164,347 related to membership fees received in advance of the new fiscal year 2010. The current liabilities also include \$43,991 due to the RWA for administrative service costs, which is lower by approximately \$7,400 due to timing of expense payments.

### *Net Assets Invested in Capital Assets*

Investment in capital assets net of accumulated depreciation totaled \$11,105 and decreased a net \$1,350 over the prior year due to \$5,321 annual depreciation which was partially offset by \$3,971 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.

These unrestricted net assets may be used to meet SGA’s ongoing obligations to member agencies and creditors. Unrestricted net assets of \$247,022 reflect a decrease of \$91,673 over the prior year. The one-time payment of approximately \$183,700 to RWA for the historical OPEB costs for employment benefits earned in previous years by shared staff of RWA significantly contributed to the decrease in net assets. During the fiscal year ending June 30, 2009, SGA also significantly raised membership fees to begin the process of having dues structure meet operating expenses. For the last few years, SGA had been using operating designations to fund the difference between expenses incurred versus dues collected.

For fiscal year 2009, approximately \$198,500 of unrestricted net assets has been designated as an operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 4 of Notes to Basic Financial Statements for the detail and types of designations.

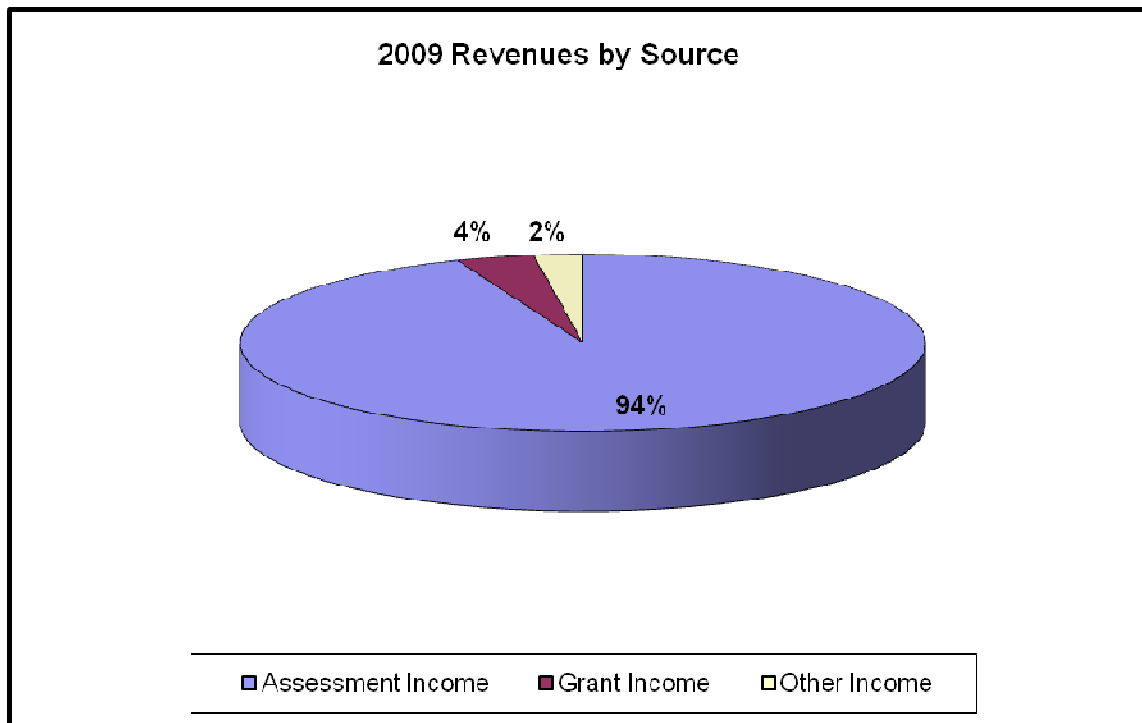
### **Condensed Schedule of Revenues, Expenses, and Changes in Net Assets**

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

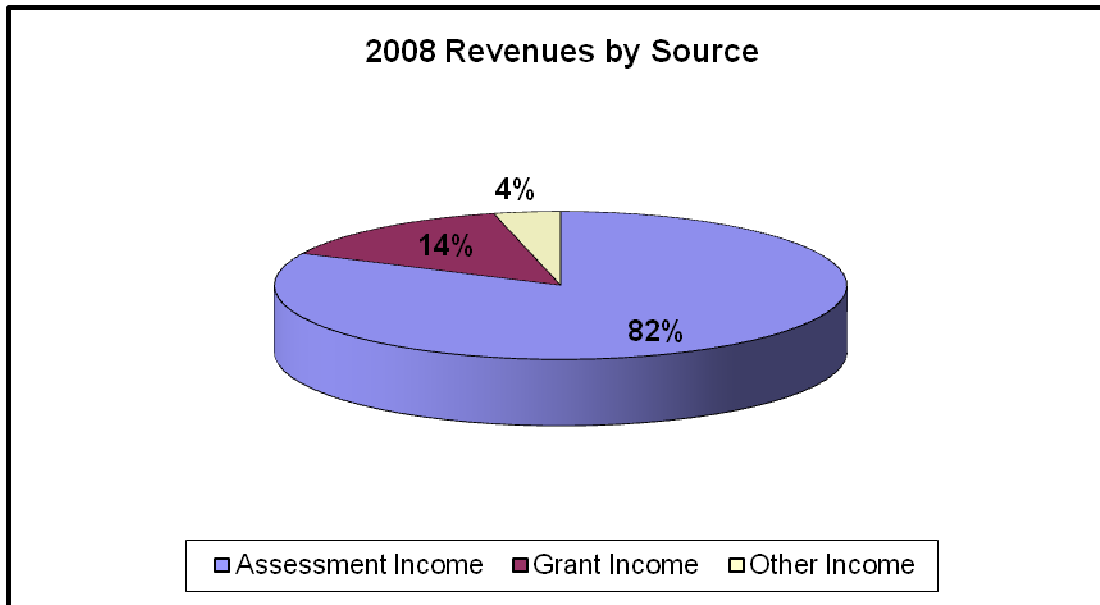
	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Assessment Income	\$541,139	\$458,188
Grant Awards	<u>21,050</u>	<u>78,970</u>
Total Operating Revenues	562,189	537,158
Non-Operating Income	<u>13,251</u>	<u>21,063</u>
Total Revenues	<u>\$575,440</u>	<u>\$558,221</u>
Operating Expenses:		
Shared and direct expenditures	647,413	457,976
Project Expenses	<u>21,050</u>	<u>59,215</u>
Total Operating Expenses	<u>668,463</u>	<u>517,191</u>
(Decrease)/Increase in Net Assets	(93,023)	41,030
Net Assets July 1	<u>351,150</u>	<u>310,120</u>
Net Assets June 30	<u>\$ 258,127</u>	<u>\$ 351,150</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*

Assessment income totaled \$541,139 or \$82,951 higher than in the previous year. This 18% increase in fees is largely due to increased operating costs from the prior years which have been partially paid for from savings versus raising rates to pay for these increased costs. SGA had planned on using designations to pay for the difference between fees and expenses in fiscal year 2009 as it has over the last few years.

SGA assessment fees are based upon two components: a groundwater fee and a base administrative fee formula, reflecting the members' capacity to pump water. In fiscal year 2009, the groundwater fee was \$3.85 per acre foot, based upon a running five year average of historical volume, which was calculated as 85,918 acre-feet. The base administrative fee formula minimum fee was \$6,690 per member plus .84 cents per connection for connections greater than 6,000.

State, federal and local government grants will vary from year to year based upon availability and applicability to member agencies. During fiscal year ending June 30, 2008, SGA was awarded a \$250,000 AB 303 grant from the California Department of Water Resources (DWR) to evaluate the potential threats to groundwater sustainability resulting from contamination. Given the state budget deficit, these fund revenues have been delayed into fiscal year 2010. However, SGA did complete qualifying costs on this grant as of June 30, 2009 for \$21,050 and as such, grant revenue is reflected for these related costs. For fiscal year ending June 30, 2008, grant revenues are related to the completion of AB 303 grant award for an update of the Integrated Groundwater and Surface Water Model (IGSM).

### *Non-Operating Revenue*

Non-operating revenue of \$13,251 represents interest income and reflects a decrease of \$7,812 largely due to lower interest earnings from declining interest rates and lower cash balances.

### *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 Shared and Direct Expenditures*

Operating expenses totaled \$647,413 and are \$189,437 higher than the previous year's expenses of \$457,976. The increase was mainly due to SGA paying a one-time payment of \$183,654 to RWA for the costs of employment benefits earned in previous years by current and retired employees<sup>2</sup> which are expected to be paid in the future<sup>3</sup>. SGA used operating fund designations in fiscal year 2009 to fund the OPEB payment to RWA. SGA will incur ongoing shared costs for OPEB, but it will likely be a much smaller payment for ongoing costs incurred in the current fiscal year.

### *Analytical Review of Project Expenses*

Project expenses totaled \$21,050 and are \$38,165 lower than in the previous year. Project expenses will vary from year to year as they typically represent finite projects that span one or more years. In the current fiscal year, the project expenses are connected to a project which evaluates the potential threats to groundwater sustainability resulting from contamination in groundwater. This project was put on hold by DWR due to the state budget deficit, yet some costs have been incurred. SGA received a notice subsequent to fiscal year end to proceed on the grant in fiscal year 2010. Since SGA accounts for income and expenses on a modified accrual basis, grant revenue related to this grant has not been reflected in the fund financial statements and will only be reflected when the grant award is available to SGA. However, the eligible grant expenses of \$21,050 are recognized as grant receivable and unearned revenue on the governmental fund balance sheet/statement of net assets.

### **Capital Assets**

Capital asset investments include office furniture, office and field equipment and leasehold improvements as of June 30, 2009 and amounts to \$11,105 net of accumulated depreciation. During fiscal year 2009, SGA purchased \$3,971 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.

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<sup>2</sup> Even though SGA is not the employer of the shared staff, SGA does have an obligation to RWA for these OPEB costs as part of the related benefit costs under the Administrative Services Agreement.

<sup>3</sup> OPEB costs for prior service for current and retired employees are technically referred to as the actuarial accrued liability.

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	38,124	3,971	-	42,095
Leasehold Improvements	3,165	-	-	3,165
Total	<u>56,048</u>	<u>3,971</u>	<u>-</u>	<u>60,019</u>
Less accumulated depreciation	<u>(43,593)</u>	<u>(5,321)</u>	<u>-</u>	<u>(48,914)</u>
Fixed Assets, Net	<u>\$ 12,455</u>	<u>\$ (1,350)</u>	<u>\$ -</u>	<u>\$ 11,105</u>

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

### Special Revenue Fund Condensed Budgetary Analysis

For the fiscal year ending June 30, 2009, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Assessment Income	\$541,100	\$541,139	\$ 39
Grant Income	175,000	-	(175,000)
Interest and Other Income	<u>8,500</u>	<u>13,251</u>	<u>4,751</u>
Total Revenue	724,600	554,390	(170,210)
Expenditures			
Staff Expenses	356,700	488,730	(132,030)
Office Expenses	54,250	46,240	8,010
Professional Fees	179,600	107,122	72,478
Capital Outlay and Equipment	6,250	3,971	2,279
Program Expenses	<u>175,000</u>	<u>21,050</u>	<u>153,950</u>
Total Expenditures	771,800	667,113	104,687
Excess of Expenditures over Revenue	<u>(47,200)</u>	<u>(112,723)</u>	<u>(65,523)</u>
Fund Balance, July 1, 2008	<u>338,695</u>	<u>338,695</u>	<u>-</u>
Fund Balance, June 30, 2009	<u>\$291,495</u>	<u>\$225,972</u>	<u>\$ 65,523</u>

SGA begins preparing the budgets approximately in February of the preceding fiscal year and finalizes and adopts the budget before the beginning of the new fiscal year. Overall, SGA's

financial results show a larger deficit than budgeted by approximately \$65,000. Significant budget versus actual variances are as follows.

#### *Total Revenues*

Total revenues were less than anticipated since the grant income expected from the AB 303 grant was frozen due to the State of California's budget deficit which affected DWR. Given the state budget deficit, receipt of funds for the \$250,000 AB 303 grant award from the DWR has been delayed into fiscal year 2010. Under the modified accrual basis of accounting for special revenue funds, these grant revenues will only be recognized once available to SGA. As previously mentioned, recent notification from DWR indicates some funding on this grant will occur in fiscal year 2010.

#### *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 higher than expected largely due to the one-time payment of the historical OPEB costs of approximately \$183,700 offset by some savings in wages, salaries, and other employment benefits. See analytical review of shared and direct expenses in the Management, Discussion and Analysis page 8 for additional information.

#### *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 \$8,000 lower than budgeted.

#### *Professional Fees*

Overall consulting fees came in lower than budgeted due to not embarking on some planned projects. Some of these projects included grant application assistance, monitoring water quality/levels, regional contamination issues, and short-term banking/exchange programs.

#### *Capital Outlay and Equipment*

Capital outlay and equipment represents purchases of office and field equipment.

#### *Program Expenses*

Program expenses were budgeted at \$175,000 with actual expenses totaling \$21,050 and relate to the AB 303 grant program. The timing of program expenses can be difficult to predict. This grant program has been delayed into fiscal year 2010 due to the state budget crisis. The reimbursement of these grant expenses by the grant award are expected in fiscal year 2010 and are reflected in grants receivable on the balance sheet.

## **Economic factors and assumptions for fiscal year June 30, 2010**

SGA assessment fees continue to be based upon two components: a groundwater fee and a base administrative fee formula. In adopting the fiscal year June 30, 2010 budget, there was an overall one percent fee increase. Some members will see their fees decrease by approximately 3% and some will see their fees increase by approximately 12%. Each member's specific fee change depends upon the changes in their water connections and groundwater pumping from the previous year.

This fiscal year 2010 budget had anticipated the fiscal year 2009 revised expenditures would exceed revenues by \$175,200. However, actual results were better than 2009 fiscal year estimates and resulted in expenditures exceeding revenues by approximately \$112,700 or an improvement of revised estimates by approximately \$62,500. 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 will be considered in the development of the fiscal year 2011 budget.

Major budget assumptions used in adopting the June 30, 2010 budget include:

- 1) The groundwater fee is \$4.00 per acre-foot, representing less than 1% increase in total groundwater fees, based upon a running five year average of historical volume, calculated as 83,037 acre-feet. The groundwater fees pay approximately 61% towards the overall budget.
- 2) The minimum base administrative fee is set at \$6,740 plus 85 cents per connection for connections over 6,000, also representing a 1% increase in total base administrative fees and pays approximately 39% to the overall budget. The base administrative fee, including the minimum \$6,740 fee, is set to increase annually by the overall percentage of expense increase for administrative costs.
- 3) SGA's program budget reflects anticipated grant revenues of \$250,000 and related expenses in the amount of \$225,000 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 83,037 in 2010 to an estimated 78,573 in fiscal year ending June 30, 2014. This assumption will 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 budgeted at a 2% increase, representing both the cost of living and possible merit adjustments, at the discretion of the Executive Director. This percentage is lower than years prior, in which a 6% increase was budgeted. Health related expenses are expected to increase by 7%.
- 6) General expenses are expected to increase 3%.
- 7) 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 full time equivalents (FTEs) dedicated for SGA administration. The program manager is allocated at 50% to SGA reflecting workload

activities between SGA and RWA subscription program activities as opposed to 70% in past years. SGA's share of planned expenditures for fiscal year June 30, 2010 is \$430,700.

- 8) SGA's planned revenues are expected to exceed expenditures by \$21,900 in the new fiscal year. This net result assumes SGA will be reimbursed with grant proceeds in FY10 for approximately \$25,000 in project related costs paid for in FY09.
- 9) The SGA consulting budget reflects \$87,000 in out-sourced support activities in FY10, which includes updating the groundwater management plan, grant application assistance, maintaining the data management system, regional contamination, monitoring water quality levels, and banking and exchange; and
- 10) The operating fund is targeted at four months for FY10, which falls with the policy guidelines; and
- 11) Other Post Employment Benefit (OPEB) costs related to prior employment service were paid in FY09. In future years, SGA will continue to share in OPEB costs related to current year shared staffing service.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ending June 30, 2010.

### **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, 2009 AND 2008**

	June 30, 2009		June 30, 2008	
	Special Revenue Fund	Adjustments (Note 7)	Statement of Net Assets	Statement of Net Assets
<b>ASSETS</b>				
Cash and Investments	\$ 421,843	\$ -	\$ 421,843	\$ 559,640
Grants Receivable	21,050	-	21,050	-
Accounts Receivable	9,366	-	9,366	-
Due from Regional Water Authority	1,572	-	1,572	-
Interest Receivable	1,639	-	1,639	3,227
Other Assets	2,613	-	2,613	2,872
Capital assets, net	-	11,105	11,105	12,455
Total assets	\$ 458,083	\$ 11,105	\$ 469,188	\$ 578,194
 <b>LIABILITIES</b>				
Accounts Payable	\$ 2,723	\$ -	\$ 2,723	\$ 9,068
Payable to Regional Water Authority	43,991	-	43,991	51,410
Unearned Revenue	185,397	(21,050)	164,347	166,259
Deferred Rent	-	-	-	307
Total liabilities	\$ 232,111	\$ (21,050)	\$ 211,061	\$ 227,044
 <b>FUND BALANCES</b>				
Fund balances				
Designated	\$ 198,495	\$ (198,495)	\$ -	\$ -
Unreserved	27,477	(6,427)	-	-
Total fund balance	\$ 225,972	\$ (204,922)	\$ -	\$ -
Total liabilities and fund balance	\$ 458,083			
 <b>NET ASSETS</b>				
Invested in capital assets		11,105	11,105	12,455
Unrestricted		247,022	247,022	338,695
Total net assets		\$ 258,127	\$ 258,127	\$ 351,150

**SACRAMENTO GROUNDWATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE/**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	June 30, 2009			June 30, 2008
	Special Revenue Fund	Adjustments (Note 7)	Statement of Activities	Statement of Activities
<b>REVENUES</b>				
Assessment Income	\$ 541,139	\$ -	\$ 541,139	\$ 458,188
Grant Awards	-	21,050	21,050	78,970
Interest and Other Income	13,251	-	13,251	21,063
Total revenue	<u>\$ 554,390</u>	<u>\$ 21,050</u>	<u>\$ 575,440</u>	<u>\$ 558,221</u>
<b>EXPENDITURES/EXPENSES</b>				
Shared and Direct Expenses:				
Wages and Salaries	205,301	-	205,301	180,503
Employee Benefits	93,344	-	93,344	64,013
Travel and Training	9,082	-	9,082	8,881
Other Post Employment Benefits	183,654	-	183,654	-
Rent	12,963	-	12,963	12,576
Insurance	9,585	-	9,585	9,804
Depreciation and Amortization	-	5,321	5,321	9,014
Capital outlay and equipment	3,971	(3,971)	-	-
Telephone	3,899	-	3,899	3,568
Dues and Subscriptions	2,492	-	2,492	3,087
Printing, Supplies and Postage	10,539	-	10,539	11,085
Computer Maintenance	4,111	-	4,111	4,989
Audit and Banking	10,297	-	10,297	10,365
Legal	17,446	-	17,446	46,648
Consultants	79,379	-	79,379	93,443
	<u>646,063</u>	<u>1,350</u>	<u>647,413</u>	<u>457,976</u>
Project Expenses				
Consultants	21,050	-	21,050	59,215
	<u>21,050</u>	<u>-</u>	<u>21,050</u>	<u>59,215</u>
Total expenditures/expenses	<u>\$ 667,113</u>	<u>\$ 1,350</u>	<u>\$ 668,463</u>	<u>\$ 517,191</u>
<b>DEFICIENCY OF REVENUES OVER EXPENSES</b>	(112,723)	(112,723)		
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	19,700		
<b>CHANGE IN NET ASSETS</b>	-	(93,023)	(93,023)	41,030
<b>FUND BALANCES/NET ASSETS</b>				
Beginning of the year	338,695	12,455	351,150	310,120
End of the year	<u>\$ 225,972</u>	<u>\$ 32,155</u>	<u>\$ 258,127</u>	<u>\$ 351,150</u>



**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**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 14 member agencies and representatives of self-supplied groundwater users and agricultural users. 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 7 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, 2009 AND 2008**

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**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-feet of water pumped and was set at \$3.85 and \$3.25 per acre foot for the years ending June 30, 2009 and 2008, respectively. The base administrative fee was calculated based upon the number of connections and was set at a minimum of \$6,690 and \$6,000 for the first 6,000 connections and then \$.84 cents and \$.75 cents per connection for each connection after 6,000 for the years ending June 30, 2009 and 2008, respectively.

The accounting treatment for grant award revenue depends on whether it is reported in the government-wide or fund financial statements. In the year ended June 30, 2008, SGA was awarded a state grant in the amount of \$250,000 from the California Department of Water Resources (DWR) to evaluate the potential threats to groundwater sustainability resulting from contamination. Reimbursable costs of \$21,050 have been incurred during fiscal year ending June 30, 2009. In the government-wide financial statements, the related grant award revenue and receivable are recognized.

In the fund financial statements, these grant award revenues will only be recognized once available to SGA. Until such time, the grant award revenues are reflected as a receivable and as unearned revenue.

**Unearned Revenue** – The accounting treatment for unearned revenue depends on whether it is reported in the government-wide or fund financial statements. In both the fund financial statements and government-wide statements, annual membership assessment fees received in advance of the next fiscal year are recognized as a liability and classified as unearned revenue. For the years ending June 30, 2009 and 2008, these unearned revenues amounted to \$164,347 and \$166,259, respectively.

In the fund financial statements, grant awards earned but not yet available are recognized as unearned revenue under the modified accrual basis of accounting. SGA incurred \$21,050 in eligible reimbursable grant expenses during the year ending June 30, 2009 but did not receive the funds due to the State of California's budget deficit. Once these funds become available to SGA, then the related revenue will be recognized in the fund financial statements. In the government wide financial statements, the \$21,050 in grant award revenues is recognized as earned for the year ending June 30, 2009.

**Related party shared expenses** – SGA is managed by the same staff that manages 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 modified by specific agreements or by the annual budget adoption process.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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

During the fiscal year ending June 30, 2009, SGA shared 50% of all common joint office costs including administrative staff and the executive director. SGA reimbursed RWA for these expenses of \$565,969 and \$371,193 for 2009 and 2008, 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 1<sup>st</sup>. SGA’s governing board satisfied these requirements. Any revisions to the budget would be approved by SGA’s governing board. On April 9, 2009, SGA’s governing board approved the payment to RWA for SGA’s share of the Other Post Employment Benefits, effectively modifying the budget for the fiscal year ending June 30, 2009.

**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.

**NOTE 2 – CASH AND INVESTMENTS**

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Deposits with financial institutions	\$ 182,550	\$ 179,916
Investments in LAIF	<u>239,293</u>	<u>379,724</u>
Total cash and investments	<u>\$ 421,843</u>	<u>\$ 559,640</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

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

rates increases as the length of maturity increases. At June 30, 2009, the average maturity of the investments contained in the LAIF investment pool was approximately 235 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 Government Code Sections 16480-16481.2, that provides credit standards for its investments.

**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, 2009 and 2008, SGA's bank balances were \$182,550 and \$184,152, respectively. Typically bank balances in excess of \$100,000 are not insured and could be considered a custodial credit risk. During the year ended June 30, 2009, the FDIC's basic insurance limit has been temporarily raised from \$100,000 to \$250,000 per depositor. This enhancement will be in effect through December 31, 2013.

**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 99.78% of fair value.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 3 – PROPERTY AND EQUIPMENT**

Fixed assets, consisting of furniture, equipment and leasehold improvements in excess of \$500 per unit, with useful lives of more than one year are stated at historical cost and are included in the financial statements. Routine repairs and maintenance are charged to operating expenses in the year the expense was incurred. SGA provides for depreciation using the straight-line method over the estimated useful lives of the assets, which is five years.

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

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	38,124	3,971	-	42,095
Leasehold Improvements	3,165	-	-	3,165
Total	<u>56,048</u>	<u>3,971</u>	<u>-</u>	<u>60,019</u>
Less accumulated depreciation	<u>(43,593)</u>	<u>(5,321)</u>	<u>-</u>	<u>(48,914)</u>
Fixed Assets, Net	<u>\$ 12,455</u>	<u>\$ (1,350)</u>	<u>\$ -</u>	<u>\$ 11,105</u>

**NOTE 4 – BOARD DESIGNATED RESERVE**

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

	June 30, 2009	June 30, 2008
Operating Reserve	\$ 163,495	\$ 175,000
Water Accounting Framework	35,000	-
Management Plan Reports	<u>-</u>	<u>16,683</u>
Total Board Designations	<u>\$ 198,495</u>	<u>\$ 191,683</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, 2009 and 2008 revised operating reserve designation was approved at the April 9, 2009 and April 10, 2008 Board Meetings, respectively. At the June 11, 2009 Board meeting, the board approved designating unused budgeted funds of \$35,000 from the fiscal year 2009 to be spent in the year ending June 30, 2010 for groundwater modeling costs related to the water accounting framework. In fiscal year 2008, the Board designated unused budgeted funds for management plan reports to complete the projects in year ending June 30, 2009. These designated funds for management plan reports were spent in fiscal year 2009.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 5 – RETIREMENT COMMITMENTS**

SGA does not contract directly with CalPERS for its retirement program. Currently, RWA, which 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. SGA pays its pro-rata share of the pension expense upon invoice receipt from RWA.

**NOTE 6 – OTHER POST EMPLOYMENT BENEFITS**

During the year ending June 30, 2009, RWA adopted early implementation of Governmental Accounting Principles Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. SGA does not have employees, but does pay for shared staffing services from RWA. Consequently, SGA is responsible for a pro-rata share of the OPEB. Historically, RWA paid for these costs on a pay-as-you-go basis. SGA reimbursed for these costs on a pay-as-you-go basis.

An actuarial analysis was prepared for RWA which included estimating an allocation of the OPEB unfunded actuarial accrued liability (UAAL) plus the current year normal costs and interest through June 30, 2009 between the two agencies. RWA elected a one year amortization of the UAAL resulting in a total of \$443,949 for the annual required contribution (ARC) for the year ending June 30, 2009. SGA paid its allocated portion of \$183,654 in June 2009. Total payments by SGA represent approximately 43% of the ARC. The allocation was based upon approximating historical staff sharing results.

**NOTE 7 – RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

The governmental fund balance sheet for June 30, 2009 is converted to the statement of net assets by recording capital assets of \$11,105 net of accumulated depreciation and by recognizing \$21,050 of unearned revenue as earned revenue, thereby reducing the liability.

For the year ending June 30, 2009, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation and amortization expense of \$5,320 and decreasing capital outlay expense by \$3,971 to reflect recording those amounts as capital assets. Additionally, \$21,050 of grant awards is recognized as earned revenue.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 8 – CONTINGENCIES**

In fiscal year 2009, SGA was awarded a \$250,000 grant from the Department of Water Resources (DWR) 2008 Local Groundwater Assistance Grant Program (AB 303) 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 has incurred some reimbursable costs on behalf of the grant during the year ending June 30, 2009. For the government-wide and fund financial statement, these grant awards have been recognized as grant receivables for the year ending June 30, 2009. DWR grant award payments were frozen during the year ending June 30, 2009 by the State of California due to its budget deficit. Subsequent to June 30, 2009, SGA received notification from DWR that grant award reimbursement payments may now continue. Due to SGA receiving this notification, no allowance for doubtful accounts is reflected in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**



**SACRAMENTO GROUNDWATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Budget	Actual Amounts	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment Income	\$ 541,100	\$ 541,139	\$ 39
Grant Awards	175,000	-	(175,000)
Interest and Other Income	8,500	13,251	4,751
Total Revenues	<u>\$ 724,600</u>	<u>\$ 554,390</u>	<u>\$ (170,210)</u>
<b>EXPENDITURES</b>			
Wages and Salaries	238,600	205,301	33,299
Employee Benefits	105,100	93,344	11,756
Other Post Employment Benefits (OPEB)	-	183,654	(183,654)
Travel and Training	13,000	6,431	6,569
Rent	14,000	12,963	1,037
Insurance	10,500	9,585	915
Telephone	4,000	3,899	101
Dues and Subscriptions	5,000	2,492	2,508
Printing and Supplies	10,000	8,992	1,008
Postage	3,750	1,547	2,203
Computer Maintenance	4,000	4,111	(111)
Meetings	3,000	2,651	349
Audit	10,000	9,263	737
Legal Counsel Expense - General	50,000	17,446	32,554
Payroll and Banking Services	1,100	1,034	66
Capital Outlay and Equipment	6,250	3,971	2,279
Consulting Expenses - General Support Services	28,500	26,655	1,845
Consulting Expenses - Program Management	90,000	52,724	37,276
Consulting Expenses - AB 303 Grant	175,000	21,050	153,950
Total Expenditures	<u>771,800</u>	<u>667,113</u>	<u>104,687</u>
<b>DEFICIENCY OF REVENUE OVER EXPENDITURES</b>	<b>(47,200)</b>	<b>(112,723)</b>	<b>(65,523)</b>
Fund Balance, July 1, 2008	<u>338,695</u>	<u>338,695</u>	<u>-</u>
Fund Balance, June 30, 2009	<u><u>\$ 291,495</u></u>	<u><u>\$ 225,972</u></u>	<u><u>\$ (65,523)</u></u>

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

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
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>
<b>EXPENDITURES</b>			
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>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(112,300)</b>	<b>38,797</b>	<b>151,097</b>
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>

**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 basic financial statements of Sacramento Groundwater Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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, 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 that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of the 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*.

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

Cook CPA Group

Roseville, California  
December 8, 2009