

**SACRAMENTO GROUNDWATER AUTHORITY**

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

**June 30, 2011 and 2010**

## CONTENTS

---

	PAGE
<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 2
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	3 – 11
<b>FINANCIAL STATEMENTS</b>	
Governmental Fund Balance Sheet/Statements of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance/ Statements of Activities	13
Notes to financial statements	14 – 20
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Statements of Revenues, Expenditures and Changes in Fund Balance - budget to actual	22 – 23
<b>OTHER REPORT</b>	
Independent auditor’s report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	25 – 26

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities of the Sacramento Groundwater Authority as of and for the years ended June 30, 2011 and 2010, which collectively comprise Sacramento Groundwater Authority's basic financial statements as listed in the 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, 2011 and 2010 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 2, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information, pages 3 through 11 and pages 22 through 23, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Cook CPA Group*

Roseville, California  
December 2, 2011

## **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, 2011 and 2010. This discussion analysis should be read in conjunction with the financial statements, which can be found on pages 12 to 20 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. SGA's revenues are legally restricted under a joint powers agreement provided for under the California Government Code. 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.

Beginning in the year ending June 30, 2011, Governmental Accounting Standards Board now requires that fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which SGA is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories of the SGA's fund balances include: non-spendable, committed, assigned and restricted funds. Non-spendable fund balance represents amounts such as prepaid expenses that are not available for expenditure because they are not expected to be converted to cash. Committed fund balances represent specific purpose constraints, including contractual obligations for goods and services imposed by SGA's Board of Directors. Assigned fund balance represents amounts that are constrained for a specific purpose pursuant to constraints imposed by the SGA Board, the SGA budget committee, or SGA's delegated authority to the Executive director. Typically, the SGA Board will approve assignments. Since SGA's revenues are legally restricted for the purpose of managing the Sacramento groundwater basin, any revenues not committed, assigned or not classified as non-spendable would be considered a restricted fund balance.

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 22 to 23 of this report.

The balance sheets include SGA as a special revenue fund with assets, liabilities and fund balance. It also includes adjustments for the accounting methodology differences 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 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) for both the fund balance and net assets. Revenues are reported when available (i.e. grant awards) for fund balance and reported when earned in the net asset statement.

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 12 to 20.

**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 14 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:

	2011	2010
	<u>                    </u>	<u>                    </u>
Current Assets	\$ 559,401	\$ 600,834
Capital Assets	7,105	8,082
Total Assets	<u>\$ 566,506</u>	<u>\$ 608,916</u>
Liabilities	\$ 112,512	225,559
Net Assets:		
Invested in capital assets	7,105	8,082
Unrestricted	446,889	375,275
Total net assets	<u>\$ 453,994</u>	<u>\$ 383,357</u>

#### *Current Assets*

Current assets consisted of cash and cash equivalents, accounts receivable, interest receivable and other assets. Current assets decreased approximately \$41,433 from the previous year. A significant portion of the decrease is largely due to a decrease in cash of \$129,734 in part due to timing of outstanding unreimbursed grant related expenses. The SGA Board also authorized \$40,000 of unspent funds from fiscal year 2010 to be used in fiscal year 2011 for updating and maintaining SGA’s groundwater database and preparation of a biennial Basin Management Report. This decrease in cash was partially offset by an increase in grants receivables.

#### *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.

### *Liabilities*

Current liabilities of \$112,512 that are due within one year have decreased approximately \$113,047 from the previous year and include amounts due to vendors, and a payable to the RWA. The decrease is a result of a decrease in unearned revenues from the previous year due to the timing of receipts for annual dues. The current liabilities also include \$51,196 due to the Regional Water Authority (RWA) for administrative service costs.

### *Net Assets Invested in Capital Assets*

Investment in capital assets net of accumulated depreciation totaled \$7,105 and decreased a net \$977 over the prior year due to \$3,347 annual depreciation which was partially offset by \$2,370 in new equipment. Approximately 2% 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. For fiscal year 2011, approximately \$172,400 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 fund balances and designations.

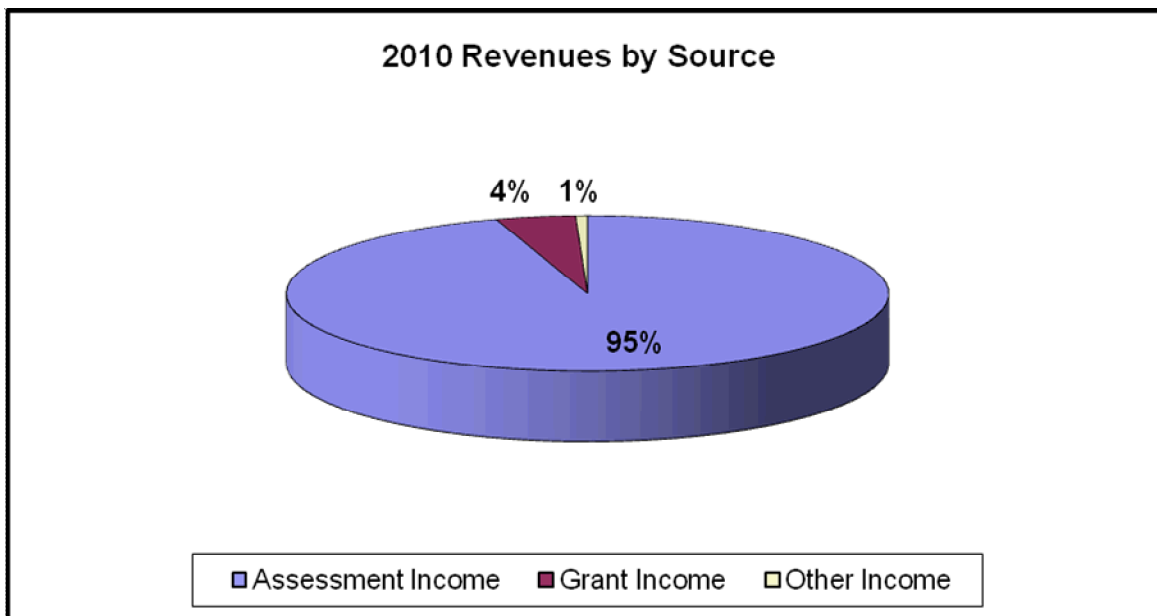
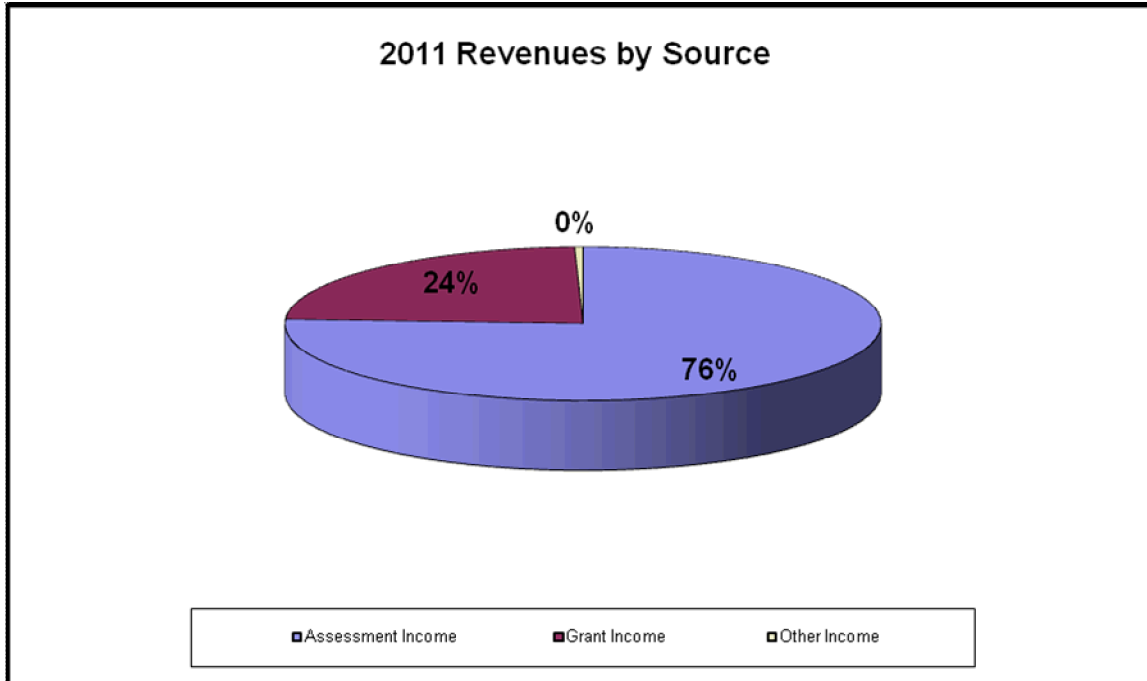
### **Condensed Schedule of Revenues, Expenses, and Changes in Net Assets**

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

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Assessment Income	\$ 533,809	\$ 546,694
Grant Awards	166,645	24,545
Total Operating Revenues	<u>700,454</u>	<u>571,239</u>
Non-operating income	3,246	3,733
Total Revenues	<u>703,700</u>	<u>574,972</u>
Operating Expenses:		
Shared and direct expenditures	438,874	420,102
Project Expenses	194,189	29,640
Total Operating Expenses	<u>633,063</u>	<u>449,742</u>
Increase (Decrease) in Net Assets	70,637	125,230
Net Assets July 1	<u>383,357</u>	<u>258,127</u>
Net Assets June 30	<u>\$ 453,994</u>	<u>\$ 383,357</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 \$533,809 or \$12,885 lower than in the previous year. SGA assessment fees are based upon two components: a groundwater fee and a base administrative fee formula, reflecting the member's capacity to pump water. In fiscal year 2011 and 2010, the groundwater fee was \$4.00 per acre foot, based upon a running five year average of historical volume, which was calculated as 80,562 acre-feet. The base administrative fee formula minimum fee was \$6,740 per member plus .85 cents per connection for connections greater than 6,000. The decline in fees corresponds to the decline in groundwater pumping.

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, 2009, 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. For fiscal year ending June 30, 2011, grant revenues are related to the completion of AB 303 grant award for an update of the Integrated Groundwater and Surface Water Model (IGSM). SGA did complete qualifying costs on this grant as of June 30, 2011 for \$185,132 and as such, grant revenue of \$166,645 is recognized net of a 10% retention.

### *Non-operating revenue*

Non-operating revenue of \$3,246 largely represents interest income and reflects a decrease from prior year 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 Shared and Direct Expenditures*

Operating expenses totaled \$438,874 and are \$18,772 higher than the previous year's expenses of \$420,102. The increased costs reflect increased activity due to regional contamination issues.

### *Analytical Review of Project Expenses*

Project expenses totaled \$194,189 and are \$164,549 higher 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. The project expenses are connected to a project which evaluates the potential threats to groundwater sustainability resulting from contamination in groundwater paid for from the AB 303 DWR grant.

## Capital Assets

Capital asset investment includes office furniture, office and field equipment and leasehold improvements as of June 30, 2011 and amounts to \$7,105 net of accumulated depreciation. During fiscal year 2011, SGA purchased \$2,370 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.

	2011	2010
Furniture	\$ 14,759	\$ 14,759
Equipment	31,760	35,474
Leasehold Improvements	3,165	3,165
Gross Capital Assets	49,684	53,398
Less Accumulated Depreciation and Amoritization	(42,579)	(45,316)
Net Capital Assets	\$ 7,105	\$ 8,082

Additional information on the furniture and equipment can be found in note 3 on page 18 of this report.

## Special Revenue Fund Condensed Budgetary Analysis

For the fiscal year ending June 30, 2011, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	Budget	Actual	Favorable (Unfavorable)
Revenues			
Assessment Income	\$ 533,200	\$ 533,809	\$ 609
Grant Income	160,000	92,177	(67,823)
Interest and Other Income	2,400	3,246	846
Total Revenues	695,600	629,232	(66,368)
Expenditures			
Staff Expenses	343,370	315,483	27,887
Office Expenses	46,850	43,560	3,290
Professional Fees	170,800	74,539	96,261
Capital Outlay and Equipment	3,500	4,315	(815)
Program Expenses	150,000	194,189	(44,189)
Total Expenditures	714,520	632,086	82,434
Excess of Expenditures over Revenue	(18,920)	(2,854)	16,066
Fund Balance, July 1, 2010	348,625	348,625	-
Fund Balance, June 30, 2011	\$ 329,705	\$ 345,771	\$ 16,066

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 were positive compared to the expected budget by approximately \$16,066. Significant budget versus actual variances are as follows.

#### *Total Revenues*

Total revenues were less than anticipated as the grant income expected from the AB 303 grant timing is slower than originally anticipated. Under the modified accrual basis of accounting for special revenue funds, these grant revenues will only be recognized once available and received by SGA.

#### *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.

#### *Office Expenses*

Office expenses are shared 50/50 with RWA as part of the administrative services agreement. These costs are carefully managed by RWA.

#### *Professional Fees*

Overall consulting fees came in lower than budgeted. Some of the lower costs are the result of not using consultants as expected for grant application assistance and pursuing short-term banking and exchange. Other lower cost expenditures are a result of not incurring the anticipated costs to execute regional contamination work, basin management report, and to maintain/improve the groundwater data management system.

#### *Capital Outlay and Equipment*

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

#### *Program Expenses*

Program expenses were budgeted at \$150,000 with actual expenses totaling \$194,189 and relate to the AB 303 grant program. The timing of program expenses can be difficult to predict. The reimbursements of these grant expenses from the grant award was expected in by the end of fiscal year 2011 and has been now extended into fiscal year 2012.

## **Economic factors and assumptions for fiscal year June 30, 2012**

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, 2012 budget, no fee increase was adopted for the third straight year. Each member's specific fee change depends upon the changes in their water connections and groundwater pumping from the previous year.

Major budget assumptions used in adopting the June 30, 2012 budget include:

- 1) The groundwater fee is \$4.00 per acre-foot, based upon a running five year average of historical volume, calculated as 78,204 acre-feet. The groundwater fees pay approximately 60% 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, and pays approximately 40% 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) The Department of Water Resources (grantor) pays in arrears, which causes a time lag between the payment of expenses and receipt of income. SGA's program budget does not reflect anticipated grant revenues related to AB303 as this grant program was anticipated to finalize in FY11 but was unable to finalize its invoices prior to June 30. Therefore, SGA will realize some grant revenues that were not previously budgeted for fiscal year 2012.
- 4) For future year projections, the acre-feet extracted is budgeted to decrease slightly from 78,204 in 2012 to an estimated 71,250 in fiscal year ending June 30, 2016. This assumption will 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 for potential one-time employee recognition at the discretion of the Executive Director.
- 6) Some 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. Due to increased work load, SGA will incur 2.3 full time equivalents (FTEs) dedicated for SGA administration, which include the addition of a new project assistant. SGA's share of planned expenditures for fiscal year June 30, 2012 is \$455,350.
- 8) SGA's planned expenditures are expected to exceed revenues by \$14,350 in the new fiscal year.
- 9) The SGA consulting budget reflects \$65,000 in out-sourced support activities in FY12, which includes 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 eight months for FY12.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ending June 30, 2012.

## **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, 2011 AND 2010**

	June 30, 2011		June 30, 2010	
	Special Revenue Fund	Adjustments (Note 7)	Statement of Net Assets	Statement of Net Assets
<b>ASSETS</b>				
Cash and Investments	\$ 440,599	\$ -	\$ 440,599	\$ 570,333
Grants Receivable	101,118	-	101,118	26,650
Accounts Receivable	13,998	-	13,998	-
Due from Regional Water Authority	73	-	73	50
Interest Receivable	560	-	560	658
Other Assets	3,053	-	3,053	3,143
Capital assets, net	-	7,105	7,105	8,082
Total assets	<u>\$ 559,401</u>	<u>\$ 7,105</u>	<u>\$ 566,506</u>	<u>\$ 608,916</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 61,316	\$ -	\$ 61,316	\$ 24,541
Payable to Regional Water Authority	51,196	-	51,196	44,600
Unearned Revenue	101,118	(101,118)	-	156,418
Total liabilities	<u>213,630</u>	<u>(101,118)</u>	<u>112,512</u>	<u>225,559</u>
<b>FUND BALANCES</b>				
Fund balances				
Non-Spendable	3,053	(3,053)		
Restricted	155,918	(155,918)		
Comitted	14,400	(14,400)		
Assigned	172,400	(172,400)		
Total fund balance	<u>345,771</u>	<u>(345,771)</u>		
Total liabilities and fund balances	<u>\$ 559,401</u>			
<b>NET ASSETS</b>				
Invested in capital assets		7,105	7,105	8,082
Unrestricted		446,889	446,889	375,275
Total net assets		<u>\$ 453,994</u>	<u>\$ 453,994</u>	<u>\$ 383,357</u>

**SACRAMENTO GROUNDWATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/**  
**STATEMENTS OF ACTIVITIES**  
**JUNE 30, 2011 AND 2010**

	June 30, 2011		June 30, 2010	
	Special Revenue Fund	Adjustments (Note 7)	Statement of Activities	Statement of Activities
<b>REVENUES</b>				
Assessment Income	\$ 533,809	\$ -	\$ 533,809	\$ 546,694
Grant Awards	92,177	74,468	166,645	24,545
Interest and Other Income	3,246	-	3,246	3,733
Total revenue	\$ 629,232	\$ 74,468	\$ 703,700	\$ 574,972
<b>EXPENDITURES/EXPENSES</b>				
Shared and Direct Expenses:				
Wages and Salaries	210,773	-	210,773	206,982
Employee Benefits	90,396	-	90,396	89,697
Travel and Training	6,663	-	6,663	6,847
Other Post Employment Benefits	8,222	-	8,222	14,819
Rent	12,484	-	12,484	13,630
Insurance	11,114	-	11,114	10,480
Depreciation and Amortization	-	3,347	3,347	4,142
Capital outlay and equipment	4,315	(2,370)	1,945	-
Telephone	4,199	-	4,199	4,101
Dues and Subscriptions	3,702	-	3,702	2,763
Printing, Supplies and Postage	8,373	-	8,373	8,911
Computer Maintenance	3,117	-	3,117	4,112
Audit and Banking	11,322	-	11,322	10,830
Legal	12,310	-	12,310	16,640
Consultants	50,907	-	50,907	26,148
	437,897	977	438,874	420,102
Project Expenses				
Consultants	194,189	-	194,189	29,640
	194,189	-	194,189	29,640
Total expenditures/expenses	632,086	977	633,063	449,742
<b>EXCESS OF EXPENSES OVER REVENUES</b>				
	(2,854)	(2,854)		
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
		73,491		
<b>CHANGE IN NET ASSETS</b>				
		70,637	70,637	125,230
<b>FUND BALANCES/NET ASSETS</b>				
Beginning of the year	348,625	34,732	383,357	258,127
End of the year	\$ 345,771	\$ 108,223	\$ 453,994	\$ 383,357

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

**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 for governmental units. Accordingly, SGA uses governmental funds. SGA does not have any 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 an adjustment column.



**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

**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 \$4.00 per acre foot for the years ending June 30, 2011 and 2010. The base administrative fee was calculated based upon the number of connections and was set at a minimum of \$6,740 for the first 6,000 connections and then \$.85 cents per connection for each connection after 6,000 for the years ending June 30, 2011 and 2010.

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 \$194,189 and \$29,640 have been incurred during fiscal years ending June 30, 2011 and 2010, respectively. 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. For the fiscal years ending June 30, 2011 and 2010, \$92,177 and \$18,945 of grant award revenues was received, respectively.

**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 year ending June 30, 2010, unearned revenues amounted to \$156,418.

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 eligible grant expenses of \$101,118 and had not yet received the reimbursement award during the year ending June 30, 2011. Once the funds become available to SGA, then the related revenue will be recognized in the fund financial statements. In the government wide financial statements, the reimbursable grant awards are recognized as revenue when earned.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

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

**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 modified by specific agreements or by the annual budget adoption process. During the fiscal years ending June 30, 2011 and 2010, SGA shared 50% of all common joint office costs including administrative staff and the executive director. SGA reimbursed RWA for these expenses of \$385,613 and \$385,257 for 2011 and 2010, respectively.

**Fund Balances**

SGA adopted Governmental Accounting Standard Board's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") for the year ending June 30, 2011. GASB 54 only applies to the fund financial statements and redefines and requires reporting of fund balances that comprise a fund balance hierarchy based primarily on the extent to which the government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Under GASB 54, there are now five categories of fund balance: non-spendable, restricted, committed, assigned and unassigned.

*Non-spendable fund balance* - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The prepaid items recorded in SGA's balance sheet are not in spendable form as they are not expected to be converted to cash.

*Restricted fund balance* - Amounts are externally imposed grantors, contributors, or laws or regulations of other governments or imposed by law. Since SGA's revenues are legally restricted through the Joint Powers Authority Agreement for the purpose of managing the Sacramento groundwater basin, any revenues not assigned or not classified as non-spendable would be considered a restricted fund balance.

*Committed fund balance* - Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of SGA's Board of Directors', the highest level of decision-making authority, that remain binding unless commitments are removed in the same manner. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. SGA has entered into a contractual commitment to purchase consulting services for water modeling and contamination risks as part of the California Department of Water Resources AB303 project. This contractual commitment results in a committed fund balance for the remaining contract balance. The remaining services at year end will be payable upon future performance of those services. Unused contract balances at year-end are not expenditures or liabilities until such time as those services have occurred.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

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

*Assigned fund balance* – Amounts that are constrained by SGA intent to be used for a specific purpose. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. Typically, the SGA Board assigns fund balances. Assigned balances are typically spent first unless a specifically identified project has been committed or restricted within a fund balance.

The Board of Director’s can vote to approve assigning or committing specific fund balances. See note 4 for additional information regarding fund balance.

**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> and has satisfied these requirements. Any revisions to the budget would be approved by SGA’s governing board.

**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:

	Balance June 30, 2011	Balance June 30, 2010
Deposits with financial institutions	\$ 8,748	\$ 6,574
Investments in LAIF	431,851	563,759
Total cash and investments	\$ 440,599	\$ 570,333

**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.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

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

**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, 2011, the average maturity of the investments contained in the LAIF investment pool was approximately 237 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 section 53652 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.

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, 2011 and 2010, SGA's bank balances were \$9,293 and \$12,869, respectively. SGA maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. SGA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**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 100.16% of fair value.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

**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, 2010	Increases	Decreases	Balance June 30, 2011
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	35,474	2,370	(6,084)	31,760
Leasehold Improvements	3,165	-	-	3,165
Total	<u>53,398</u>	<u>2,370</u>	<u>(6,084)</u>	<u>49,684</u>
Less accumulated depreciation	<u>(45,316)</u>	<u>(3,347)</u>	<u>6,084</u>	<u>(42,579)</u>
Fixed Assets, Net	<u>\$ 8,082</u>	<u>\$ (977)</u>	<u>\$ -</u>	<u>\$ 7,105</u>

**NOTE 4 – BOARD DESIGNATED RESERVE**

During the fiscal year ending June 30 2011, the Board of Directors designated funds as follows:

	2011
Non-spendable - Prepaid Assets	\$ 3,053
Restricted	155,918
Committed - AB303 Grant	14,400
Assigned	
Operating Fund	<u>172,400</u>
Total Assigned	<u>\$ 345,771</u>

Since SGA’s fee revenues are restricted for the specific purpose of managing the Sacramento Groundwater Basin under the joint powers agreement, any fund balance not previously allocated to non-spendable, committed or assigned, will be classified as restricted for that purpose.

The operating fund is approved by the Board on an annual basis during the budget process and follows policy Financial Commitment and Assignment Fund Policy No. 400.2 to serve as a stabilization fund. The target operating fund balance is four to six months of operating expenses. The operating fund balance can be used for working capital needs, budget contingencies, and partnership grant opportunities. The June 30 year-end target balance is modified and approved as part of the adoption of the following fiscal year’s budget. Typically, SGA approves the following fiscal budget in April or June which then approves and adopts any modifications to the current fiscal year’s operating reserve.

The committed fund balance for the AB 303 grant represents the remaining consulting contract balance for services related to water contamination study.

**SACRAMENTO GROUNDWATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

---

**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**

SGA does not have employees, but does pay for shared staffing services provided by RWA. SGA is responsible for a pro-rata share of the OPEB. RWA uses an actuary to calculate the annual required contributions. As of June 30, 2011 and 2010, SGA has paid these pro-rated calculated expenses to RWA. These allocations are based upon actual staffing ratios between the two authorities.

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

The governmental fund balance sheet for June 30, 2011 is converted to the statement of net assets by recording capital assets of \$7,105 net of accumulated depreciation, and by recording grant award income of \$101,118, thereby reducing the unearned revenue.

For the year ending June 30, 2011, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation and amortization expense of \$3,347 and decreasing capital outlay expense by \$2,370 to reflect recording those amounts as capital assets. An additional \$74,468 in grant awards income is recognized in the statement of activities to reflect the total earned grant awards of \$166,645 for this fiscal year.

**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, 2011 and will seek reimbursement for this activity using this grant award. The grant should be completed in fiscal year 2012.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SACRAMENTO GROUNDWATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Assessment Income	\$ 533,200	\$ 533,809	\$ 609
Grant Awards	160,000	92,177	(67,823)
Interest and Other Income	2,400	3,246	846
Total Revenues	<u>695,600</u>	<u>629,232</u>	<u>(66,368)</u>
<b>EXPENDITURES</b>			
Wages and Salaries	223,920	210,773	13,147
Employee Benefits	94,750	90,396	4,354
Travel and Training	10,000	6,092	3,908
Other Post Employment Benefits	14,700	8,222	6,478
Rent	14,000	12,484	1,516
Insurance	10,500	11,114	(614)
Telephone	4,250	4,199	51
Dues and Subscriptions	3,000	3,702	(702)
Printing and Supplies	8,250	7,089	1,161
Postage	1,850	1,284	566
Computer Maintenance	3,000	3,117	(117)
Meetings	2,000	571	1,429
Audit	10,700	10,200	500
Legal Counsel Expense - General	25,000	12,310	12,690
Payroll and Banking Services	1,100	1,122	(22)
Capital Outlay and Equipment	3,500	4,315	(815)
Consulting Expenses - General Support Services	42,500	19,061	23,439
Consulting Expenses - Program Management	91,500	31,846	59,654
Consulting Expenses - AB 303 Grant	150,000	194,189	(44,189)
Total Expenditures	<u>714,520</u>	<u>632,086</u>	<u>82,434</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<b>(18,920)</b>	<b>(2,854)</b>	<b>16,066</b>
Fund Balance, July 1, 2010	<u>348,625</u>	<u>348,625</u>	<u>-</u>
Fund Balance, June 30, 2011	<u><u>\$ 329,705</u></u>	<u><u>\$ 345,771</u></u>	<u><u>\$ 16,066</u></u>



**SACRAMENTO GROUNDWATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –**  
**BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Budget	Actual Amounts	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment Income	\$ 546,600	\$ 546,694	\$ 94
Grant Awards	250,000	18,945	(231,055)
Interest and Other Income	5,000	3,733	(1,267)
Total Revenues	801,600	569,372	(232,228)
<b>EXPENDITURES</b>			
Wages and Salaries	212,500	206,982	5,518
Employee Benefits	92,300	89,697	2,603
Travel and Training	10,000	6,155	3,845
Other Post Employment Benefits	15,300	14,819	481
Rent	14,000	13,630	370
Insurance	10,500	10,480	20
Telephone	4,000	4,101	(101)
Dues and Subscriptions	4,000	2,763	1,237
Printing and Supplies	9,750	7,800	1,950
Postage	2,500	1,111	1,389
Computer Maintenance	3,000	4,112	(1,112)
Meetings	3,100	692	2,408
Audit	10,650	9,713	937
Legal Counsel Expense - General	35,000	16,640	18,360
Payroll and Banking Services	1,100	1,117	(17)
Capital Outlay and Equipment	2,500	1,119	1,381
Consulting Expenses - General Support Services	37,500	19,757	17,743
Consulting Expenses - Program Management	87,000	6,391	80,609
Consulting Expenses - AB 303 Grant	225,000	29,640	195,360
Total Expenditures	779,700	446,719	332,981
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	21,900	122,653	100,753
Fund Balance, July 1, 2009	225,972	225,972	-
Fund Balance, June 30, 2010	\$ 247,872	\$ 348,625	\$ 100,753

**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, 2011, and have issued our report thereon dated December 2, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether 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 2, 2011