

SACRAMENTO GROUNDWATER AUTHORITY

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

June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sacramento Groundwater Authority
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and special revenue fund of the Sacramento Groundwater Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2011 financial statements and, in the prior auditor's report dated December 2, 2011, they expressed unqualified opinions on the respective financial statements of the governmental activities and special revenue fund.

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. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and special revenue fund of the Authority as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of

To the Board of Directors
Sacramento Groundwater Authority

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 the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 24 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Richardson & Company

November 28, 2012

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, 2012 and 2011. This discussion analysis should be read in conjunction with the financial statements, which can be found on pages 12 to 25 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 24 to 25 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 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 23.

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 23 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>2012</u>	<u>2011</u>
Other Assets	\$633,518	\$559,328
Capital Assets	<u>19,661</u>	<u>7,105</u>
Total Assets	<u>\$653,179</u>	<u>\$566,433</u>
Liabilities	\$75,711	\$112,439
Net Assets:		
Invested in capital assets	19,661	7,105
Restricted	<u>557,807</u>	<u>446,889</u>
Total net assets	<u>\$ 577,468</u>	<u>\$ 453,994</u>

Other Assets

Other assets consisted of cash and cash equivalents, accounts receivable, interest receivable and prepaid assets. Other assets increased by \$74,190 from the previous year. A significant portion of the increase is largely due to an increase in cash of \$189,237 offset by a decrease in grants receivable of \$101,118 due to receiving reimbursement for grant related expenses.

Capital Assets

Net capital assets include office furniture, field and office equipment, and leasehold improvements, net of accumulated depreciation. The overall increase in capital assets costs reflects an increase in equipment and leasehold improvements for a shared office remodel offset by annual depreciation.

Liabilities

Current liabilities of \$75,711 that are due within one year have decreased \$36,728 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 vendor payables from the previous year due to slower program activity. The current liabilities also include \$72,916 due to the Regional Water Authority (RWA) for administrative service costs which also includes amounts due for leasehold improvements. The leasehold improvements will be paid for over time through the monthly shared office rent payment.

Net Assets Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$19,661 and increased a net \$12,556 over the prior year due to \$4,404 annual depreciation, \$287 in loss of disposition of an asset, which was offset by \$17,247 in leasehold improvements and new equipment. Approximately 3% of net assets are invested in capital assets.

Restricted Net Assets

All of the assessment fee revenue received by SGA is considered restricted for the purpose of SGA as outlined in the Joint Powers Agreement (“Agreement”). The Agreement legally enforces SGA to use these funds to further the purpose of SGA in managing the groundwater basin. Any unused fees not previously allocated to capital assets, is considered restricted 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.

These restricted net assets may be used to meet SGA’s ongoing obligations to member agencies and creditors. For fiscal year 2012, approximately \$247,400 of restricted net assets has been designated as an operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. An additional \$17,205 has been committed for a grant application and \$20,000 has been assigned for a Chromium 6 pilot study. See Note 4 and 5 of Notes to Basic Financial Statements for the detail and types of fund balances, restricted net assets, commitments, assignments and designations.

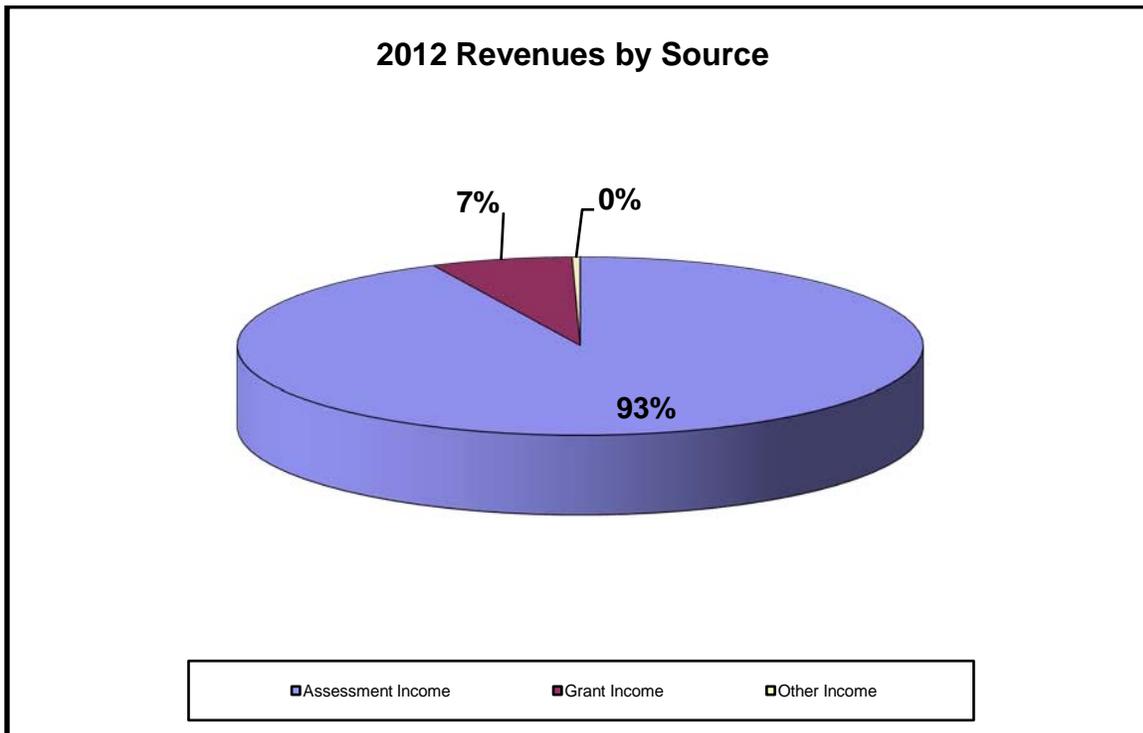
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

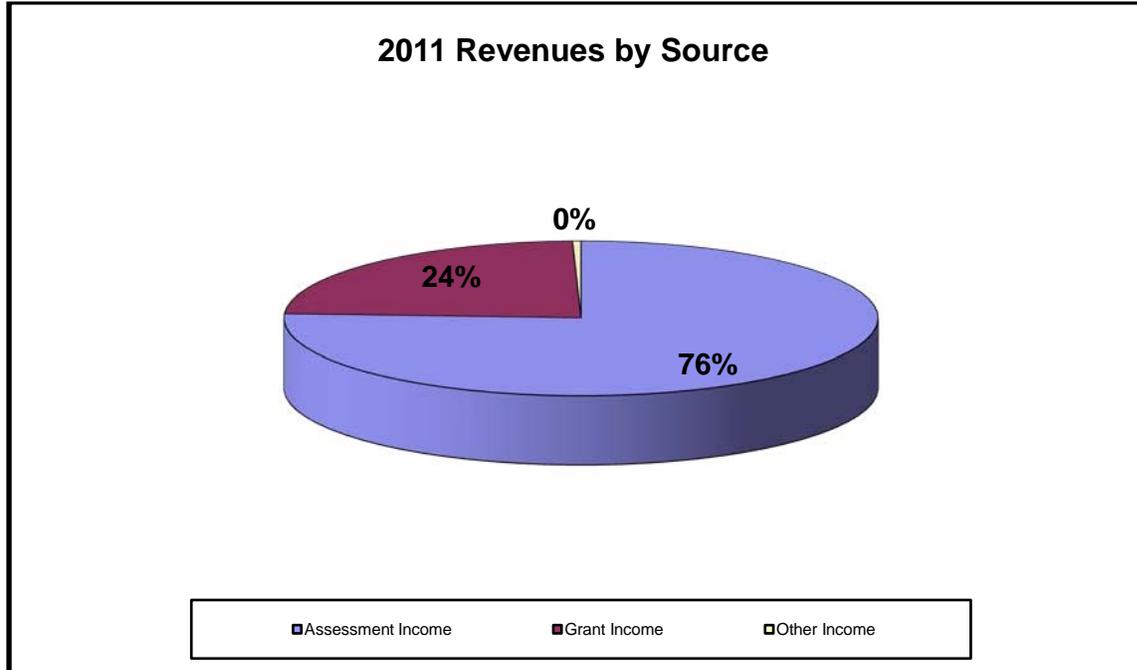
For the fiscal years ending June 30, the following condensed Statements of Revenues, Expenses and Changes in Net Assets are presented:

	<u>2012</u>	<u>2011</u>
Program revenues:		
Assessment Income	\$524,927	\$533,809
Grant Awards	<u>37,691</u>	<u>166,645</u>
Total Program Revenues	\$562,618	\$700,454
General revenues	<u>2,134</u>	<u>3,246</u>
Total revenues	<u>\$564,752</u>	<u>\$703,700</u>
Program Expenses:		
Shared and direct expenditures	424,083	438,874
Project Expenses	<u>17,195</u>	<u>194,189</u>
Total Program Expenses	<u>441,278</u>	<u>633,063</u>
Increase in Net Assets	123,474	70,637
Net Assets July 1	<u>453,994</u>	<u>383,357</u>
Net Assets June 30	<u>\$577,468</u>	<u>\$453,994</u>

Program Revenues

SGA’s program 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 Program Revenues

Assessment income totaled \$524,927 or \$8,882 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 2012 and 2011, the groundwater fee was \$4.00 per acre foot, based upon a running five year average of historical volume, which was calculated as 78,204 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, 2012, 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, 2012 for \$12,698. Grant revenue of \$37,691 is recognized which included receipt of retentions. This AB 303 grant was completed as of June 30, 2012.

General revenue

General revenue of \$2,134 largely represents interest income and reflects a decrease from prior year due to lower interest earnings from declining interest rates.

Program expenses

Program 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

Program expenses totaled \$424,083 and are \$14,791 lower than the previous year's expenses of \$438,874. The decreased costs reflect decreased activity due to regional contamination issues. Legal fees were also lower in the current year due to decreased regulatory and grant issues. These decreases were offset by some increases in staffing costs and office expenses.

Analytical Review of Project Expenses

Project expenses totaled \$17,195 and are \$176,994 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. 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. This project has been completed in fiscal year 2012.

Capital Assets

Capital asset investment includes office furniture, office and field equipment and leasehold improvements as of June 30, 2012 and amounts to \$19,661 net of accumulated depreciation. During fiscal year 2012, SGA purchased \$17,247 of equipment and leasehold improvements. Except for field equipment related specifically to SGA, capital asset acquisitions are co-owned with RWA and each authority pays 50% of the acquisition cost.

	<u>2012</u>	<u>2011</u>
Furniture	\$14,759	\$14,759
Equipment	33,558	31,760
Leasehold Improvements	<u>17,951</u>	<u>3,165</u>
Gross Capital Assets	66,268	49,684
Less accumulated depreciation and amortization	<u>(46,607)</u>	<u>(42,579)</u>
Capital Assets, net	<u>\$19,661</u>	<u>\$ 7,105</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, 2012, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	<u>Budget</u>	<u>Actual</u>	Variance with Budget- Positive (Negative)
Program Revenues			
Assessment Income	\$524,900	\$524,927	\$ 27
Grant Income	<u>-</u>	<u>138,809</u>	<u>138,809</u>
Total Program Revenues	524,900	663,736	138,836
General Revenues	<u>1,800</u>	<u>2,421</u>	<u>621</u>
Total Revenues	526,700	666,157	139,457
Expenditures			
Staff Expenses	351,400	329,739	21,661
Office Expenses	53,400	43,245	10,155
Professional Fees	129,750	37,832	91,918
Capital Outlay and Equipment	6,500	26,110	(19,610)
Program Expenses	<u>-</u>	<u>17,195</u>	<u>(17,195)</u>
Total Expenditures	541,050	454,121	86,929
Expenditures (Over) Under Revenue	<u>(14,350)</u>	<u>212,036</u>	<u>226,386</u>
Fund Balance, July 1, 2011	<u>345,771</u>	<u>345,771</u>	<u>-</u>
Fund Balance, June 30, 2012	<u>\$331,421</u>	<u>\$557,807</u>	<u>\$226,386</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 were positive compared to the expected budget by approximately \$226,386. Significant budget versus actual variances are as follows.

Total Revenues

Total revenues were more than anticipated as the final grant income expected from the AB 303 grant was received during the year ending June 30, 2012. 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. Some of these cost savings have been set aside to be used on these projects in the next fiscal year as discussed in note 5.

Capital Outlay and Equipment

Capital outlay and equipment represents SGA's share in the cost of an office remodel as a leasehold improvement and office equipment as part of RWA's office lease renegotiation.

Program Expenses

Actual program expenses totaled \$17,195 and relate to the AB 303 grant program. This grant program was finalized in 2012.

Economic factors and assumptions for fiscal year June 30, 2013

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, 2013 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, 2013 budget include:

- 1) The groundwater fee is \$4.00 per acre-foot, based upon a running five year average of historical volume, calculated as 74,109 acre-feet. The groundwater fees pay approximately 63% 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 37% 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) For future year projections, the acre-feet extracted is budgeted to decrease from 74,109 in 2013 to an estimated 68,672 in fiscal year ending June 30, 2017. This assumption will require modification as members' plans and projects to pump water and the actual acre-feet extracted will be lower or higher. While the groundwater fee is based upon a per acre-foot charge, SGA's expenses do not decline with declining groundwater pumping.

Over time, the per acre groundwater fee will need to increase to pay for operational expenses.

- 4) Staff salaries include 50% of four full time positions and 30% of the project management assistant for a total of 2.3 FTEs for SGA.
- 5) Some general expenses are expected to increase 3%.
- 6) 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. SGA's share of planned expenditures for fiscal year June 30, 2013 is \$466,250.
- 7) SGA's planned expenditures are expected to exceed revenues by \$67,500 in the new fiscal year. The excess of expenses over fees will be paid for by SGA's operating fund.
- 8) The SGA consulting budget reflects \$85,000 in out-sourced support activities in FY13, which includes updating the groundwater management plan, monitoring water quality levels, maintaining the data management system, regional contamination, and groundwater modeling; and
- 9) The operating fund is targeted at approximately 7 months for FY13.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ending June 30, 2013.

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 Manager, 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, 2012 AND 2011

	June 30, 2012		June 30, 2011	
	Special Revenue Fund	Adjustments (Note 8)	Statement of Net Assets	Statement of Net Assets
ASSETS				
Cash and Investments	\$ 629,836	\$ -	\$ 629,836	\$ 440,599
Grants Receivable	-	-	-	101,118
Accounts Receivable	-	-	-	13,998
Interest Receivable	537	-	537	560
Prepaid Assets	3,145	-	3,145	3,053
Capital assets, net	-	19,661	19,661	7,105
Total assets	<u>\$ 633,518</u>	<u>19,661</u>	<u>653,179</u>	<u>566,433</u>
LIABILITIES				
Accounts Payable	\$ 2,795	-	2,795	61,316
Payable to Regional Water Authority	72,916	-	72,916	51,123
Total liabilities	<u>75,711</u>	<u>-</u>	<u>75,711</u>	<u>112,439</u>
FUND BALANCES				
Fund balances				
Non-spendable	3,145	(3,145)	-	-
Restricted	517,457	(517,457)	-	-
Committed	17,205	(17,205)	-	-
Assigned	20,000	(20,000)	-	-
Total fund balance	<u>557,807</u>	<u>(557,807)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 633,518</u>			
NET ASSETS				
Invested in capital assets		19,661	19,661	7,105
Restricted		<u>557,807</u>	<u>557,807</u>	<u>446,889</u>
Total net assets		<u>\$ 577,468</u>	<u>\$ 577,468</u>	<u>\$ 453,994</u>

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE /
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	June 30, 2012		June 30, 2011	
	Special Revenue Fund	Adjustments (Note 8)	Statement of Activities	Statement of Activities
REVENUES				
Program Revenue				
Assessment Income	\$ 524,927	\$ -	\$ 524,927	\$ 533,809
Grant Awards	138,809	(101,118)	37,691	166,645
Total Program Revenue	663,736	(101,118)	562,618	700,454
General Revenue - Interest and Other Income	2,421	(287)	2,134	3,246
Total Revenue	666,157	(101,405)	564,752	703,700
PROGRAM EXPENDITURES/EXPENSES				
Shared and Direct Expenses:				
Wages and Salaries	219,900	-	219,900	210,773
Employee Benefits	103,405	-	103,405	98,618
Travel and Training	7,177	-	7,177	6,663
Rent	10,204	-	10,204	12,484
Insurance	11,486	-	11,486	11,114
Depreciation and Amortization	-	4,404	4,404	3,347
Capital outlay and equipment	26,110	(17,247)	8,863	1,945
Telephone	4,382	-	4,382	4,199
Dues and Subscriptions	3,214	-	3,214	3,702
Printing, Supplies and Postage	9,756	-	9,756	8,373
Computer Maintenance	3,460	-	3,460	3,117
Audit and Banking	11,586	-	11,586	11,322
Legal	3,035	-	3,035	12,310
Consultants	23,211	-	23,211	50,907
	436,926	(12,843)	424,083	438,874
Project Expenses				
Consultants	17,195	-	17,195	194,189
	17,195	-	17,195	194,189
Total Program Expenditures/Expenses	454,121	(12,843)	441,278	633,063
EXCESS OF REVENUES OVER PROGRAM EXPENDITURES	212,036	(212,036)	-	-
CHANGE IN NET ASSETS	-	123,474	123,474	70,637
FUND BALANCES/NET ASSETS				
Beginning of the year	345,771	108,223	453,994	383,357
End of the year	\$ 557,807	\$ 19,661	\$ 577,468	\$ 453,994

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 water suppliers and representatives of self-supplied groundwater users and agricultural users. The representatives are appointed by the JPA signatories 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 8 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, 2012 AND 2011

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.

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, 2012 and 2011. 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, 2012 and 2011.

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. Eligible reimbursable costs of \$12,698 and \$185,133 have been incurred during fiscal years ending June 30, 2012 and 2011, 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 during the fiscal year to SGA. Until such time, the grant award revenues are reflected as a receivable and as deferred revenue. For the fiscal years ending June 30, 2012 and 2011, \$138,809 and \$92,177 of grant award revenues was received and recognized as revenue, respectively.

Deferred Revenue – The accounting treatment for deferred revenue depends on whether it is reported in the government-wide or fund financial statements. In the fund financial statements, grant awards earned but not yet available are recorded as deferred revenue under the modified accrual basis of accounting. SGA considers all revenues reported in the fund special revenue fund to be available if the revenues are collected within 90 days after year-end.

During the year ending June 30, 2011, SGA incurred eligible grant expenses of \$101,118 and had not yet received the reimbursement award. As the funds became available to SGA, then the related revenue was recognized in the fund financial statements during the year ending June 30, 2012. In the government wide financial statements, the reimbursable grant awards are recognized as revenue when earned. In the 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.

Related party – 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.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the fiscal years ending June 30, 2012 and 2011, SGA shared 50% of all common joint office costs including administrative staff and the executive director. SGA incurred common cost expenses of \$415,391 and \$385,613 for 2012 and 2011, respectively. For the years ending June 30, 2012 and 2011, SGA owes RWA \$72,916 and \$51,123, respectively. During the year ending June 30, 2012, RWA incurred leasehold improvements and office equipment expenses for an office remodel which are shared 50/50 with SGA. The shared cost for this office remodel was \$19,148. These costs are being amortized over the life of the lease as an offset to rent expense. The remaining unamortized balance at June 30, 2012 is \$16,868 which is included as part of the amounts due to RWA of \$72,916.

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 which 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 by 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 committed, assigned or 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.

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.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 asset acquisitions are reported as capital outlay expenditures. Depreciation is not provided for in the fund financial statement.

Budget – SGA’s governing board must approve a budget within 90 days of July 1st 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.

Reclassifications – Certain amounts in the financial statements for the year ended June 30, 2011 have been reclassified to conform to the presentation in the financial statements for the year ended June 30, 2012. In the Statement of Net Assets, all of net assets not allocated to capital have been reclassified as restricted since SGA’s fee revenues are restricted for the specific purpose of managing the Sacramento Groundwater Basin under a joint powers agreement with the members. Such reclassifications had no effect on total net assets at June 30, 2011 or loss in net assets for the year then ended.

NOTE 2 – CASH AND INVESTMENTS

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Deposits with financial institutions	\$ 25,654	\$ 8,748
Investments in LAIF	<u>604,182</u>	<u>431,851</u>
Total cash and investments	<u>\$ 629,836</u>	<u>\$ 440,599</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.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012, the average maturity of the investments contained in the LAIF investment pool was approximately 268 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. SGA has 96% of its cash invested in LAIF.

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 which 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, 2012 and 2011, SGA's bank balances were \$25,654 and \$9,293, respectively. 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-rata 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. The

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

total fair value of all public agencies invested in LAIF at June 30, 2012 and 2011 was \$60,588,253,603 and \$60,489,270,508, respectively.

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets, consisting of furniture, equipment and leasehold improvements in excess of \$500 per unit through May 17, 2012, and in excess of \$2,500 per unit after May 17, 2012, 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. Leasehold improvements are amortized over the remaining life of the lease.

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	31,760	2,461	(663)	33,558
Leasehold Improvements	3,165	14,786	-	17,951
Total	49,684	17,247	(663)	66,268
Less accumulated depreciation	(42,579)	(4,404)	376	(46,607)
Fixed Assets, Net	\$ 7,105	\$ 12,843	\$ (287)	\$ 19,661

	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	53,398	2,370	(6,084)	49,684
Less accumulated depreciation	(45,316)	(3,347)	6,084	(42,579)
Fixed Assets, Net	\$ 8,082	\$ (977)	\$ -	\$ 7,105

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 – SPECIAL REVENUE FUND BALANCE

During the fiscal year ending June 30, the Board of Directors approved fund balances as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Non-spendable - prepaid assets	\$ 3,145	\$ 3,053
Restricted	517,457	328,318
Committed		
Grant application assistance	17,205	-
AB 303 grant	-	14,400
Assigned		
Chromium 6 Pilot study	<u>20,000</u>	<u>-</u>
 Total Fund Balance	 <u>\$ 557,807</u>	 <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.

SGA entered into a contractual commitment for consulting services to assist with a grant application for up to \$20,000 and incurred \$2,795 of expenses as of June 30, 2012. The Board approved funding these costs with unused budgeted funds from fiscal year 2012. 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. The committed fund balance for the year ending June 30, 2011 represents the remaining consulting contract balance for services related to the water contamination study.

At the June 14, 2012 Board meeting, the board approved assigning unused budgeted funds of \$20,000 from the fiscal year 2012 to be spent in fiscal year 2013 for a chromium 6 pilot study.

Annually, the Board approves an operating stabilization amount during the budget process, designed to be used for working capital needs, budget contingencies, and partnership grant opportunities. This operating stabilization balance does not meet the definition of a committed or restricted fund balance. See note 5 for additional information regarding this operating stabilization balance.

NOTE 5 – STATEMENT OF NET ASSETS – RESTRICTIONS AND DESIGNATIONS

Since SGA’s fee revenues are restricted for the specific purpose of managing the Sacramento Groundwater Basin under the joint powers agreement, any net assets not previously allocated to non-spendable, committed or assigned are considered restricted. These restricted net assets are to

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 – STATEMENT OF NET ASSETS – RESTRICTIONS AND DESIGNATIONS (CONTINUED)

be used for the purpose of managing the groundwater basin. For the years ending June 30, the restricted net assets are as follows :

	2012	2011
Restricted Net Assets	<u>\$ 557,807</u>	<u>\$ 446,889</u>

On an annual basis, the SGA Board approves an operating stabilization balance during the budget process and follows policy Financial Commitment and Assignment Fund Policy No. 400.2. The target operating fund balance is four to six months of operating expenses. The operating 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 and reflects six months of operating expenses. 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.

During the fiscal year ending June 30, the Board of Directors approved designations as follows:

	2012	2011
Designations		
Operating Fund	<u>\$ 247,400</u>	<u>\$ 172,400</u>
Total Designations	<u>\$ 247,400</u>	<u>\$ 172,400</u>

NOTE 6 – RETIREMENT COMMITMENTS

RWA, which manages SGA, contracts with CalPERS administration of the pension plan for the employees shared by these entities. SGA does not contract directly with CalPERS for its retirement program. 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. See footnotes in the RWA financial statements for further PERS disclosures available from the Finance and Administrative Services Manager, Regional Water Authority, 5620 Birdcage Street, Suite 180, Citrus Heights, CA 95610.

NOTE 7 – 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 postemployment benefits other than pensions (“OPEB”). RWA uses an actuary to calculate the annual required contributions. As of June 30, 2012 and 2011, SGA has paid these pro-rated calculated expenses to RWA. These allocations

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

are based upon actual staffing ratios between the two authorities. See footnotes in the RWA financial statements for further OPEB disclosures.

NOTE 8 – RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

The governmental fund balance sheet for June 30, 2012 is converted to the statement of net assets by recording capital assets of \$19,661 net of accumulated depreciation.

For the year ending June 30, 2012, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation and amortization expense of \$4,404, decreasing capital outlay expense by \$17,247 to reflect recording those amounts as capital assets, and to recognize a \$287 loss from a disposition of an asset. Grant awards income in the revenue fund is reduced by \$101,118 in the statement of activities since this income was previously recognized in the statement of activities when earned for the year ending June 30, 2011.

NOTE 9 – INSURANCE

SGA participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general liability, public officials' liability, property damage, and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level.

SGA pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate ACWA/JPIA. SGA's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability	\$2,000,000	\$ 58,000,000	None
Public Officials Liability	2,000,000	58,000,000	None
Property Damage	50,000	100,000,000	\$1,000 - \$25,000
Fidelity Insurance	100,000	-	\$1,000

Claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10 – CONTINGENCIES

SGA participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that SGA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 and 2011 may be impaired. In the opinion of SGA's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies

SGA was authorized to enter into an agreement with the City of Davis to help fund up to \$20,000 of a Chromium 6 Pilot Study using unspent fiscal year 2012 budget funds. The agreement with Davis will be executed in fiscal year 2013. Additionally, SGA set aside \$20,000 to fund consultant assistance on a grant application to the California Department of Water Resources' Local Groundwater Assistance Grant Program to better understand the occurrence of tetrachloroethylene (PCE) contamination in a number of public supply wells in northern Sacramento County.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO GROUNDWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual Amounts	Variance with Budget Positive (Negative)
REVENUES			
Program Revenues			
Assessment Income	\$ 524,900	\$ 524,927	\$ 27
Grant Awards	-	138,809	138,809
Total Program Revenues	524,900	663,736	138,836
General Revenue - Interest and Other Income	1,800	2,421	621
Total Revenues	526,700	666,157	139,457
PROGRAM EXPENDITURES			
Wages and Salaries	225,200	219,900	5,300
Employee Taxes and Benefits	116,200	103,405	12,795
Travel and Training	10,000	6,434	3,566
Rent	16,000	10,204	5,796
Insurance	11,500	11,486	14
Telephone	4,350	4,382	(32)
Dues and Subscriptions	3,300	3,214	86
Printing and Supplies	10,750	8,353	2,397
Postage	1,350	1,403	(53)
Computer Maintenance	4,150	3,460	690
Meetings	2,000	743	1,257
Audit	10,700	10,678	22
Legal Counsel Expense - General	25,000	3,035	21,965
Payroll and Banking Services	1,550	908	642
Capital Outlay and Equipment	6,500	26,110	(19,610)
Consulting Expenses - General Support Services	27,500	23,211	4,289
Consulting Expenses - Program Management	65,000	-	65,000
Consulting Expenses - AB 303 Grant	-	17,195	(17,195)
Total Expenditures	541,050	454,121	86,929
(DEFICIENCY) EXCESS REVENUE OVER PROGRAM EXPENDITURES	(14,350)	212,036	226,386
Fund Balance, July 1, 2011	345,771	345,771	-
Fund Balance, June 30, 2012	\$ 331,421	\$ 557,807	\$ 226,386

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

	Original and Final Budget	Actual Amounts	Variance with Budget Positive (Negative)
REVENUES			
Program Revenues			
Assessment Income	\$ 533,200	\$ 533,809	\$ 609
Grant Awards	160,000	92,177	(67,823)
Total Program Revenues	693,200	625,986	(67,214)
General Revenues - Interest and Other Income	2,400	3,247	847
Total Revenues	695,600	629,233	(66,367)
PROGRAM EXPENDITURES			
Wages and Salaries	223,920	210,775	13,145
Employee Taxes and Benefits	109,450	98,618	10,832
Travel and Training	10,000	6,092	3,908
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	4,314	(814)
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	714,520	632,087	82,433
DEFICIENCY OF REVENUE OVER PROGRAM EXPENDITURES	(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

OTHER REPORT

INDEPENDENT AUDITOR'S 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
Sacramento, California

We have audited the basic financial statements of the Sacramento Groundwater Authority (the Authority) as of and for the years ended June 30, 2012 and have issued our report thereon dated November 28, 2012. 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

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

To the Board of Directors
Sacramento Groundwater Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

November 28, 2012