

SACRAMENTO GROUNDWATER AUTHORITY

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

June 30, 2010 and 2009

CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1 – 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 – 11
FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet/Statement of Net Assets	12
Statements of Revenues, Expenditures/Expenses and Changes in Fund Balance/ Statements of Activities	13
Notes to financial statements	14 – 20
REQUIRED SUPPLEMENTARY INFORMATION	
Statements of Revenues, Expenditures and Changes in Fund Balance - budget to actual	22 – 23
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 <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 basic financial statements of the Sacramento Groundwater Authority as of and for the years ended June 30, 2010 and 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sacramento Groundwater Authority as of June 30, 2010 and 2009 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, 2010, on our consideration of Sacramento Groundwater Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and budgetary comparisons on pages 22 through 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cook CPA Group

Roseville, California
December 2, 2010

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, 2010 and 2009. 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. The accounts of SGA are organized on the basis of fund accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The basic financial statements include governmental fund balance sheet/statement of net assets and the statement of revenues, expenditures, and changes in fund balance/statement of activities. Additionally, the statement of revenues, expenditures, and changes in fund balance – budget and actual is included as required supplementary information on pages 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 to comply with Governmental Accounting Standards Board Statement 34 balance sheet format with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether SGA’s financial position is improving or deteriorating.

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

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

The financial statements can be found on pages 12 to 13.

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:

	<u>2010</u>	<u>2009</u>
Current Assets	\$600,834	\$458,083
Capital Assets	<u>8,082</u>	<u>11,105</u>
Total Assets	<u>\$608,916</u>	<u>\$469,188</u>
Liabilities	\$225,559	\$211,061
Net Assets:		
Invested in capital assets	8,082	11,105
Unrestricted	<u>375,275</u>	<u>247,022</u>
Total net assets	<u>\$ 383,357</u>	<u>\$ 258,127</u>

Current Assets

Current assets consisted of cash and cash equivalents, accounts receivable, interest receivable and other assets. Current assets increased approximately \$142,751 from the previous year. A significant portion of the increase is largely due to an increase in cash of \$148,490. The increase is due to program management consulting costs that went unspent as well as careful cost management of expenses. Additionally, the Department of Water Resources did not release an expected grant application and therefore no funds were spent on regional contamination issues or water quality monitoring in this fiscal year. The SGA Board authorized \$40,000 of these unspent funds for a designation into fiscal year 2011 for updating and maintaining SGA’s groundwater database and preparation of a biennial Basin Management Report.

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 \$225,559 that are due within one year have increased approximately \$14,500 from the previous year and include amounts due to vendors, a payable to the RWA, and unearned revenue. A significant portion of current liabilities is reflected in unearned revenue of \$156,418 related to membership fees received in advance of the new fiscal year 2011. The

current liabilities also include \$44,600 due to the Regional Water Authority (RWA), a related party, for administrative service costs. See Note 1 for additional information regarding this related party relationship.

Net Assets Invested in Capital Assets

Investment in capital assets net of accumulated depreciation totaled \$8,082 and decreased a net \$3,023 over the prior year due to \$4,142 annual depreciation which was partially offset by \$1,119 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 2010, approximately \$177,200 of unrestricted net assets has been designated as an operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See Note 4 of Notes to Basic Financial Statements for the detail and types of designations.

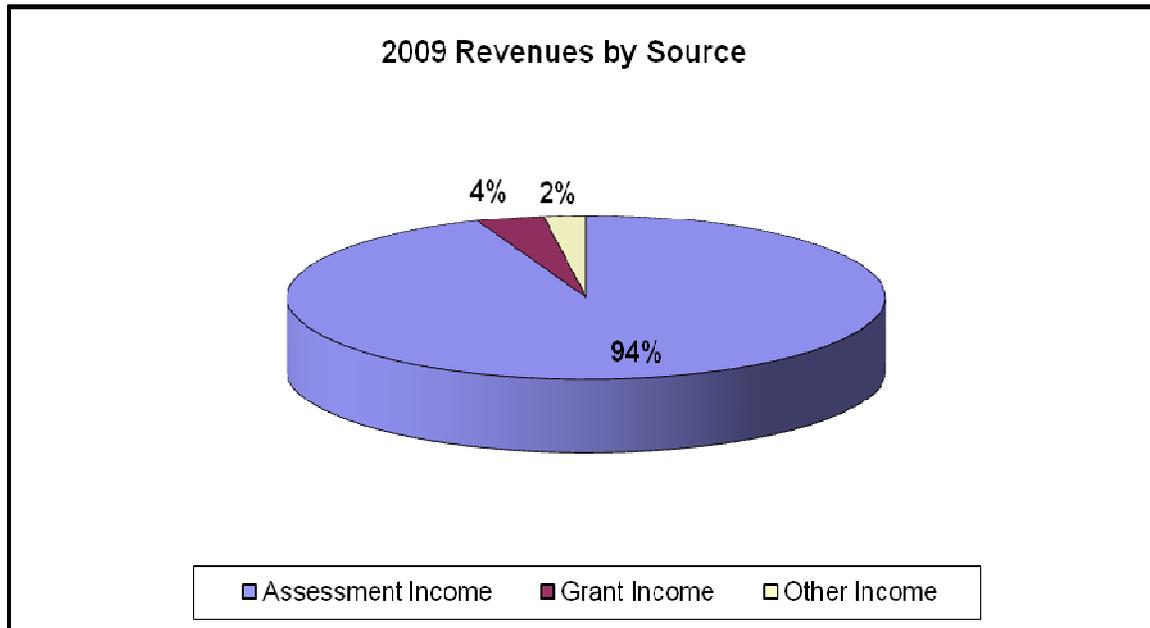
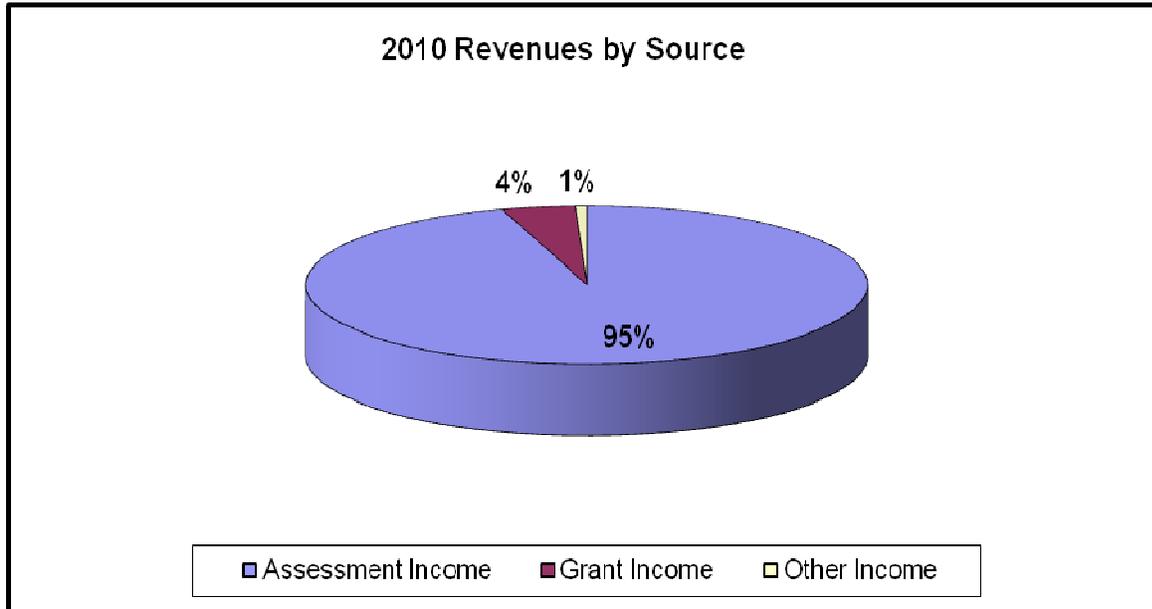
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

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

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Assessment Income	\$ 546,694	\$ 541,139
Grant Awards	<u>24,545</u>	<u>21,050</u>
Total Operating Revenues	571,239	562,189
Non-operating income	<u>3,733</u>	<u>13,251</u>
Total revenues	<u>574,972</u>	<u>575,440</u>
Operating Expenses:		
Shared and direct expenditures	420,102	647,413
Project Expenses	<u>29,640</u>	<u>21,050</u>
Total Operating Expenses	<u>449,742</u>	<u>668,463</u>
Increase (Decrease) in Net Assets	125,230	(93,023)
Net Assets July 1	<u>258,127</u>	<u>351,150</u>
Net Assets June 30	<u>\$ 383,357</u>	<u>\$ 258,127</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 \$546,694 or \$5,555 higher 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 2010, the groundwater fee was \$4.00 per acre foot, based upon a running five year average of historical volume, which was calculated as 83,037 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.

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. SGA did complete qualifying costs on this grant as of June 30, 2010 for \$29,640 and as such, grant revenue of \$24,545 is reflected for these related costs.

Non-operating revenue

Non-operating revenue of \$3,733 represents interest income and reflects a decrease of \$9,518 largely due to lower interest earnings from declining interest rates.

Operating expenses

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

Analytical Review of Shared and Direct Expenditures

Operating expenses totaled \$420,102 and are \$227,311 lower than the previous year's expenses of \$647,413. The decrease was mainly due to SGA paying a one-time payment of \$183,654 to RWA in the previous fiscal year related to costs of post-employment benefits "(OPEB)" earned in previous years by current and retired employees¹ which are expected to be paid in the future². SGA used operating fund designations in fiscal year 2009 to fund the OPEB payment to RWA. Additionally, as previously mentioned, SGA did not spend approximately \$40,000 for the Groundwater Management Plan which is being set aside in a designation for the next fiscal year.

Analytical Review of Project Expenses

Project expenses totaled \$29,640 and are \$8,590 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.

¹ Even though SGA is not the employer of the shared staff, SGA does have an obligation to RWA for these OPEB costs as part of the related benefit costs under the Administrative Services Agreement.

² OPEB costs for prior service for current and retired employees are technically referred to as the actuarial accrued liability.

Capital Assets

Capital asset investment includes office furniture, office and field equipment and leasehold improvements as of June 30, 2010 and amounts to \$8,082 net of accumulated depreciation. During fiscal year 2010, SGA purchased \$1,119 of equipment. Except for field equipment related specifically to SGA, capital asset acquisitions are co-owned with RWA and each authority pays 50% of the acquisition cost.

	<u>2010</u>	<u>2009</u>
Furniture	\$14,759	\$14,759
Equipment	35,474	42,095
Leasehold Improvements	<u>3,165</u>	<u>3,165</u>
Gross Capital Assets	53,398	60,019
Less accumulated depreciation and amortization	<u>(45,316)</u>	<u>(48,914)</u>
Capital Assets, net	<u>\$8,082</u>	<u>\$11,105</u>

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, 2010, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Assessment Income	\$546,600	\$546,694	\$ 94
Grant Income	250,000	18,945	(231,055)
Interest and Other Income	<u>5,000</u>	<u>3,733</u>	<u>(1,267)</u>
Total Revenues	801,600	569,372	(232,228)
Expenditures			
Staff Expenses	330,100	317,653	12,447
Office Expenses	50,850	44,689	6,161
Professional Fees	171,250	53,618	117,632
Capital Outlay and Equipment	2,500	1,119	1,381
Program Expenses	<u>225,000</u>	<u>29,640</u>	<u>195,360</u>
Total Expenditures	779,700	446,719	332,981
Excess of Expenditures over Revenue	<u>21,900</u>	<u>122,653</u>	<u>100,753</u>
Fund Balance, July 1, 2009	<u>225,972</u>	<u>225,972</u>	-
Fund Balance, June 30, 2010	<u>\$247,872</u>	<u>\$348,625</u>	<u>\$100,753</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 significantly positive compared to the expected budget by approximately \$100,753. Significant budget versus actual variances are as follows.

Total Revenues

Total revenues were less than anticipated since the grant income expected from the AB 303 grant was frozen due to the State of California's budget deficit which affected DWR. Given the state budget deficit, receipt of remaining funds for the \$250,000 AB 303 grant award from the DWR has been delayed into fiscal year 2011. Under the modified accrual basis of accounting for special revenue funds, these grant revenues will only be recognized once available to 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 came in lower than budgeted due to careful cost management and were approximately \$6,000 lower than budgeted.

Professional Fees

Overall consulting fees came in lower than budgeted due to not embarking on some planned projects. Some of these projects included grant application assistance, monitoring water quality/levels, and regional contamination issues. A portion of these savings related to the Groundwater Management plan has been designated for spending in the next fiscal year.

Capital Outlay and Equipment

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

Program Expenses

Program expenses were budgeted at \$225,000 with actual expenses totaling \$29,640 and relate to the AB 303 grant program. The timing of program expenses can be difficult to predict. This grant program was delayed due to the California state budget crisis. The reimbursement of these grant expenses by the grant award are expected in by the end of fiscal year 2011.

Economic factors and assumptions for fiscal year June 30, 2011

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, 2011 budget, there was an overall one percent fee increase. Each member's specific fee change depends upon the changes in their water connections and groundwater pumping from the previous year.

This fiscal year 2011 budget had anticipated the fiscal year 2010 revised revenues would exceed expenditures by \$30,100. However, actual results were better than 2010 fiscal year estimates and resulted in expenditures exceeding revenues by approximately \$125,000 or an improvement of revised estimates by approximately \$94,900. Nevertheless, the budget was adopted well before the end of the year. As part of the annual budget process, any positive or negative budget affects from the prior year will be considered in the development of the fiscal year 2012 budget.

Major budget assumptions used in adopting the June 30, 2011 budget include:

- 1) The groundwater fee is \$4.00 per acre-foot, representing less than 1% increase in total groundwater fees, based upon a running five year average of historical volume, calculated as 80,562 acre-feet. The groundwater fees pay approximately 57% towards the overall budget.
- 2) The minimum base administrative fee is set at \$6,740 plus 85 cents per connection for connections over 6,000, also representing a 2% increase in total base administrative fees 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) SGA's program budget reflects anticipated grant revenues of \$160,000 and related expenses in the amount of \$150,000 to evaluate the potential threats to groundwater sustainability resulting from contamination. The Department of Water Resources (grantor) pays in arrears, which causes a time lag between the payment of expenses and receipt of income.
- 4) For future year projections, the acre-feet extracted is budgeted to increase slightly from 80,562 in 2011 to an estimated 80,652 in fiscal year ending June 30, 2015. This assumption will likely require modification as members' plans and projects to pump water and the actual acre-feet extracted will be lower or higher.
- 5) Staffing expenses are budgeted at a 4% increase, representing both the cost of living and possible merit adjustments, at the discretion of the Executive Director. This percentage is lower than years prior, in which a 6% increase was budgeted.
- 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, resulting in 2 full time equivalents (FTEs) dedicated for SGA administration. SGA's share of planned expenditures for fiscal year June 30, 2011 is \$448,020.
- 8) SGA's planned expenditures are expected to exceed revenues by \$18,920 in the new fiscal year.
- 9) The SGA consulting budget reflects \$91,500 in out-sourced support activities in FY11, which includes updating the groundwater management plan, grant application assistance, maintaining the data management system, regional contamination, monitoring water quality levels, and banking and exchange; and
- 10) The operating fund is targeted at five months for FY11.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ending June 30, 2011.

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, 2010 AND 2009

	June 30, 2010		June 30, 2009	
	Special Revenue Fund	Adjustments (Note 7)	Statement of Net Assets	Statement of Net Assets
ASSETS				
Cash and Investments	\$ 570,333	\$ -	\$ 570,333	\$ 421,843
Grants Receivable	26,650	-	26,650	21,050
Accounts Receivable	-	-	-	9,366
Due from Regional Water Authority	50	-	50	1,572
Interest Receivable	658	-	658	1,639
Other Assets	3,143	-	3,143	2,613
Capital assets, net	-	8,082	8,082	11,105
Total assets	<u>\$ 600,834</u>	<u>\$ 8,082</u>	<u>\$ 608,916</u>	<u>\$ 469,188</u>
LIABILITIES				
Accounts Payable	\$ 24,541	\$ -	\$ 24,541	\$ 2,723
Payable to Regional Water Authority	44,600	-	44,600	43,991
Unearned Revenue	183,068	(26,650)	156,418	164,347
Deferred Rent	-	-	-	-
Total liabilities	<u>252,209</u>	<u>(26,650)</u>	<u>225,559</u>	<u>211,061</u>
FUND BALANCES				
Fund balances				
Designated	177,200	(177,200)	-	-
Unreserved	171,425	(171,425)	-	-
Total fund balance	<u>348,625</u>	<u>(348,625)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 600,834</u>			
NET ASSETS				
Invested in capital assets		8,082	8,082	11,105
Unrestricted		375,275	375,275	247,022
Total net assets		<u>\$ 383,357</u>	<u>\$ 383,357</u>	<u>\$ 258,127</u>

SACRAMENTO GROUNDWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE/
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010		June 30, 2009	
	Special Revenue Fund	Adjustments (Note 7)	Statement of Activities	Statement of Activities
REVENUES				
Assessment Income	\$ 546,694	\$ -	\$ 546,694	\$ 541,139
Grant Awards	18,945	5,600	24,545	21,050
Interest and Other Income	3,733	-	3,733	13,251
Total revenue	\$ 569,372	\$ 5,600	\$ 574,972	\$ 575,440
EXPENDITURES/EXPENSES				
Shared and Direct Expenses:				
Wages and Salaries	206,982	-	206,982	205,301
Employee Benefits	89,697	-	89,697	93,344
Travel and Training	6,847	-	6,847	9,082
Other Post Employment Benefits	14,819	-	14,819	183,654
Rent	13,630	-	13,630	12,963
Insurance	10,480	-	10,480	9,585
Depreciation and Amortization	-	4,142	4,142	5,321
Capital outlay and equipment	1,119	(1,119)	-	-
Telephone	4,101	-	4,101	3,899
Dues and Subscriptions	2,763	-	2,763	2,492
Printing, Supplies and Postage	8,911	-	8,911	10,539
Computer Maintenance	4,112	-	4,112	4,111
Audit and Banking	10,830	-	10,830	10,297
Legal	16,640	-	16,640	17,446
Consultants	26,148	-	26,148	79,379
	417,079	3,023	420,102	647,413
Project Expenses				
Consultants	29,640	-	29,640	21,050
	29,640	-	29,640	21,050
Total expenditures/expenses	446,719	3,023	449,742	668,463
EXCESS OF REVENUES OVER EXPENSES	122,653	122,653		
EXCESS OF EXPENDITURES OVER REVENUES	-	2,577		
CHANGE IN NET ASSETS	-	125,230	125,230	(93,023)
FUND BALANCES/NET ASSETS				
Beginning of the year	225,972	32,155	258,127	351,150
End of the year	\$ 348,625	\$ 34,732	\$ 383,357	\$ 258,127

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SGA is governed by a board comprised of a representative from each of the 14 member agencies and representatives of self-supplied groundwater users and agricultural users. The representatives are appointed by the member agencies and serve four-year terms.

Types of funds – SGA accounts for its financial position and results of operations in accordance with generally accepted accounting principles to governmental units. Accordingly, SGA uses governmental funds. SGA 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 the adjustment column.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 and \$3.85 per acre foot for the years ending June 30, 2010 and 2009, respectively. The base administrative fee was calculated based upon the number of connections and was set at a minimum of \$6,740 and \$6,690 for the first 6,000 connections and then \$.85 cents and \$.84 cents per connection for each connection after 6,000 for the years ending June 30, 2010 and 2009, respectively.

The accounting treatment for grant award revenue depends on whether it is reported in the government-wide or fund financial statements. In the year ended June 30, 2008, SGA was awarded a state grant in the amount of \$250,000 from the California Department of Water Resources (DWR) to evaluate the potential threats to groundwater sustainability resulting from contamination. Reimbursable costs of \$29,640 and \$21,050 have been incurred during fiscal years ending June 30, 2010 and 2009, 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 year ending June 30, 2010, \$18,945 of grant award revenues was received.

Unearned Revenue – The accounting treatment for unearned revenue depends on whether it is reported in the government-wide or fund financial statements. In both the fund financial statements and government-wide statements, annual membership assessment fees received in advance of the next fiscal year are recognized as a liability and classified as unearned revenue. For the years ending June 30, 2010 and 2009, these unearned revenues amounted to \$156,418 and \$164,347, respectively.

In the fund financial statements, grant awards earned but not yet available are recognized as unearned revenue under the modified accrual basis of accounting. SGA incurred eligible reimbursable grant expenses but had not yet received the award during the year ending June 30, 2010. 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 revenues are recognized as earned.

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 year ending June 30, 2010, SGA shared 50% of all common joint office costs including administrative staff and the executive director. SGA reimbursed RWA for these expenses of \$385,257 and \$565,969 for 2010 and 2009, respectively.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 outlay expenditures include both acquisitions and repairs and maintenance expenditures. Depreciation is not provided for in the fund financial statement.

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

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

NOTE 2 – CASH AND INVESTMENTS

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Deposits with financial institutions	\$ 6,574	\$ 182,550
Investments in LAIF	<u>563,759</u>	<u>239,293</u>
Total cash and investments	<u>\$ 570,333</u>	<u>\$ 421,843</u>

Investments Authorized by SGA’s Investment Policy

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment’s sensitivity to the changes in market interest rates increases as the length of maturity increases. At June 30, 2010, the average maturity of the investments contained in the LAIF investment pool was approximately 203 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.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

At June 30, 2010 and 2009, SGA's bank balances were \$6,574 and \$182,550, 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 99.78% of fair value.

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.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 – PROPERTY AND EQUIPMENT (CONTINUED)

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

	Balance			Balance
	June 30, 2009	Increases	Decreases	June 30, 2010
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	42,095	1,119	(7,740)	35,474
Leasehold Improvements	3,165	-	-	3,165
Total	<u>60,019</u>	<u>1,119</u>	<u>(7,740)</u>	<u>53,398</u>
Less accumulated depreciation	<u>(48,914)</u>	<u>(4,142)</u>	<u>7,740</u>	<u>(45,316)</u>
Fixed Assets, Net	<u>\$ 11,105</u>	<u>\$ (3,023)</u>	<u>-</u>	<u>\$ 8,082</u>

NOTE 4 – BOARD DESIGNATED RESERVE

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

	2010	2009
Operating Reserve	\$ 177,200	\$ 163,495
Water Accounting Framework	-	35,000
Groundwater Management Plan	<u>40,000</u>	<u>-</u>
Total Board Designations	<u>\$ 217,200</u>	<u>\$ 198,495</u>

The operating reserve target balance is approved by the Board on an annual basis during the budget process and follows policy Financial Designation/Reserve Policy No. 400.2. The June 30, 2010 and 2009 revised operating reserve designation was approved at the June 10, 2010 and April 9, 2009 Board Meetings, respectively. At the August 12, 2010 Board meeting, the board approved designating unused budgeted funds of \$40,000 from the fiscal year 2010 to be spent in the year ending June 30, 2011 for updating and maintaining SGA's groundwater database and preparation of a biennial Basin Management Report. In fiscal year 2009, the Board designated unused budgeted funds for groundwater modeling costs related to the water accounting framework. These funds were not used as SGA was able to complete the modeling exercise using the Prop 50 planning grant that was awarded to RWA. These June 30, 2009 funds became undesignated in the annual budget adopted June 10, 2010.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 – RETIREMENT COMMITMENTS

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

NOTE 6 – OTHER POST EMPLOYMENT BENEFITS

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

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

On a go-forward basis, the ARC normal costs will be paid each year. For the year ending June 30, 2010, SGA paid \$14,818 for the normal costs.

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

The governmental fund balance sheet for June 30, 2010 is converted to the statement of net assets by recording capital assets of \$8,082 net of accumulated depreciation and by recognizing unearned revenue of \$26,650 as earned revenue, thereby reducing the liability.

For the year ending June 30, 2010, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation and amortization expense of \$4,142 and decreasing capital outlay expense by \$1,119 to reflect recording those amounts as capital assets. An additional \$5,600 in grant awards income is recognized in the statement of activities to reflect the total earned grant awards of \$24,545.

SACRAMENTO GROUNDWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 and will seek reimbursement for this activity using this grant award. The grant should be completed in fiscal year 2011.

REQUIRED SUPPLEMENTARY INFORMATION

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)
REVENUES			
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)
EXPENDITURES			
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
EXCESS OF REVENUE OVER EXPENDITURES	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

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

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

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, 2010, and have issued our report thereon dated December 2, 2010. 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, 2010