

SACRAMENTO GROUNDWATER AUTHORITY
REGULAR MEETING OF THE BOARD OF DIRECTORS
Thursday, December 13, 2018; 9:00 a.m.

5620 Birdcage Street, Suite 110
Citrus Heights, CA 95610
(916) 967-7692

Agenda

The Board will discuss all items on this agenda, and may take action on any of those items, including information items and continued items. The Board may also discuss other items that do not appear on this agenda, but will not act on those items unless action is urgent, and a resolution is passed by a two-thirds (2/3) vote declaring that the need for action arose after posting of this agenda.

The public shall have the opportunity to directly address the Board on any item of interest before or during the Board's consideration of that item. Public comment on items within the jurisdiction of the Board is welcomed, subject to reasonable time limitations for each speaker. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the Authority's Administrative Office at the address listed above. In compliance with the Americans with Disabilities Act, if you have a disability and need a disability-related modification or accommodation to participate in this meeting, please contact the Executive Director of the Authority at (916) 967-7692. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

1. CALL TO ORDER AND ROLL CALL

2. PUBLIC COMMENT: Members of the public who wish to address the Board may do so at this time. Please keep your comments to less than three minutes.

3. CONSENT CALENDAR

Minutes of October 18, 2018 meeting

Action: Approve October 18, 2018 meeting minutes

4. 2018 AUDIT REPORT

Information Presentation: Peggy Vande Vooren, Gilbert Associates, Inc.

Action: Accept 2018 Financial Audit report

5. ELECTION OF 2019 SGA OFFICERS

Information Update: SGA Nominating Committee update and recommendations

Action: Elect 2019 SGA Chair and Vice Chair

6. SUSTAINABLE GROUNDWATER MANAGEMENT ACT (SGMA) UPDATE

Information Update: John Woodling, Executive Director

7. GROUNDWATER MANAGEMENT PROGRAM UPDATE

Information Update: Rob Swartz, Manager of Technical Services

8. EXECUTIVE DIRECTOR'S REPORT

9. DIRECTORS' COMMENTS

ADJOURNMENT

Next SGA Board of Director's Meeting – February 14, 2019, 9:00 a.m., RWA/SGA office, 5620 Birdcage Street, Ste. 110, Citrus Heights.

Notification will be emailed when the SGA electronic packet is complete and posted on the SGA website at <http://www.sgah2o.org/meetings/board-meetings/>.

Sacramento Groundwater Authority Board Meeting
December 13, 2018

AGENDA ITEM 3: CONSENT CALENDAR

STAFF RECOMMENDATION:

Action: Approve October 18, 2018 meeting minutes



1. CALL TO ORDER

Chair Foster called the meeting of the Board of Directors to order at 10:00 a.m. at the Regional Water Authority/Sacramento Groundwater Authority office. Individuals in attendance are listed below:

Board Members

S. Audie Foster, California American Water
George "Roy" Leidy, Carmichael Water District
Caryl Sheehan, Citrus Heights Water District
Marcus Yasutake, City of Folsom
Noelle Mattock, City of Sacramento
Linda Dorn, County of Sacramento
Robert Matteoli, Del Paso Manor Water District
Paul Schubert, Golden State Water Company
Brett Gray, Natomas Central Mutual Company
John Wingerter, Orange Vale Water Company
Paul Green, Rio Linda/Elverta Community Water District
Pam Tobin, San Juan Water District

Staff Members

John Woodling, Rob Swartz, Nancy Marrier, Cecilia Partridge and Chris Sanders, legal counsel

Others in Attendance

Alan Driscoll, Debra Sedwick, Roger Kohne, Greg Zlotnick, Dave Jones Dan York, Alan Vail, Richard Shatz, Tom Gray, David Wheaton, Al Dains, Hilary Strauss, Chelsea Spier, Kristene Tidwell, Joe Duran, Ron Greenwood, Jim Graydon and N.C. Doyel.

2. PUBLIC COMMENT

None.

3. CONSENT CALENDAR

The minutes of the August 9, 2018 meeting

Motion/Second/Carried (M/S/C) Ms. Tobin moved, with a second by Mr. Schubert, to approve the August 9, 2018 SGA Board minutes. The motion carried by the unanimous voice vote of all directors present.

4. CHECK SIGNING AUTHORITY POLICY 400.5

John Woodling, Executive Director, said that SGA has been following the same guidelines as RWA for check signing where the Manager of Technical Services and the Finance Manager could sign checks in the absence of the Executive Director. Policy 400.5 "Check Signing Authority Policy" addresses the procedures to be followed with regards to signing checks for SGA.

It was noted on page two of the Check Signing Authority Policy under paragraph F, line 5 a common should be added after "Executive Director". It was also noted that there were two paragraphs noted as E.

M/S/C Mr. Schubert moved, with a second by Ms. Tobin, to approve the Check Signing Authority Policy 400.5 with the suggested changes. The motion carried by the unanimous voice vote of all directors present.

5. GROUNDWATER MANAGEMENT PROGRAM UPDATE

Rob Swartz, Manager of Technical Services, provided an update on activities relevant to the groundwater management program including groundwater elevations in the basin, groundwater substitution transfers occurring in the basin this year and some highlights on the Sustainable Groundwater Management Act (SGMA). There were four different surface water rights that were being transferred from San Juan Water District, Carmichael Water District and the City of Sacramento that were working with a total of five agencies extracting groundwater to make surface water available for the groundwater substitution transfer. The final results are that just over 10,000 acre feet of water were made available for transfer. Typically those five agencies would extract about 7,000 acre feet during the actual transfer time where they extracted a little over 17,000 acre feet. Staff will continue monitoring monthly until water levels recover to their pre-transfer elevations.

6. SUSTAINABLE GROUNDWATER MANAGEMENT ACT (SGMA) UPDATE

John Woodling reported that staff continues to track all aspects of the regulatory implementation of SGMA. DWR recently conducted a survey to determine the need for and the scope of a guidance document relating to the coverage of water quality by Groundwater Sustainability Agencies (GSAs) under SGMA. DWR plans to release the final basin priority modification in November 2018. This is not expected to affect the North American Subbasin, which will remain a high-priority subbasin. Proposition 68, which passed on the June ballot will have approximately \$50 million to support the development of groundwater sustainability plans (GSP) and \$100 million for implementation projects for sustainable groundwater management. The priorities will be for GSAs that did not receive prior funding for a GSP and for critically over-drafted basins respectively. Proposition 3 on the November ballot has approximately \$500 million in additional funding. The results of alternative plans that were submitted to DWR should be coming out and should not affect SGA, but they may affect Sacramento Central Groundwater Authority (SCGA).

Mr. Swartz said that the required initial notification to begin preparation of a GSP was filed with the state. A new website has been created for stakeholders to participate, at www.nasbgroundwater.org where they can enter their contact information to be notified as the process progresses. The map on the website will give information on who to contact in a particular area. Staff is close to getting a grant contract with DWR that is expected to be executed soon.

7. APPOINTMENT OF NOMINATIONS COMMITTEE FOR 2019 SGA OFFICERS

The SGA Board elects a chairperson and vice-chair annually at its December meeting. Chair Foster appointed Paul Schubert and Marcus Yasutake to serve on the 2019 SGA officers nominating committee. Chair Foster will act as the committee chair.

8. EXECUTIVE DIRECTOR'S REPORT

Mr. Woodling reported that he was engaged in the search for the new ACWA Executive Director. Dave Eggerton, formerly with El Dorado Irrigation District, will be coming on board as the Executive Director for ACWA November 1st.

There are several groundwater programs on the ACWA conference agenda in November. Mr. Woodling will be speaking on one program related to groundwater recharge and some of the work that has been done by the State Board to figure out how they can expedite permits for surface water use for groundwater recharge.

Mr. Woodling reminded everyone that this year is the 20th anniversary of SGA. An anniversary celebration is scheduled at the North Ridge Country Club at 11:30 p.m. today. The joint powers agreement and the source of the authorities come from the four signatories of the JPA: the cities of Sacramento, Citrus Heights, and Folsom and the County of Sacramento. The signatories have never had to use their power, and it is a testament to good groundwater management and good government at the lowest level to get things accomplished.

9. DIRECTORS' COMMENTS

Mr. Gray, Natomas Central Mutual Water Company, congratulated SGA on their 20th anniversary

Ms. Sheehan, Citrus Heights Water District, said that Al Dains will be stepping off of their board at the end of the year. She acknowledged his many contributions and experience to Citrus Heights Water District and with Fair Oaks Water District. Dave Wheaton will be the SGA alternate representative replacing Mr. Dains. It was noted that Mr. Dains has been with SGA for the entire 20 years.

Mr. Leidy, Carmichael Water District, reported that Mr. Wallace is retiring. There will be a reception to recognize his service.

Ms. Tobin congratulated SGA on 20 years as an organization.

Ms. Mattock congratulated SGA on their 20th year anniversary and she sees many good things in the future for SGA.

Mr. Yasutake, City of Folsom, thanked Mr. Woodling for his presentation to their city council on the SGA and recognizing the 20th anniversary.

Chair Foster said that California American Water is pleased to be a member of SGA.

Adjournment

With no further business to come before the Board, Chair Foster adjourned the meeting at 10:32 a.m.

By:

Chairperson

Attest:

Nancy Marrier, Finance and Administrative Services Manager

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AGENDA ITEM 4: 2018 AUDIT REPORT

BACKGROUND:

Gilbert Associates, Inc. has completed the financial audit for the fiscal year that ended June 30, 2018. The full audit report is attached.

STAFF RECOMMENDATION:

Information Presentation: Peggy Vande Vooren, Gilbert Associates, Inc.

Action: Accept 2018 Financial Audit Report

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Sacramento Groundwater Authority

Board Meeting

December 13, 2018



Gilbert Associates, Inc.
CPAs and Advisors

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The Audit

I. OVERVIEW OF THE AUDIT

- Fieldwork at offices of SGA: Interim – July, Year-End – October, and wrapped up in November.
- Management and staff were well-prepared and cooperative.

II. REQUIRED COMMUNICATIONS TO THE BOARD

- **Responsibilities and Opinion** - Our responsibilities as auditors, scope and timing, unmodified opinion. Supplementary info required by GASB.
- **Interactions with Management** – no disagreements, full representations from mgmt. were obtained, no consultations with other auditors or accountants, no difficulties encountered.
- **Qualitative Aspects of Accounting Practices** – No new accounting policies, estimates/judgments deemed reasonable.
- **Results of the Audit** – Timing and scope as expected. No Audit Adjustments. No Significant Deficiencies or Material Weaknesses reported.

III. THE AUDIT REPORT

Pages 1-2 **The Independent Auditor’s Report on Financial Statements**

- Issued an unmodified (clean) opinion – (first paragraph of pg. 2) the best opinion that we can give as auditors

Pages 3-9 **Management’s Discussion and Analysis**

- Introduction & overview of SGA’s financial statements
- Condensed comparative financial statement data
- Analysis of financial position and results of operations
- Budgetary Analysis
- Future economic factors and assumptions

The Financial Statements

Page 10 Statement of Net Position

- Financial Position at June 30,

	<u>2018</u>	<u>2017</u>
Total Assets	\$ 883,790	\$ 737,877
Deferred Outflows of Resources	118,544	157,183
Total Liabilities	(228,256)	(219,243)
Deferred Inflows of Resources	<u>(41,088)</u>	<u>(84,753)</u>
Net Position	<u>\$ 732,990</u>	<u>\$ 591,064</u>

- Total assets increased by ~ \$146 thousand. This increase is partially due to not spending consulting costs for program management. Additionally, SGA assessed an increase for upcoming Sustainable Groundwater Management Act (SGMA).
- Total liabilities increased by ~ \$9 thousand. This increase is primarily related to changes in estimated portion of pension liabilities.
- The Decreases in Deferred Outflows and Inflows are a result of changes in CalPERS pension plan estimates. CalPERS changed the discount rate and SGA's proportionate share of the plans pension liability was reduced.

Page 11 Statement of Activities

- Results of Operations for the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
Total Revenues	\$ 758,142	\$ 700,924
Total Expenses	<u>(616,216)</u>	<u>(591,124)</u>
Increase in Net Position	<u>\$ 141,926</u>	<u>\$ 109,800</u>

- The increase in total net position is primarily related to the higher assessment fees planned for in 2018.

Pages 12-27 **Notes to the Financial Statements**

- The notes to the financial statements explain the assumptions underlying the financial statements and provide additional information that is not available in the financial statements
 - Significant Accounting Policies – No new accounting standards – Page 12, Note 1
 - Board Designations – Operating fund and other items per Board Policy – Page 18, Note 4
 - Employee Pension Plan (CalPERS) – Pension Liability reduced to \$118,544 – Page 19, Note 5

IV. REQUIRED SUPPLEMENTARY INFORMATION

Page 29 **Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual**

Page 30 **Schedule of the Proportionate Share of Net Pension Liability**

Page 31 **Schedule of Contributions to the Pension Plan**

V. OTHER INDEPENDENT AUDITOR’S REPORT

Pages 32-33 **“GAGAS” Audit Report**



SACRAMENTO GROUNDWATER AUTHORITY

Communications With Those Charged With Governance

Submitted by

Gilbert Associates, Inc.

We have audited the financial statements of the Sacramento Groundwater Authority (the Authority) for the year ended June 30, 2018. Professional standards require that we provide you with information related to our audit. We are providing the Authority's Board of Directors (Board) with information regarding the scope and results of the audit to assist the Board in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties. The following pages summarize these required communications.

December 4, 2018



Gilbert Associates, Inc.
CPAs and Advisors

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MANAGEMENT AND AUDITOR RESPONSIBILITIES

Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The financial statements are the responsibility of management. As stated in our engagement contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Authorities' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We issued unmodified opinions on the financial statements of the Authority for the year ended June 30, 2018.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

<p>Significant Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we advised management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the Authority are described in Note 1 to the financial statements.</p> <p>We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>
<p>Management Judgments and Accounting Estimates</p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.</p> <p>Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.</p>	<p>The most sensitive estimate and disclosure affecting the Authority's financial statements is:</p> <ul style="list-style-type: none">• The estimate of the net pension liability and related deferred inflows and outflows of resources is based upon the Authority's proportionate allocation of the CalPERS plan pension amounts as of the June 30, 2017 measurement date. CalPERS calculates the net pension liability for all participating agencies actuarially by rolling-forward obligations from the June 30, 2016 actuarial valuation using standard update procedures as of the measurement date. These amounts are allocated to the Authority and other participating agencies based on their proportionate share of contributions to the CalPERS plans during the measurement period. <p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.</p>

INTERACTIONS WITH MANAGEMENT

Planned Scope and Timing of the Audit	We performed the audit according to the planned scope and timing previously communicated in our engagement contract.
Management Consultations with Other Independent Accountants In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.	To our knowledge, there were no such consultations with other accountants.
Disagreements with Management For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report.	We are pleased to report that no such disagreements arose during the course of our audit.
Management Representations	We requested certain representations from management in a letter to us.
Difficulties Encountered in Performing the Audit	We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and very cooperative.

OTHER MATTERS

<p>Other Audit Findings or Issues</p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p>Corrected and Uncorrected Misstatements</p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>No significant adjustments were identified during our audit.</p>

SUPPLEMENTARY INFORMATION

Required Supplementary Information

Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the Authority's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquiries of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.

The following required supplementary information is required to accompany the Authority's basic financial statements and subjected to limited procedures, but no opinion has been expressed:

- Management's Discussion and Analysis
- Statement of Revenues, Expenditures and changes in Fund Balance – Budget to Actual
- Schedule of the Authority's Proportionate Share of the Net Pension Liability
- Schedule of the Authority's Contributions to the Pension Plan

**SACRAMENTO GROUNDWATER
AUTHORITY**

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

JUNE 30, 2018 AND 2017

SACRAMENTO GROUNDWATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Sacramento Groundwater Authority
Sacramento, California**

Report on the Financial Statements

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 fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and special revenue fund of the Sacramento Groundwater Authority as of June 30, 2018, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The summarized comparative financial information of the Sacramento Groundwater Authority as of June 30, 2017, were audited by other auditors whose report dated December 1, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, 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 that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 4, 2018

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

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 ended June 30, 2018 and 2017. This discussion analysis should be read in conjunction with the financial statements, which can be found on pages 10 to 31 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.

The Governmental Accounting Standards Board 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 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. Since SGA's revenues are legally restricted for the purpose of managing the Sacramento groundwater basin, any revenues would be considered a restricted fund balance.

The basic financial statements include governmental fund balance sheet/statement of net position 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 to actual is included as required supplementary information on page 28 of this report.

SGA as a single governmental JPA presents their fund financial statements with their government wide statements on the Statement of Net Position. Over time, increases or decreases in net position 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 position 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 position. Revenues are reported when available (i.e. grant awards) for fund balance and reported when earned in the net position statement.

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

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

For the year ended June 30, 2017, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 (GASB No. 68) and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68 is implemented since SGA qualified as a special funding situation. During fiscal year 2017, SGA contracted with CalPERS to provide defined pension plan benefits to Regional Water Authority (RWA) employees when these employees provide services to SGA. Since RWA employees had been providing services to SGA since inception, SGA inherited a portion of RWA’s unfunded accrued liability and market value of assets. Because SGA now has a legal liability for pension contributions and unfunded liabilities, a portion of the net pension liability and related deferred outflows and inflows of RWA were allocated to SGA’s financial statements. For the year ended June 30, 2018, CalPERS provided the necessary GASB No. 68 pension plan data for SGA to determine the pension liability and related deferred outflows and inflows. The financial statements can be found on pages 10 to 11.

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 12 to 27 of this report.

Condensed Statements of Net Position

For the fiscal years ended June 30, the following condensed comparative Statements of Net Position using a net position basis are presented:

	2018	2017	Increase (Decrease)	% Change
Other Assets	\$ 883,262	\$ 733,931	\$ 149,331	20%
Deferred Outflows - Pension	118,544	157,183	(38,639)	(25%)
Capital assets, net	528	3,946	(3,418)	(87%)
Total Assets and Deferred Outflows	1,002,334	895,060	107,274	12%
Current Liabilities	111,675	111,948	(273)	(0%)
Non-Current Liabilities	116,581	107,295	9,286	9%
Total Liabilities	228,256	219,243	9,013	4%
Deferred Inflows - Pension	41,088	84,753	(43,665)	(52%)
Net Position:				
Invested in capital assets	528	3,946	(3,418)	(87%)
Restricted	732,462	587,118	145,344	25%
Total Net Position	\$ 732,990	\$ 591,064	\$ 141,926	24%

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Fiscal year 2018 compared to Fiscal year 2017

Other assets consisted of cash and cash equivalents, interest receivable and prepaid assets. Other assets increased by \$149,331 from the previous year. The increase is partially due to not spending the expected consulting costs for program management. These amounts will be designated for future spending. See Note 4 for additional information.

Additionally, SGA assessed an increase in the annual dues to plan for the upcoming Sustainable Groundwater Management Act (SGMA). The act requires the formation of local groundwater sustainability agencies (GSAs) that must assess conditions in their local water basins and adopt locally-based management plans. This requirement is expected to increase fees for SGA out into future years. The Board agreed to increase fees to begin preparing for these requirements.

Current liabilities of \$111,675 have decreased \$273 from the previous year and include amounts due to vendors, and a payable to the RWA. RWA is a related party that manages the projects and work for SGA. Several members of SGA are also members of RWA. The current liabilities include \$95,733 due to the RWA for administrative service costs and also include \$456 of remaining leasehold improvements costs that will be amortized during the next fiscal year. These acquisition costs are amortized over the life of the office lease agreement in the form of rental expense reimbursement to RWA.

The net pension liability of \$116,581 reflects a net increase of \$9,286 due to a decrease in the discount rate used to calculate the liability.

The decreases in deferred outflows and inflows are a result of changes in estimates from CalPERS pension plan actuarial valuations. The significant changes during the fiscal year 2018 were a reduction in the discount rate used to estimate pension liabilities from 7.65 percent to 7.15 percent and a reduction in SGA's anticipated proportionate share of the pension plans net pension liability.

The restricted net position may be used to meet SGA's ongoing obligations to member agencies and creditors. Restricted net position increased by \$145,344. This increase was the result of increasing fees greater than project expenses by \$141,926.

For fiscal year 2018, \$572,600 of restricted net position has been designated for water program projects, for additional unfunded pension contributions, and for a general operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. See note 4 of notes to basic financial statements for the detail and types of fund balances and restricted net position.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

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

For the fiscal years ended June 30, the following condensed Statements of Activities are presented:

	June 30, 2018	June 30, 2017	Increase (Decrease)	% Change
Program Revenue:				
Assessment Income	\$ 744,065	\$ 682,216	\$ 61,849	9%
Grant Awards	-	11,248	(11,248)	(100%)
Total Program Revenue	744,065	693,464	50,601	7%
General Revenue	14,077	7,460	6,617	89%
Total Revenue	758,142	700,924	57,218	8%
Total Program Expenses	616,216	591,124	25,092	4%
Increase in Net Position	141,926	109,800	32,126	29%
Net Position July 1, as previously reported	591,064	532,844	58,220	11%
Restatement for change in accounting principle	-	(51,580)	51,580	(100%)
Net Position July 1, as restated	591,064	481,264	109,800	23%
Net Position June 30	\$ 732,990	\$ 591,064	\$ 141,926	24%

Analytical Review Revenues and Expenses

As planned, assessment fees totaled \$744,065 and are \$61,849 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 2018, the groundwater fee was raised from \$5.55 to \$6.00 per acre foot, based upon a running five year average of historical volume, which was calculated as 68,368 acre-feet. The base administrative fee formula minimum fee was also raised from \$9,000 to \$10,100 per member. The connection fee was raised from \$1.17 to \$1.31 per connection for connections greater than 6,000. The long-term target is for base fees to achieve 40% coverage of costs.

State, federal and local government grants will vary from year to year based upon availability and applicability to member agencies.

General revenue of \$14,077 largely represents interest income.

Program expenses totaled \$616,216 and are \$25,092 more than the previous year's expenses of \$591,124. The increased costs mainly reflect increased allocation of benefits to administer SGA programs offset by decreased consulting costs.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

Capital Assets

Capital asset investment includes office furniture, office and leasehold improvements as of June 30, 2018 and amounts to \$528 net of accumulated depreciation. Capital asset acquisitions are co-owned with RWA and each authority pays 50% of the acquisition cost.

	Balance June 30, 2018	Balance June 30, 2017
Furniture	\$ 14,759	\$ 14,759
Equipment	17,307	17,307
Leasehold Improvements	17,951	17,951
Gross Capital Assets	50,017	50,017
Less accumulated depreciation and amortization	(49,489)	(46,071)
Capital Assets, net	\$ 528	\$ 3,946

Special Revenue Fund Condensed Budgetary Analysis

For the fiscal year ended June 30, 2018, the following condensed Budget to Actual Statements of Revenues, Expenditures, and Changes in Fund Balance are presented:

	Original and Final Budget	Actual Amounts	Variance with Budget Positive (Negative)	% Change
Program Revenues				
Assessment Income	\$ 744,100	\$ 744,065	\$ (35)	-
Total Program Revenues	744,100	744,065	(35)	
General Revenue - Interest and Other Income	3,300	14,077	10,777	327%
Total Revenues	747,400	758,142	10,742	
Expenditures				
Administrative Expenses	498,200	461,760	36,440	7%
Office Expenses	57,050	52,075	4,975	9%
Professional Fees	353,400	90,735	262,665	74%
Capital Outlay and Equipment	14,100	3,512	10,588	75%
Total Expenditures	922,750	608,082	314,668	34%
Expenditures (Over) Under Revenue	(175,350)	150,060	325,410	186%
Fund Balance, July 1, 2017	621,527	621,527	-	-
Fund Balance, June 30, 2018	\$ 446,177	\$ 771,587	\$ 325,410	73%

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

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 favorable compared to the expected budget by \$325,410. Significant budget versus actual variances are as follows.

Administrative Expenses

SGA incurs administrative expenses from RWA to manage SGA. Total actual administrative costs were \$36,440 lower than budgeted, largely due to lower benefit costs than anticipated. Administrative expenses are budgeted based upon costs from an allocation of administrative time under the Administrative Services Agreement with RWA.

Office Expenses

Office expenses are shared 50/50 with RWA as part of the administrative services agreement. Overall, these costs were lower by \$4,975 than budgeted. Printing and supply costs were lower than expected and resulted in the largest contributor to lower costs. These expenses are carefully managed by RWA.

Professional Fees

Overall consulting fees came in lower than budgeted. Lower costs of \$262,665 are the result of not using consultants as expected for monitoring water quality levels, grant application assistance, maintaining and improving the DMS, updating the GSP, regional contamination issues, and groundwater modeling. Some of these cost savings have been set aside to be used on these projects in the next fiscal year as discussed in Note 4. Additionally, legal costs were much lower since SGA no longer needed legal counsel to handle the CalPERS issue that has now been resolved.

Capital Outlay and Equipment

Capital outlay and equipment represents SGA's share in the cost of office and computer equipment which did not meet SGA's asset capitalization policy. SGA did not incur budgeted office move costs related to RWA's lease renewal other than some additional equipment purchases.

Economic factors and assumptions for fiscal year June 30, 2019

SGA assessment fees continue to be based upon two components: a groundwater fee and a base administrative fee formula. SGA did not propose any increases to the fees. Because groundwater usage declined, SGA is expected to experience a 4% decrease in assessment fees for the fiscal year June 30, 2019 budget. 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, 2019 budget include:

- 1) SGA will continue to share 50/50 in the administrative costs incurred by RWA to run both organizations under the agreement between RWA and SGA for administrative and management services. Costs benefiting only RWA work will not be allocated to SGA. Likewise, costs benefiting only SGA will be paid by SGA.
- 2) Staff salaries are within ranges assigned by a 2017 total compensation survey and reflect a possible 4% increase for merit and a possible COLA of 3%. Starting on July 1, 2018, all employees will be paying their entire 7% portion of PERS.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018 AND 2017

- 3) In addition to sharing in 50% of administrative staff time from RWA, SGA plans to continue to use 20% of RWA's project assistant. Total FTE count for SGA is proposed to be 2.2 FTEs.
- 4) Benefit costs also include projected increases for OPEB and health care, and a reduction of the final 1% employer pick up of the employee portion of PERS retirement benefits.
- 5) An additional \$47,500 payment to CalPERS is budgeted in fiscal year 2019 as an incremental early payment of SGA's allocated unfunded liability.
- 6) Professional fees include public relations, human resources, accounting, and legal. Staff proposed to hire a human resource consultant to assist with various projects including updating the employee manual. This assistance will be included in consulting costs.
- 7) SGA expects to incur increased audit costs due to changing auditors as required by RWA's policy.
- 8) A new contract was signed for computer maintenance to include full support and cloud back up replacing the tape backup system. This coverage is needed to increase security and should reduce downtime of the server if compromised.
- 9) RWA staff negotiated a very favorable lease rate at the time ACWA JPIA moved out of the building in September 2011. The RWA Board approved a new lease at its meeting on January 11, 2018, which will become effective in September 2018. The new lease will increase costs to \$1.00 square foot for two years and \$1.10 square foot for three additional years.
- 10) The SGA consulting budget reflects \$273,300 in out-sourced support activities for a review of the groundwater management report, monitoring water quality, grant application assistance, maintaining the data management system, regional contamination, groundwater modeling and the Sustainable Groundwater Management Act (SGMA) cost share. Of the \$273,300 in costs, \$208,300 in consulting fees will be paid for from designations from fiscal year 2018 to be spent in fiscal year 2019 for the SGMA cost share.
- 11) The operating fund is projected to be approximately seven months for fiscal year 2019 and helps buffer anticipated costs related to recently passed legislation over the next few years.
- 12) Overall expenses are expected to exceed fees by \$262,900 and are largely funded from the fiscal year 2018 program designations and undesignated funds.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ended June 30, 2019.

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 POSITION JUNE 30, 2018 AND 2017

	June 30, 2018		June 30, 2017	
	Special Revenue Fund	Adjustments (Note 8)	Statement of Net Position	Statement of Net Position
ASSETS				
Cash and Investments	\$ 872,754	\$ -	\$ 872,754	\$ 726,180
Interest and Other Receivables	4,330	-	4,330	1,833
Prepaid Assets	6,178	-	6,178	5,918
Capital Assets, net	-	528	528	3,946
Total Assets	<u>883,262</u>	<u>528</u>	<u>883,790</u>	<u>737,877</u>
Deferred Outflows - Pension	-	118,544	118,544	157,183
Total Assets and Deferred Outflows	<u>\$ 883,262</u>		<u>1,002,334</u>	<u>895,060</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 15,942	-	15,942	11,398
Payable to Regional Water Authority	95,733	-	95,733	101,006
Total Current Liabilities	<u>111,675</u>	<u>-</u>	<u>111,675</u>	<u>112,404</u>
Non-Current Liabilities				
Net Pension Liability	-	116,581	116,581	106,839
Total Liabilities	<u>111,675</u>	<u>116,581</u>	<u>228,256</u>	<u>219,243</u>
Deferred Inflows -Pension	-	41,088	41,088	84,753
FUND BALANCES				
Non-spendable	6,178	(6,178)	-	-
Restricted	765,409	(765,409)	-	-
Total Fund Balance	<u>771,587</u>	<u>(771,587)</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 883,262</u>			
NET POSITION				
Invested in Capital Assets		528	528	3,946
Restricted		732,462	732,462	587,118
Net Position		<u>\$ 732,990</u>	<u>\$ 732,990</u>	<u>\$ 591,064</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO GROUNDWATER AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/ STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017
	Special Revenue Fund	Adjustments (Note 6)	Statement of Activities	Statement of Activities
REVENUES				
Program Revenue:				
Assessment Income	\$ 744,065	\$ -	\$ 744,065	\$ 682,216
Grant Awards	-	-	-	11,248
Total Program Revenue	744,065	-	744,065	693,464
General Revenue - Interest and Other Income	14,077	-	14,077	7,460
Total Revenue	<u>758,142</u>	<u>-</u>	<u>758,142</u>	<u>700,924</u>
PROGRAM EXPENDITURES/EXPENSES				
Shared and Direct Expenditures/Expenses:				
Wages and Salaries	306,160	-	306,160	291,468
Employee Benefits	149,019	4,716	153,735	135,992
Travel and Training	6,581	-	6,581	10,389
Rent	9,748	-	9,748	9,748
Insurance	13,177	-	13,177	12,656
Telephone	6,031	-	6,031	5,587
Dues and Subscriptions	5,193	-	5,193	4,371
Printing, Supplies, Postage and Meetings	10,860	-	10,860	8,853
Computer Maintenance	7,066	-	7,066	3,616
Audit and Banking	11,298	-	11,298	10,793
Legal	12,460	-	12,460	16,335
Capital Outlay and Equipment	3,512	-	3,512	2,607
Consultants	66,977	-	66,977	75,012
Depreciation	-	3,418	3,418	3,697
Total Program Expenditures/Expenses	<u>608,082</u>	<u>8,134</u>	<u>616,216</u>	<u>591,124</u>
EXCESS OF REVENUES OVER PROGRAM EXPENDITURES	150,060			
INCREASE (DECREASE) IN NET POSITION		<u>(8,134)</u>	<u>141,926</u>	<u>109,800</u>
FUND BALANCES/NET POSITION				
Beginning of the year, as previously reported	621,527	(30,463)	591,064	532,844
Restatement for change in accounting principle	-	-	-	(51,580)
Beginning of the year, as restated	<u>621,527</u>	<u>(30,463)</u>	<u>591,064</u>	<u>481,264</u>
Fund Balance/Net Position	<u>\$ 771,587</u>	<u>\$ (38,597)</u>	<u>\$ 732,990</u>	<u>\$ 591,064</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of reporting entity – Sacramento Groundwater Authority (SGA) was formed under a Joint Exercise of Powers Agreement (JPA) 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. 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 governmental 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.

Basis of Accounting:

SGA accounts for its financial activities as a Special Revenue Fund because its revenue sources are legally restricted for specified purposes.

Fund financial statements – 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 position 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. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. This presentation differs from the manner in which the governmental fund financial statements are prepared. Therefore, Note 6 details the adjustments with brief explanations to identify the major differences between the fund financial statements and the governmental-wide financial statements.

Net position is the difference between assets, deferred outflows, liabilities and deferred inflows on the governmental-wide financial statements. Net position invested in capital assets are furniture and equipment net of accumulated depreciation. Since SGA assessment fee revenue is restricted for the specific purpose of managing the Sacramento Groundwater Basin, all remaining net position is classified as restricted.

The accounting treatment for grant award revenue depends on whether it is reported in the government-wide or fund financial statements. In the fund financial statements, these grant award revenues will only be recognized when available during the fiscal year. Until such time, the grant award revenues are reflected as a receivable and as unavailable revenue. In the government-wide statements, grant award revenue is recognized when it is earned.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

Implementation of New Governmental Accounting Standards Board (GASB) Statements –

For the year ended June 30, 2017, SGA has adopted GASB statements as follows:

- a) For the year ended June 30, 2017, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (GASB No. 68) and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (GASB No. 71) were adopted. During fiscal year 2017, SGA qualified as a non-employer contributing entity for the RWA pension plan as SGA established a defined benefit plan with CalPERS even though SGA is not an employer of record. As part of the establishment of the pension plan with CalPERS, SGA inherited prorated pension plan liabilities and assets from RWA plan in recognition of the time worked by RWA employees for each entity. As a non-employer contributing entity, GASB No. 68 requires recognizing a long-term obligation for pension benefits as a liability on the statement of net position. Additionally, in the year of adoption, a restatement to net position was made due to implementation of GASB No. 68 as a result of a change in accounting principle. The beginning of the year restatement at July 1, 2016 was as follows:

Decrease in Restricted Net Position	\$	51,580
Increase in Deferred Outflows		135,001
Increase in Deferred Inflows		<u>(41,192)</u>
Increase in Net Pension Liability	\$	<u>145,389</u>

- b) GASB Statement No. 82 (GASB No. 82), *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* which requires reporting the presentation of covered payroll in the supplementary information schedules as the payroll on which contributions to a pension plan are based versus total payroll. Additionally, employer paid member contributions are to be recognized as expense in the period in which it is assessed and categorized as salary expense.

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.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Net Pension Liability and Related Balances – For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value by CalPERS and not reported by SGA. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications (www.calpers.ca.gov). Reported results pertain to liability and asset information within the following defined timeframes:

For the year ended June 30, 2018

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

For the year ended June 30, 2017

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

Deferred outflows of resources is a consumption of net position by SGA that is applicable to a future period and deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Both deferred inflows and outflows of resources are reported in the statements of net position, but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. See Note 5 for further details related to the pension deferred outflows and inflows.

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 \$6.00 and \$5.55 per acre foot for the year ended June 30, 2018 and 2017, respectively.

The base administrative fee was calculated based upon the number of connections and was set at a minimum of \$10,100 for the first 6,000 connections plus \$1.31 for each connection after 6,000 for the year ended June 30, 2018. For the year ended June 30, 2017, the base administrative fee was set at a minimum of \$9,000 for the first 6,000 connections plus \$1.17 for each connection after 6,000.

Unavailable Revenue – In the fund financial statements, grant awards earned but not yet available are recorded as unavailable revenue under the modified accrual basis of accounting. SGA considers all revenues reported in the special revenue fund to be available if the revenues are collected within 90 days after year-end.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Related party – Since SGA does not employ staff, SGA is managed by 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.

Beginning on July 1, 2016, CalPERS required SGA to establish a separate pension plan for the work done by RWA employees on behalf of SGA. SGA began its own CalPERS pension plan and started making its own payments for the pension plan even though RWA is the staff employer who administers SGA activities and projects. SGA inherited allocated unfunded liabilities and investment assets from RWA. SGA's allocation results in a net pension liability. The net pension liability and the related deferred inflows and outflows reflected in the June 30, 2018 financial statements are based on a CalPERS determined proportionate share. For the year ended June 30, 2017, these amounts were estimated as a 42% allocation to SGA from RWA based upon each entity's unfunded accrued liability as calculated by the CalPERS valuation report for the June 30, 2016 measurement period relative to the total of both entity balances combined. See Note 5 for additional pension plan disclosures.

During the fiscal years ended June 30, 2018 and 2017, SGA shared 50% of all common joint office costs including administrative personnel expenses. SGA incurred common cost expenses of \$474,542 and \$476,712, respectively. At June 30, 2018 and 2017, SGA owed RWA \$95,733 and \$100,550, respectively.

During the year ended 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 is included in the payable to RWA and the balance at June 30, 2017 was \$456. The balance of amounts due to RWA represents ongoing administrative expenses incurred by RWA to manage SGA.

Fund Balances

Governmental Accounting Standard Board's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) only apply to the fund financial statements.

GASB 54 requires reporting of fund balances that comprise a fund balance hierarchy based primarily on the extent to which the government is bound to observe obligations or commitments imposed upon the use of resources reported in governmental funds. SGA has the following two categories of fund balance:

Non-spendable fund balance – These balances cannot be spent because they are either (a) not 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 – These balances 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 classified as non-spendable would be considered a restricted fund balance. Consequently, SGA would not have any unassigned fund balances.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The Board of Directors can vote to approve assigning or committing specific fund balances. See Note 4 for additional information regarding fund balance.

Capital assets – The accounting treatment over capital assets depends on whether they are reported in the government-wide or fund financial statements. In the government-wide statements, capital assets are capitalized and consist of office furniture, field equipment acquisitions and leasehold improvements capitalized at cost. Depreciation is computed and recorded by the straight-line method over the 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.

Capital assets, consisting of furniture, equipment and leasehold improvements in excess of \$2,500 per unit with useful lives of more than one year, are stated at historical cost and are capitalized in the government-wide financial statements. Routine repairs and maintenance are charged to operating expenses in the year the expense is incurred. Leasehold improvements are amortized over the remaining life of the lease.

Budget – SGA’s governing board must approve a budget within 90 days of July 1st and has satisfied these requirements. Any significant 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.

2. CASH AND INVESTMENTS

Cash and investments in the statement of net position consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Deposits with Financial Institutions	\$ 7,674	\$ 7,354
Investments with LAIF	<u>865,080</u>	<u>718,826</u>
Total Cash and Investments	<u>\$ 872,754</u>	<u>\$ 726,180</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, 2018 AND 2017

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, 2018 and 2017, the average maturity of the investments contained in the LAIF investment pool was approximately 193 and 194 days, respectively.

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 99% 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, 2018 and 2017, SGA's bank balance was \$7,702 and \$11,328, respectively. The FDIC's basic insurance limit is \$250,000 per depositor.

Investment in State Investment Pool

SGA is a voluntary participant in the 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 (LAIF Board) has oversight responsibility for LAIF. The LAIF 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 recorded on an amortized cost basis. The total fair value of all public agencies invested in the LAIF at June 30, 2018 and 2017 was \$22,548,942,230 and \$22,812,817,838, respectively. The LAIF balance is a part of the California Pooled Money Investment Account (PMIA) and includes the Surplus Money Investment Fund and the General Fund. The total fair value of all public agencies invested in PMIA at June 30, 2018 and 2017 was \$88,798,232,977 and \$77,539,216,146,

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

respectively. For information on the types of investments made by LAIF, refer to the State of California Treasurer's separately issued investment reports. Copies of these investment reports may be obtained by calling (916) 653-3001, by writing to LAIF, 915 Capitol Mall, Room 106, Sacramento, CA 95814, or by logging on to the treasurer's website at www.treasurer.ca.gov/pmia-laif/reports/monthly.asp.

3. CAPITAL ASSETS

A summary of capital assets are as follows:

	Balance			Balance
	June 30, 2017	Increases	Decreases	June 30, 2018
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	17,307	-	-	17,307
Leasehold Improvements	<u>17,951</u>	<u>-</u>	<u>-</u>	<u>17,951</u>
Total	50,017	-	-	50,017
Less accumulated depreciation	<u>(46,071)</u>	<u>(3,418)</u>	<u>-</u>	<u>(49,489)</u>
Capital Assets, Net	<u>\$ 3,946</u>	<u>\$ (3,418)</u>	<u>\$ -</u>	<u>\$ 528</u>

	Balance			Balance
	June 30, 2016	Increases	Decreases	June 30, 2017
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	19,505	-	(2,198)	17,307
Leasehold Improvements	<u>17,951</u>	<u>-</u>	<u>-</u>	<u>17,951</u>
Total	52,215	-	(2,198)	50,017
Less accumulated depreciation	<u>(44,572)</u>	<u>(3,697)</u>	<u>2,198</u>	<u>(46,071)</u>
Capital Assets, Net	<u>\$ 7,643</u>	<u>\$ (3,697)</u>	<u>\$ -</u>	<u>\$ 3,946</u>

4. FUND BALANCE AND NET POSITION

Fund Balance

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 will be classified as restricted for that purpose.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Net Position

SGA's net position consists of two components: investments in capital assets and restricted net position. Since SGA's fee revenues are restricted for the specific purpose of managing the Sacramento Groundwater Basin under the joint powers agreement, any net position not previously allocated to investments in capital assets are considered restricted.

Board Designations

The Board approves an operating fund amount during the budget process, designated to be used for working capital needs, budget contingencies, and partnership grant opportunities. The target operating fund balance is equivalent to four to six months of operating expenses. The current year 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.

At the April 12, 2018 Board meeting, the board also approved designating \$208,300 in unused budgeted funds for the Sustainable Groundwater Management Act (SGMA) Cost Share to be used in fiscal year 2019. The Board of Directors approved designations for the years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Operating Fund	\$ 316,800	\$ 316,700
Administrative Overhead	47,500	26,900
Groundwater Modeling	148,300	98,300
Update Groundwater Sustainability Plan	50,000	-
Data Management System	<u>10,000</u>	<u>-</u>
	<u>\$ 572,600</u>	<u>\$ 441,900</u>

5. RETIREMENT PLAN

Plan Description

SGA participates in a public agency cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by CalPERS. SGA was granted its own PERS pension plan beginning July 1, 2016 for the work done by RWA employees on behalf of SGA. Since SGA has less than 100 active members for the years ended June 30, 2017 and 2016, qualified employees are covered under the Miscellaneous 2% at 55 Risk Pool. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute. None of the RWA employees working for SGA were hired after January 1, 2013. The miscellaneous plan is closed to new employees unless the new employee is considered a classic member as defined by the California Public Employees’ Pension Reform Act (PEPRA).

Benefits Provided

The benefits for the Plan are established by contract with CalPERS, in accordance with the provisions of the California Public Employees’ Retirement Law (PERL). The benefits are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. To be eligible for service retirement, members must be at least 50 and have a minimum of five years of CalPERS-credited service. Under the PEPRA plan, members after January 1, 2013 must be at least 52.

Contributions

Section 20814(c) of the PERL requires employer contribution rates for all public employers are determined on an annual basis by the actuary and are effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS’ annual actuarial valuation process. For public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. SGA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The required contribution rates were as follows:

<u>Measurement Period</u>	<u>Classic</u>
June 30, 2017	9.055%
June 30, 2016	8.844%

Employer contributions rates may change if plan contracts are amended. SGA makes a portion of the contributions required of employees on their behalf and for their account. For the years ended June 30, 2018 and 2017, the employer required contributions to the plan were \$27,004 and \$23,831 respectively. SGA also made additional non-required employer pension contributions of \$26,900 per year for the years ended June 30, 2018 and 2017 towards payment of its unfunded liability.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

SGA’s net pension liability (NPL) for the Plan is measured as the proportionate share of the NPL. The NPL of the Plan is measured as of June 30, 2017 and 2016 for the years ended June 30, 2018 and 2017, respectively. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2016 and 2015 rolled forward to June 30, 2017 and 2016, respectively, using standard update procedures. As of June 30, 2018, SGA’s proportionate share of

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

the Plan's NPL was \$116,581. For the year ended June 30, 2017, SGA was allocated a proportionate share of RWA's NPL since SGA had a pension plan established with CalPERS during the year ended June 30, 2017, but had not yet been allocated the NPL by the actuaries due to the timing of the measurement date. SGA was allocated 42% of RWA's NPL for a total of \$106,839 and was based upon the ratio of the CalPERS June 30, 2016 Annual Valuation Reports for each entity.

Using SGA's individual employer rate plan's share of the risk pool TPL and Fiduciary Net Position (FNP), the proportionate shares of the TPL and FNP at the measurement date are determined for the SGA by the actuary for the June 30, 2017 measurement date. For the June 30, 2016 measurement date, SGA was allocated a 42% share of RWA's proportionate share. The following tables show SGA's employer allocation factors for the Plan as of the measurement dates for June 30:

2017:	<u>Plan</u>
Proportion - June 30, 2017	.0029574%
Proportion - June 30, 2016	<u>.0030755%</u>
Change - decrease	<u>(.0001181)%</u>
2016:	<u>Plan</u>
Proportion - June 30, 2016	.0030755%
Proportion - June 30, 2015	<u>.0052995%</u>
Change - decrease	<u>(.0022240)%</u>

For the measurement periods ended June 30, 2017 and 2016 (the measurement dates), SGA incurred a pension expense of \$58,620 and \$35,709, respectively.

At June 30, the deferred outflows of resources related to pensions from the following sources are:

	<u>Deferred Outflow of Resources</u>	
	<u>2018</u>	<u>2017</u>
Contributions after measurement date	\$ 53,904	\$ 50,731
Difference between actual and expected experience	402	1,028
Changes in assumptions	49,858	-
Differences between employer contributions and the employer's proportionate share of contributions	-	1,411
Net difference between projected and actual earnings on plan investments	11,276	50,606
Adjustments due to differences in proportions	<u>3,104</u>	<u>53,407</u>
	<u>\$ 118,544</u>	<u>\$ 157,183</u>

The \$53,904 and \$50,731 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date are recognized as a reduction of the NPL for the years ending June 30, 2019 and 2018, respectively.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

At June 30, the deferred inflow of resources related to pensions from the following sources are:

	Deferred Inflow of Resources	
	2018	2017
Difference between actual and expected experience	\$ 5,757	\$ 235
Changes in assumptions	3,802	9,723
Differences between employer contributions and the employer's proportionate share of contributions	14,211	2,715
Adjustments due to differences in proportions	17,318	72,080
	\$ 41,088	\$ 84,753

For the period ended June 30, 2017, except for contributions after the measurement date, SGA's deferred outflows and inflows of resource balances represented a 42% allocation from RWA for SGA's calculated share of the balances based upon the CalPERS June 30, 2016 Annual Valuation Reports for each entity.

Amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in future pension expense as follows at June 30:

2018:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2018	\$ 226
2019	16,969
2020	13,051
2021	(6,695)
	\$ 23,551

2017:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2017	\$ (4,603)
2018	(2,937)
2019	16,131
2020	13,108
	\$ 21,699

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Actuarial Assumptions

For the measurement periods ended June 30, 2017 and 2016 (the measurement dates), the TPL was determined by rolling forward the June 30, 2016 and 2015 TPL, respectively. The June 30, 2017 and 2016 TPL were based on the following actuarial methods and assumptions:

2017:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

2016:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Changes in Assumptions

For the measurement period ended June 30, 2017, the financial reporting discount rate for the Plan decreased from 7.65 percent to 7.15 percent. Deferred outflows of resources for the change in assumptions represent the unamortized portion of this assumption change. There were no changes in assumptions during the measurement period ended June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 (the measurement date) was 7.15% and 7.65%, respectively and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction of administrative expenses. To

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected investment rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability of the Plan. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The long-term expected real rates of return by asset class can be found in CalPERS’ Comprehensive Annual Financial Report for the fiscal years ended June 30, 2017 and 2016.

The tables below reflect the long-term expected real rate of return by asset class as of June 30. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation as follows:

Asset Class	June 30, 2017		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Asset Class	June 30, 2016		
	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Fixed Income	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportional Share of the NPL to Changes in the Discount Rate

The following presents SGA's Proportional Share of the NPL of the Plan, calculated using the discount rate of 7.15% and 7.65% for the measurement dates June 30, 2017 and 2016, respectively, as well as what the Authority's Proportional Share of the NPL would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

2017:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Agency's Proportionate Share of Plan's NPL	\$ 181,733	\$ 116,581	\$ 62,621

2016:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Agency's Proportionate Share of Plan's NPL	\$ 238,642	\$ 106,839	\$ 2,089

Payable to the Pension Plan – At June 30, 2018 and 2017, SGA did not have outstanding payables to the pension plan.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

6. RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

The governmental fund balance sheet for June 30, 2018 is converted to the statement of net position by recording several financial transactions. As a result of GASB 68, SGA records \$118,544 in deferred outflows related to pensions, \$116,581 in a net pension liability, and \$41,088 in deferred inflows for unamortized pension adjustments. Additionally, SGA increases capital assets by \$528 net of accumulated depreciation.

For the year ended June 30, 2018, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation expense of \$3,418. Pension expense has increased by \$4,716 to reflect amortization of deferred outflows and inflows related to the pension plan.

7. 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:

<u>Coverage</u>	<u>ACWA/JPIA</u>	<u>Commercial Insurance</u>	<u>Deductible</u>
General and Auto Liability	\$ 5,000,000	\$ 55,000,000	None
Public Officials Liability	5,000,000	55,000,000	None
Property Damage	100,000	490,000,000	\$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.

Copies of the ACWA/JPIA's annual financial reports and other pertinent data may be obtained from their website at www.acwajpia.org, their office at 2100 Professional Drive, Roseville, CA 95661 or by calling (800) 231-5742.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

8. CONTINGENCIES

Grant Programs

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. 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.

CalPERS Pension Plan

CalPERS will lower the discount rate of its pension plan valuations from 7.15% to 7.0% for the next fiscal year. Lowering the discount rate will impact future pension liabilities, increasing unfunded liabilities. Estimates have not been made at this time to account for this change in discount rates.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO GROUNDWATER AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2018

	Original and Final Budget	Actual Amounts	Variance with Budget Positive (Negative)
REVENUES			
Program Revenues:			
Assessment Income	\$ 744,100	\$ 744,065	\$ (35)
General Revenue - Interest and Other Income	3,300	14,077	10,777
Total Revenues	747,400	758,142	10,742
PROGRAM EXPENDITURES			
Wages and Salaries	303,200	306,160	(2,960)
Employee Taxes and Benefits	184,700	149,019	35,681
Travel and Training	10,300	6,581	3,719
Rent	12,500	9,748	2,752
Insurance	12,900	13,177	(277)
Telephone	6,000	6,031	(31)
Dues and Subscriptions	5,500	5,193	307
Printing and Supplies	13,850	7,490	6,360
Postage	1,600	1,268	332
Computer Maintenance	3,600	7,066	(3,466)
Meetings	1,100	2,102	(1,002)
Audit	11,500	10,410	1,090
Legal Counsel Expense - General	40,000	12,460	27,540
Payroll and Banking Services	1,000	888	112
Capital Outlay and Equipment	14,100	3,512	10,588
Consulting Expenses - General Support Services	52,600	38,379	14,221
Consulting Expenses - Program Management	248,300	28,598	219,702
Total Expenditures	922,750	608,082	314,668
(DEFICIENCY) EXCESS REVENUE OVER PROGRAM EXPENDITURES	(175,350)	150,060	325,410
Fund Balance, July 1, 2017	621,527	621,527	-
Fund Balance, June 30, 2018	\$ 446,177	\$ 771,587	\$ 325,410

SACRAMENTO GROUNDWATER AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES			
Program Revenues:			
Assessment Income	\$ 682,200	\$ 682,216	\$ 16
Grant Awards	-	71,843	71,843
Total Program Revenues	<u>682,200</u>	<u>754,059</u>	<u>71,859</u>
General Revenue - Interest and Other Income	1,300	7,460	6,160
Total Revenues	<u>683,500</u>	<u>761,519</u>	<u>78,019</u>
PROGRAM EXPENDITURES			
Wages and Salaries	282,900	291,468	(8,568)
Employee Taxes and Benefits	168,400	153,163	15,237
Travel and Training	10,400	10,389	11
Rent	12,500	9,748	2,752
Insurance	12,500	12,656	(156)
Telephone	5,700	5,587	113
Dues and Subscriptions	3,900	4,371	(471)
Printing and Supplies	14,800	7,475	7,325
Postage	1,600	547	1,053
Computer Maintenance	3,600	3,616	(16)
Meetings	1,100	831	269
Audit	9,600	9,800	(200)
Legal Counsel Expense - General	40,000	16,335	23,665
Payroll and Banking Services	1,000	993	7
Capital Outlay and Equipment	3,900	2,607	1,293
Consulting Expenses - General Support Services	36,800	35,736	1,064
Consulting Expenses - Program Management	208,300	39,276	169,024
Total Expenditures	<u>817,000</u>	<u>604,598</u>	<u>212,402</u>
(DEFICIENCY) EXCESS REVENUE OVER PROGRAM EXPENDITURES	(133,500)	156,921	290,421
Fund Balance, July 1, 2016	<u>464,606</u>	<u>464,606</u>	<u>-</u>
Fund Balance, June 30, 2017	<u>\$ 331,106</u>	<u>\$ 621,527</u>	<u>\$ 290,421</u>

SACRAMENTO GROUNDWATER AUTHORITY

REQUIRED SUPPLEMENTARY DISCLOSURE PENSIONS

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY - MISCELLANEOUS PLAN LAST TEN YEARS

	<u>Measurement Date</u>	
	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability	0.002957%	0.003076%
Proportionate share of the net pension liability	\$ 116,581	\$ 106,839
Covered - employee payroll	\$ 263,178	\$ 266,850
Proportionate share of the net pension liability as a percentage of covered payroll	44.30%	40.04%
Miscellaneous Plan fiduciary net position as a percentage of the total pension liability	73.31%	75.87%
SGA fiduciary net position as a percentage of the SGA pension liability	90.24%	89.09%

Notes to Schedule:

For the measurement period ended June 30, 2017, the discount rate assumption decreased from 7.65% to 7.15%. There were no benefit changes.

For the measurement period ended June 30, 2016, there were no assumption or benefit changes.

Historical information is only required for the years in which GASB 68 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

SACRAMENTO GROUNDWATER AUTHORITY

REQUIRED SUPPLEMENTARY DISCLOSURE PENSIONS

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN LAST TEN YEARS

	Fiscal Year	
	<u>2017-2018</u>	<u>2016-2017</u>
Contractually required contribution (actuarially determined)	\$ 27,004	\$ 23,831
Contributions in relation to the actuarially determined contributions	<u>53,904</u>	<u>50,731</u>
Contribution excess	<u>\$ (26,900)</u>	<u>\$ (26,900)</u>
Covered - employee payroll	\$ 289,758	\$ 263,178
Contributions as a percentage of covered - employee payroll	18.60%	19.28%
Contributions valuation date	June 30, 2016	June 30, 2015

Historical information is only required for the years in which GASB 68 is applicable. Future years' information will be displayed for up to 10 years as information becomes available.

OTHER REPORT

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

Independent Auditor's Report

**Board of Directors
Sacramento Groundwater Authority
Sacramento, California**

We have audited, in accordance with the 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, the financial statements of the Sacramento Groundwater Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 4, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



GILBERT ASSOCIATES, INC.
Sacramento, California

December 4, 2018

Sacramento Groundwater Authority Board Meeting
December 13, 2018

AGENDA ITEM 5: ELECTION OF 2019 SGA OFFICERS

BACKGROUND:

The SGA Board elects a chairperson and vice-chair annually at its December meeting. The Chair appointed a nominating committee including Paul Schubert, Marcus Yasutake and Audie Foster.

STAFF RECOMMENDATION:

Action: Elect 2019 SGA Chair and Vice Chair

Sacramento Groundwater Authority Board Meeting
December 13, 2018

**AGENDA ITEM 6: SUSTAINABLE GROUNDWATER MANAGEMENT ACT (SGMA)
UPDATE**

BACKGROUND:

Staff will provide an update on developments related to the State's implementation of the Sustainable Groundwater Management Act

STAFF RECOMMENDATION:

Information Update: John Woodling, Executive Director

Sacramento Groundwater Authority Board Meeting
December 13, 2018

AGENDA ITEM 7: GROUNDWATER MANAGEMENT PROGRAM UPDATE

BACKGROUND:

Staff will provide an overview of the results of the regionally-coordinated 2018 groundwater substitution transfer, the latest information on groundwater levels in the SGA area, and progress on the effort to begin development of a Groundwater Sustainability Plan for the North American Subbasin.

STAFF RECOMMENDATION:

Information Update: Rob Swartz, Manager of Technical Services

Sacramento Groundwater Authority Board Meeting
December 13, 2018

AGENDA ITEM 8: EXECUTIVE DIRECTOR'S REPORT

The Executive Director will provide a verbal report

SACRAMENTO GROUNDWATER AUTH.

Income Statement

***Year-to-Date Performance
October 2018***

	<i>4 Months Ended October 31, 2018</i>	<i>Annual Budget</i>	<i>Unused</i>
REVENUES			
Groundwater Fees Revenue	406,822.00	406,800.00	(22.00)
Base Administrative Fee	309,037.00	309,000.00	(37.00)
20th anniversary	4,810.00	0.00	(4,810.00)
Special Project Fees Revenue	0.00	400,000.00	400,000.00
Cash Discount	150.57	0.00	(150.57)
Interest Income	9,757.01	6,000.00	(3,757.01)
TOTAL REVENUES	730,576.58	1,121,800.00	391,223.42
Total REVENUE	730,576.58	1,121,800.00	391,223.42
GROSS PROFIT	730,576.58	1,121,800.00	391,223.42
OPERATING EXPENDITURES			
Staff Expenses			
General Salaries	95,999.17	319,900.00	223,900.83
Benefits/Taxes	80,527.33	197,800.00	117,272.67
Travel / Meals	1,895.30	8,000.00	6,104.70
Professional Development	0.00	2,500.00	2,500.00
TOTAL Staff Expenses	178,421.80	528,200.00	349,778.20
Office Expenses			
Rent & Utilities	3,735.31	16,200.00	12,464.69
Insurance	17,275.74	13,300.00	(3,975.74)
Office Maintenance	0.00	300.00	300.00
Telephone	1,524.52	6,400.00	4,875.48
Dues and Subscription	1,538.00	5,700.00	4,162.00
Printing & Supplies	1,970.58	10,300.00	8,329.42
Postage	898.09	1,500.00	601.91
Meetings	17.96	1,200.00	1,182.04
Computer Equipment/Support	1,932.42	8,500.00	6,567.58
TOTAL Office Expenses	28,892.62	63,400.00	34,507.38
Office Furniture & Equipment			
Office Furniture	0.00	1,400.00	1,400.00
TOTAL Office Furniture & Equipment	0.00	1,400.00	1,400.00

***4 Months Ended
October 31, 2018***

***Annual
Budget***

Unused

Professional Fees			
ADP / Banking Charges	342.01	1,100.00	757.99
Audit Fees	0.00	16,000.00	16,000.00
Legal Fees	1,284.00	40,000.00	38,716.00
GASB 68 reporting fee	350.00	0.00	(350.00)
Consulting Expenses	0.00	25,500.00	25,500.00
Budget/audit/actuarial	4,572.67	35,800.00	31,227.33
Human Resources Services	1,956.06	0.00	(1,956.06)
Public Relations - SGA only	10,255.00	0.00	(10,255.00)
TOTAL Professional Fees	18,759.74	118,400.00	99,640.26
Consulting - Program Management			
Monitor water quality/levels (AB 303)	0.00	10,000.00	10,000.00
Maintain/Improve DMS	0.00	5,000.00	5,000.00
Update GSP	0.00	20,000.00	20,000.00
Regional Contamination Issues	0.00	10,000.00	10,000.00
Groundwater Modeling	0.00	20,000.00	20,000.00
SGMA Consulting	10,194.00	208,300.00	198,106.00
TOTAL Consulting Program Management	10,194.00	273,300.00	263,106.00
Special Projects Expenses			
Grant Distribution	0.00	400,000.00	400,000.00
TOTAL Special Projects Expenses	0.00	400,000.00	400,000.00
TOTAL OPERATING EXPENDITURES	236,268.16	1,384,700.00	1,148,431.84
OPERATING INCOME (LOSS)	494,308.42	(262,900.00)	(757,208.42)
NET OPERATING INCOME (LOSS)	494,308.42	(262,900.00)	(757,208.42)
NET INCOME (LOSS) OF PROGRAM	494,308.42	(262,900.00)	(757,208.42)

Local Agency Investment Fund
 P.O. Box 942809
 Sacramento, CA 94209-0001
 (916) 653-3001

www.treasurer.ca.gov/pmia-laif/laif.asp
 November 27,
 2018

SACRAMENTO GROUNDWATER AUTHORITY

ADMINISTRATIVE SERVICES MANAGER
 5620 BIRDCAGE STREET, #180
 CITRUS HEIGHTS, CA 95610

PMIA Average Monthly Yields

Account Number:
 90-34-020

Tran Type Definitions

October 2018 Statement

Effective Date	Transaction Date	Tran Type	Confirm Number	Authorized Caller	Amount
10/10/2018	10/9/2018	RW	1585387	NANCY MARRIER	-100,000.00
10/15/2018	10/12/2018	QRD	1586549	SYSTEM	5,426.88

Account Summary

Total Deposit:	5,426.88	Beginning Balance:	1,219,410.22
Total Withdrawal:	-100,000.00	Ending Balance:	1,124,837.10



Per California Government Code 6505.5 (e), SGA reports the following unaudited information:

For the period ending October 2018

Cash in checking account:	\$	212,856
LAIF Balance	\$	1,124,837

For the period of July 1, 2018 - October 31 2018

Total cash receipts for the period:	\$	836,606
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Total cash disbursements for the period:	\$	631,424
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Sacramento Groundwater Authority Board Meeting
December 13, 2018

AGENDA ITEM 9: DIRECTORS' COMMENTS