

**SACRAMENTO GROUNDWATER
AUTHORITY**

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

JUNE 30, 2019 AND 2018

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, 2019, 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, 2019, 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

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 February 7, 2020, 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.

Report on summarized Comparative Information

We have previously audited the Sacramento Groundwater Authority's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

February 7, 2020

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

The Sacramento Groundwater Authority (SGA) is a joint powers authority created to collectively manage, protect, and sustain the Sacramento region's north area groundwater resources, which includes all of Sacramento County north of the American River. The mission is to manage these water resources consistent with the Sacramento Water Forum Agreement for the benefit of water users within the Sacramento basin and to coordinate with other water management entities and activities throughout the region. The following discussion and analysis of the SGA financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2019, and 2018. This discussion analysis should be read in conjunction with the financial statements and can be found on pages 12 to 33 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 (GASB) requires reporting fund balances 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 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 unused revenues would be classified as a restricted fund balance.

The basic financial statements include governmental fund balance sheet/statements of net position and the statement of revenues, expenditures, and changes in fund balance/statements of activities. Additionally, the statements of revenues, expenditures, and changes in fund balance – budget to actual are included as required supplementary information on pages 30 and 31 of this report.

SGA as a single governmental joint power authority (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 statement of revenues, expenditures, and changes in fund balance/statements of activities report all of SGA's revenues and expenditures/expenses during the periods ended June 30, 2019 and 2018. 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.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

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 unavailable revenue but can include capital asset purchases as expenditures. These budget to actual fund balance statements can be found on pages 30 to 31.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the financial data provided in the financial statements. The notes to the financial statements can be found on pages 14 to 29 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:

	2019	2018	Change	2017	Change
Other Assets	\$ 1,199,686	\$ 883,262	\$ 316,424	\$ 733,931	\$ 149,331
Deferred Outflows - Pension	110,859	118,544	(7,685)	157,183	(38,639)
Capital Assets, net	-	528	(528)	3,946	(3,418)
Total Assets and Deferred Outflows	<u>1,310,545</u>	<u>1,002,334</u>	<u>308,211</u>	<u>895,060</u>	<u>107,274</u>
Current Liabilities	314,246	111,675	202,571	111,948	(273)
Non-Current Liabilities	<u>84,845</u>	<u>116,581</u>	<u>(31,736)</u>	<u>107,295</u>	<u>9,286</u>
Total Liabilities	399,091	228,256	170,835	219,243	9,013
Deferred Inflows - Pension	<u>27,912</u>	<u>41,088</u>	<u>(13,176)</u>	<u>84,753</u>	<u>(43,665)</u>
Net Position:					
Invested in capital assets	-	528	(528)	3,946	(3,418)
Restricted	<u>883,542</u>	<u>732,462</u>	<u>151,080</u>	<u>587,118</u>	<u>145,344</u>
Total Net Position	<u>\$ 883,542</u>	<u>\$ 732,990</u>	<u>\$ 150,552</u>	<u>\$ 591,064</u>	<u>\$ 141,926</u>

Fiscal year 2019 compared to Fiscal year 2018

Other assets consisted of cash and cash equivalents, grants receivable, interest receivable and prepaid assets. Other assets increased from the previous year due to an increase in grants receivable of \$161,281 from a grant program administered by the California Department of Water Resources (DWR). The grant is the 2017 Proposition 1 Sustainable Groundwater Planning Grant (SGWP). Cash and cash equivalents also increased by \$155,089, mainly due to the timing of the payment of year end payables to vendors that increased at June 30, 2019 and will require cash resources to pay those vendors in the subsequent fiscal period.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

Current liabilities have increased from the previous year and include amounts due to vendors, and a payable to the Regional Water Authority (RWA). The increase is substantially from amounts payable to the vendors who are working on the projects fulfilling the SGWP grant. 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 \$56,048 for administrative service costs incurred towards the end of the fiscal year due to RWA.

The non-current liability of \$84,845 reflects a net decrease from the prior year due to paying additional pension payments towards SGA's CalPERS pension plan. See Note 5 for additional information about SGA's pension plan with CalPERS.

The decreases in deferred outflows and inflows are a result of changes in estimates from CalPERS pension plan actuarial valuations. The significant change during the fiscal year 2019 was a reduction in SGA's anticipated proportionate share of the net pension liability due to the additional pension plan payments that SGA has been contributing.

The restricted net position may be used to meet SGA's ongoing obligations to member agencies and creditors. The increase reflects the difference between revenues and expenditures during the fiscal year.

For fiscal year 2019, \$640,850 of restricted net position has been designated for implementing the Sustainable Groundwater Management Act (SGMA) requirements, for additional unfunded pension contributions, and for a general operating fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenses. SGA, along with local groundwater sustainability agencies (GSAs), have begun implementing components of the SGMA during the year ended June 30, 2019. The act requires the GSAs to assess conditions in their local water basins and adopt locally based management plans. These GSAs are SGA's funding partners in the SGWP grant from DWR. See note 4 of notes to basic financial statements for the designation balances by type and the restricted fund balance.

Fiscal year 2018 compared to Fiscal year 2017

Other assets consisted of cash and cash equivalents, interest receivable and prepaid assets. The increase in fiscal year 2018 is partially due to not spending the expected consulting costs for program management. Some of the increase was designated for spending on water related programs. See note 4 for additional information.

Additionally, SGA assessed an increase in the annual dues to plan for the SGMA implementation. This SGMA requirement is expected to affect fees for SGA into future years. The Board agreed to increase fees during fiscal year 2018 to begin preparing for these requirements.

Current liabilities of \$111,675 decreased slightly from the previous year and include amounts due to vendors, and a payable to the RWA. The current liabilities include \$95,733 due to the RWA for administrative service costs incurred at year end.

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. Furthermore, SGA's anticipated proportionate share of the pension plans net pension liability was reduced due to additional payments made towards the pension plan.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

The restricted net position increased by \$141,926 as a result of increasing fees greater than project expenses from not spending planned consulting costs for program management. These cost savings were designated for future groundwater projects and ultimately reprogrammed during fiscal year 2019 for the SGMA implementation. See note 4 for additional details of remaining designated balances.

For fiscal year 2018, \$572,600 of restricted net position had been designated for water program projects, for additional unfunded pension contributions, and for a general operating fund. See note 4 of notes to basic financial statements for the detail and types of fund balances and restricted net position.

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, 2019	June 30, 2018	Change	June 30, 2017	Change
Program Revenue:					
Assessment Income	\$ 715,859	\$ 744,065	\$ (28,206)	\$ 682,216	\$ 61,849
SGMA Grant Income	212,193	-	212,193	11,248	(11,248)
SGMA Partner Fees	149,043	-	149,043	-	-
Total Program Revenue	1,077,095	744,065	333,030	693,464	50,601
General Revenue - Interest and Other Income	35,521	14,077	21,444	7,460	6,617
Total Revenue	1,112,616	758,142	354,474	700,924	57,218
Program Expenses	600,829	616,216	(15,387)	591,124	25,092
SGMA Grant Expenses	361,235	-	361,235	-	-
Total Expenses	962,064	616,216	345,848	591,124	25,092
Increase in Net Position	150,552	141,926	8,626	109,800	32,126
Net Position July 1	732,990	591,064	141,926	481,264	109,800
Net Position June 30	\$ 883,542	\$ 732,990	\$ 150,552	\$ 591,064	\$ 141,926

Fiscal year 2019 compared to Fiscal year 2018

As planned, assessment fees totaled \$715,859 and are \$28,206 lower than in the previous year since the groundwater acre-feet declined from the prior year, yet the fee assessment remained unchanged from the prior 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 2019, the groundwater fee stayed the same as the previous year at \$6.00 per acre foot, based upon a running five-year average of historical volume, which was calculated as 67,804 acre-feet. The base administrative formula minimum fee was \$10,100 per member. The connection fee was \$1.31 per connection for connections greater than 6,000. The long-term target for base fees is to achieve 40% coverage of costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

State, federal and local government grants will vary from year to year based upon availability and applicability to SGA's mission. During fiscal year 2019, SGA earned SGMA grant income from the SGWP DWR grant. DWR awarded SGA a \$994,276 grant to complete a single Groundwater Sustainability Plan (GSP) encompassing five GSAs which cover the North American Basin. The portion of grant income recognized during fiscal year 2019 represents work completed through June 30, 2019.

The five GSAs (referred to as SGMA partners) include SGA, the Reclamation District 1001 GSA, the South Sutter Water District GSA, the Sutter County GSA, and the West Placer GSA. SGA is the grantee and coordinates grant compliance with the five GSAs.

The total project costs and funding sources are as follows:

Direct Partner Contributions Prior to DWR Grant Award	\$ 67,395
In-Kind Partner Staff Time	258,630
Direct Contributions from Partners/SGA	726,402
DWR Grant Award	<u>994,276</u>
 Total Project Cost	 <u>\$ 2,046,703</u>

Of the \$726,402 in direct contributions from partners and SGA, SGA's commitment is \$262,682 in project costs over the next three years and the balance of \$463,720 is funded by SGMA partners. The SGMA partner funding of \$463,720 will be contributed in two ways. SGMA partners will make direct payments to contractors working on behalf of individual SGMA partner agencies, totaling \$215,076. The remaining \$248,644 will be paid by the SGMA partners through fees collected by SGA. These partner fees are expected to be earned over a three-year period and should match the time frame of grant expenditures by the SGMA partners and SGA. For the year ended June 30, 2019, SGA earned \$212,193 in grant income from DWR and \$149,043 in partner fee income to reimburse SGA for SGMA grant consulting costs.

General revenue representing interest and other income is higher than the prior year mainly due to higher interest rate earnings on increased Local Agency Investment Fund (LAIF) investment balances.

Program expenses are slightly lower than the prior year due to the temporary position vacancy of the executive director which was partially offset by the increase in professional fees from the prior year. The increased professional fees reflect costs from the 20th anniversary event and recruiting fees to hire a new executive director.

SGMA grant expenses reflect consulting costs incurred for the SGWP grant that are funded by a combination of the direct contributions from the SGMA partners and reimbursed from the DWR SGWP grant.

Fiscal year 2018 compared to Fiscal year 2017

Assessment fees totaled \$744,065 and were \$61,849 higher than in the previous year due to expected increase in fees. SGA assessment fees are calculated using the same basis as previously discussed. In fiscal year 2018, the groundwater fee increased 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

During fiscal year 2018, SGA did not manage or earn any grant awards.

General revenue of \$14,077 largely represents interest income and reflects increased cash balances and a slight increase in investment earnings rate.

Increased program expenses in fiscal year 2018 are mainly due to expected increases in salaries offset by decreased consulting costs.

Capital Assets

Capital asset investments includes office furniture, office and leasehold improvements and as of June 30, 2019, all capital assets are fully depreciated. If the capital asset purchase benefits both SGA and RWA, then the acquisitions are co-owned and each authority pays 50% of the acquisition cost. Assets only benefiting SGA are paid fully by SGA.

	Balance June 30, 2019	Balance June 30, 2018
Furniture	\$ 14,759	\$ 14,759
Equipment	17,307	17,307
Leasehold Improvements	<u>17,951</u>	<u>17,951</u>
Gross Capital Assets	50,017	50,017
Less accumulated depreciation and amortization	<u>(50,017)</u>	<u>(49,489)</u>
Capital Assets, net	<u>\$ -</u>	<u>\$ 528</u>

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

Special Revenue Fund Condensed Budgetary Analysis

For the fiscal year ended June 30, 2019, the following condensed Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual is presented:

	Original and Final Budget	Actual Amounts	Variance with Budget Positive (Negative)	% Change
Program Revenues				
Assessment Income	\$ 715,800	\$ 715,859	\$ 59	-
SGMA Grant Income	400,000	50,912	(349,088)	(87%)
SGMA Partner Fees	-	149,043	149,043	100%
Total Program Revenues	<u>1,115,800</u>	<u>915,814</u>	<u>(199,986)</u>	<u>(18%)</u>
General Revenue - Interest and Other Income	<u>6,000</u>	<u>35,521</u>	<u>29,521</u>	<u>492%</u>
Total Revenues	<u>1,121,800</u>	<u>951,335</u>	<u>(170,465)</u>	<u>(15%)</u>
Expenditures				
Administrative	528,200	459,177	69,023	13%
Office	60,600	54,519	6,081	10%
Professional Fees	391,700	120,020	271,680	69%
Capital Outlay and Equipment	4,200	3,812	388	9%
SGMA Grant Expenditures	<u>400,000</u>	<u>361,235</u>	<u>38,765</u>	<u>10%</u>
Total Expenditures	<u>1,384,700</u>	<u>998,763</u>	<u>385,937</u>	<u>28%</u>
Expenditures (Over) Under Revenues	(262,900)	(47,428)	215,472	82%
Fund Balance, July 1, 2018	<u>771,587</u>	<u>771,587</u>	-	-
Fund Balance, June 30, 2019	<u>\$ 508,687</u>	<u>\$ 724,159</u>	<u>\$ 215,472</u>	<u>42%</u>

SGA begins preparing the budgets approximately in February of the preceding fiscal year and finalizes and adopts the budget before the beginning of the new fiscal year. Overall, SGA's financial results were favorable compared to the expected budget by \$215,472. Significant budget versus actual variances are as follows.

SGMA Grant Income

SGA budgeted what was expected to be earned from the DWR grant. The grant income for the year ended June 30, 2019 only reflects available revenues which have been collected from DWR as determined by the special revenue fund accounting rules. SGA has earned and is expecting another \$161,281 in DWR grant proceeds which is not yet reflected in this budget to actual financial statement. However, this additional grant income is reflected in the statement of activities. SGA previously estimated the annual expected DWR revenue for this period and ultimately is expected to earn \$994,276 over a three-year grant period.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

SGMA Partner Fees

SGMA partner fee income is derived from the GSA partners who share in the cost obligations for fulfilling the grant agreement. At the time of the budget development in 2018 for fiscal year 2019, the actual cost sharing arrangement between SGA and the GSAs had not yet been formulated and therefore the SGMA partner fee income was not budgeted. The \$149,043 in partner fee income reflect the amounts invoiced to the GSAs according to the cost sharing funding arrangement between the GSAs.

Administrative

SGA incurs administrative expenses from RWA to manage SGA. Total actual administrative costs were \$69,023 lower than budgeted. SGA did incur lower salary and benefit costs due to the previous executive director's retirement and four-month position vacancy. Administrative expenses are budgeted based upon common costs from an allocation of administrative time under the Administrative Services Agreement with RWA.

Office

Office expenses are shared 50/50 with RWA as part of the administrative services agreement. Overall, these costs were \$6,081 lower than budgeted. Most of the savings came from lower than planned printing, supply, dues and subscription costs.

Professional Fees

Overall professional fees came in lower than budgeted by \$271,680. SGA did not yet incur SGA's share of the SGWP grant cost share during fiscal year 2019 as previously budgeted. These costs will be incurred in the subsequent years. SGA did incur unplanned costs related to its 20th anniversary celebration and recruiting services for the new executive director. These additional costs were offset by savings in legal fees since SGA no longer needed additional legal support for the CalPERS pension implementation.

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.

SGMA Grant Expenditures

As previously discussed, DWR awarded SGA the SGWP grant for \$994,276 and is expected to take three years to complete. SGA manages the grant and coordinates the matching grant information from partner activities that fulfill the grant agreement requirements. During the year ended June 30, 2019, these expenditures represent costs paid to consultants to execute the projects required under the grant agreement.

Economic factors and assumptions for fiscal year June 30, 2020

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 is declining, SGA is expected to experience a decrease in assessment fees for the fiscal year June 30, 2020 budget. Each member's specific fee change depends upon the changes in their water connections and groundwater pumping from the previous year.

SACRAMENTO GROUNDWATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019 AND 2018

Major budget assumptions used in adopting the June 30, 2020 budget include:

- 1) SGA expects to continue implementation of the SGWP grant as part of the commitment to SGMA.
- 2) 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 will not be allocated to SGA. Likewise, costs benefiting only SGA will be paid by SGA.
- 3) Staff salaries reflect a possible 4% increase for merit and a possible COLA of 2%. Employees are paying their 100% share of the pension plan contribution.
- 4) 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.
- 5) Benefit costs also include projected increases for allocated OPEB and health care.
- 6) An additional \$14,500 payment to CalPERS is budgeted in fiscal year 2020 as an incremental early payment of SGA's allocated unfunded pension liability.
- 7) Professional fees include public relations, human resources, accounting, actuarial, and legal.
- 8) The SGA consulting budget reflects \$60,000 in out-sourced support activities for a review of the groundwater management report, updating the groundwater sustainability plan (GSP), monitoring water quality, maintaining the data management system, and groundwater modeling. There is approximately \$237,200 expected unspent consulting fees from designations from previous years that is being moved over for the Sustainable Groundwater Management Act (SGMA) designation in FY19, which will partially fund SGMA costs in FY20.
- 9) The operating fund plus undesignated cash is projected to be approximately 8.2 months for fiscal year 2020 and helps buffer anticipated costs related to recently passed legislation over the next few years. These available funds are higher than policy but will be drawn down over time or may be used for future SGMA and/or other programmatic costs as approved by the board.
- 10) Overall expenses are expected to exceed fees by \$82,050. These expenses in excess of fees will be paid for by carry over designations from previous years.

The significant factors noted above were considered in preparing the SGA's budget for the fiscal year ended June 30, 2020.

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, 2019 AND 2018

	June 30, 2019		June 30, 2018	
	Special Revenue Fund	Adjustments (Note 6)	Statement of Net Position	Statement of Net Position
ASSETS				
Cash and Investments	\$ 1,027,843	\$ -	\$ 1,027,843	\$ 872,754
Grants Receivable	161,281	-	161,281	-
Interest Receivable	6,217	-	6,217	4,330
Prepaid Assets	4,345	-	4,345	6,178
Capital Assets, net	-	-	-	528
Total Assets	1,199,686	-	1,199,686	883,790
Deferred Outflows - Pension	-	110,859	110,859	118,544
Total Assets and Deferred Outflows	\$ 1,199,686		1,310,545	1,002,334
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 251,881	-	251,881	15,942
Payable to Regional Water Authority	56,048	-	56,048	95,733
Unearned Revenue	6,317	-	6,317	-
Total Current Liabilities	314,246	-	314,246	111,675
Non-Current Liabilities				
Net Pension Liability	-	84,845	84,845	116,581
Total Liabilities	314,246	84,845	399,091	228,256
Deferred Inflows				
Pension	-	27,912	27,912	41,088
Unavailable Revenue	161,281	(161,281)	-	-
Total Deferred Inflows	161,281	(133,369)	27,912	41,088
FUND BALANCES				
Non-spendable	4,345	(4,345)	-	-
Restricted	719,814	(719,814)	-	-
Total Fund Balance	724,159	(724,159)	-	-
Total Liabilities and Fund Balances	\$ 1,199,686		-	-
NET POSITION				
Invested in Capital Assets		-	-	528
Restricted		883,542	883,542	732,462
Net Position		\$ 883,542	\$ 883,542	\$ 732,990

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, 2019 AND 2018

	June 30, 2019			June 30, 2018
	Special Revenue Fund	Adjustments (Note 6)	Statement of Activities	Statement of Activities
REVENUES				
Program Revenue:				
Assessment Income	\$ 715,859	\$ -	\$ 715,859	\$ 744,065
SGMA Grant Income	50,912	161,281	212,193	-
SGMA Partner Fees	<u>149,043</u>	<u>-</u>	<u>149,043</u>	<u>-</u>
Total Program Revenue	915,814	161,281	1,077,095	744,065
General Revenue - Interest and Other Income	<u>35,521</u>	<u>-</u>	<u>35,521</u>	<u>14,077</u>
Total Revenue	<u>951,335</u>	<u>161,281</u>	<u>1,112,616</u>	<u>758,142</u>
PROGRAM EXPENDITURES/EXPENSES				
Shared and Direct Expenditures/Expenses:				
Wages and Salaries	291,599	-	291,599	306,160
Employee Taxes and Benefits	162,605	(37,227)	125,378	153,735
Travel and Training	<u>4,973</u>	<u>-</u>	<u>4,973</u>	<u>6,581</u>
Administrative	<u>459,177</u>	<u>(37,227)</u>	<u>421,950</u>	<u>466,476</u>
Rent	15,407	-	15,407	9,748
Insurance	14,131	-	14,131	13,177
Telephone	5,952	-	5,952	6,031
Dues and Subscriptions	4,647	-	4,647	5,193
Printing, Supplies, Postage and Meetings	9,212	-	9,212	10,860
Computer Maintenance	<u>5,170</u>	<u>-</u>	<u>5,170</u>	<u>7,066</u>
Office	<u>54,519</u>	<u>-</u>	<u>54,519</u>	<u>52,075</u>
Audit and Banking	14,516	-	14,516	11,298
Legal	27,009	-	27,009	12,460
Consultants	<u>78,495</u>	<u>-</u>	<u>78,495</u>	<u>66,977</u>
Professional Fees	<u>120,020</u>	<u>-</u>	<u>120,020</u>	<u>90,735</u>
Capital Outlay and Equipment	3,812	-	3,812	3,512
Depreciation and Amortization	<u>-</u>	<u>528</u>	<u>528</u>	<u>3,418</u>
Total Program Expenditures/Expenses	<u>637,528</u>	<u>(36,699)</u>	<u>600,829</u>	<u>616,216</u>
SGMA Grant Expenditures	<u>361,235</u>	<u>-</u>	<u>361,235</u>	<u>-</u>
Total Expenditures/Expenses	<u>998,763</u>	<u>(36,699)</u>	<u>962,064</u>	<u>616,216</u>
EXCESS OF EXPENDITURES OVER PROGRAM REVENUES				
	(47,428)			
INCREASE IN NET POSITION				
		<u>197,980</u>	<u>150,552</u>	<u>141,926</u>
FUND BALANCES/NET POSITION				
Beginning Balance, July 1	<u>771,587</u>	<u>(38,597)</u>	<u>732,990</u>	<u>591,064</u>
Fund Balance/Net Position June 30	<u>\$ 724,159</u>	<u>\$ 159,383</u>	<u>\$ 883,542</u>	<u>\$ 732,990</u>

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

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 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. 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 is 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, 2019 AND 2018

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.

Future Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 87 Leases (GASB No. 87), which establishes a model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and is effective for reporting periods beginning after December 15, 2019. GASB No. 87 classifies some subscription-based information technology arrangements as leases. This new GASB 87 also classifies a lease as an asset when a contractual serving arrangement has a right to use an asset as part of the lease. Management is currently evaluating the impact of this new GASB statement.

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.

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). 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, 2019

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

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

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 according to GASB Statement No. 68 Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 (GASB 68). See Note 5 for further details related to the pension deferred outflows and inflows.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 per acre foot for both the years ended June 30, 2019 and 2018.

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 and \$1.31 for each connection after 6,000 for both the years ended June 30, 2019 and 2018.

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.

Related party – Since SGA does not employ staff, SGA is managed by the Regional Water Authority (RWA). RWA was created in 1990 under its own 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 each 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 for SGA. The net pension liability and the related deferred inflows and outflows reflected in the June 30, 2019 and 2018 financial statements are based on a CalPERS determined proportionate share. See Note 5 for additional pension plan disclosures.

During the fiscal years ended June 30, 2019 and 2018, SGA incurred shared expenses of \$479,653 and \$474,542, respectively, reflecting SGA's 50% share of all common joint office costs, including administrative personnel expenses. At June 30, 2019 and 2018, SGA owed RWA \$56,048 and \$95,733, respectively for these administrative related costs.

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 of \$456 at June 30, 2018 was included in the payable and completely amortized for the year ended June 30, 2019. The balance of amounts due to RWA represents ongoing administrative expenses incurred by RWA to manage SGA.

Fund Balances

SGA has the following two categories of fund balance:

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

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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.

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 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>2019</u>	<u>2018</u>
Deposits with Financial Institutions	\$ 89,490	\$ 7,674
Investments with LAIF	<u>938,353</u>	<u>865,080</u>
Total Cash and Investments	<u>\$ 1,027,843</u>	<u>\$ 872,754</u>

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Investments Authorized by SGA's Investment Policy

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment's sensitivity to the changes in market interest rates increases as the length of maturity increases. At June 30, 2019 and 2018, the average maturity of the investments contained in the LAIF investment pool was approximately 173 and 193 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 91% and 99% of its cash invested in LAIF at June 30, 2019 and 2018, respectively.

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 using mutual funds or government investment pools such as LAIF. At June 30, 2019 and 2018, SGA's bank balance was \$92,713 and \$7,702, 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

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

entire LAIF portfolio in relation to the amortized cost of that portfolio. The available withdrawal balance 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, 2019 and 2018 was \$24,584,685,280 and \$22,548,942,230, 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, 2019 and 2018 was \$106,046,486,872 and \$88,949,144,131, 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 June 30, 2018	Increases	Decreases	Balance June 30, 2019
Furniture	\$ 14,759	\$ -	\$ -	\$ 14,759
Equipment	17,307	-	-	17,307
Leasehold Improvements	17,951	-	-	17,951
Total	50,017	-	-	50,017
Less accumulated depreciation	(49,489)	(528)	-	(50,017)
Capital Assets, Net	\$ 528	\$ (528)	\$ -	\$ -

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

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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.

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 target balance during the budget process, designated to be used for working capital needs, budget contingencies, and grant opportunities. The operating fund balance target 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 11, 2019 Board meeting, the board approved designating \$54,400 of the program budget from fiscal year 2019 towards the SGMA Implementation cost share. The unused groundwater modeling, groundwater sustainability plan, and data management system designations from fiscal year 2018 totaling \$208,300 have also been reprogrammed for the purpose of SGMA Implementation. The \$262,700 SGMA implementation designation for year ended June 30, 2019 combines the \$54,400 from fiscal year 2019 and the \$208,300 from fiscal year 2018. The Board of Directors approved designations for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Operating Fund	\$ 324,600	\$ 316,800
Administrative Overhead	47,500	47,500
SGMA Implementation	262,700	-
Office Equipment	6,050	-
Groundwater Modeling	-	148,300
Update Groundwater Sustainability Plan	-	50,000
Data Management System	-	10,000
	<u>\$ 640,850</u>	<u>\$ 572,600</u>

SACRAMENTO GROUNDWATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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, 2018 and 2017, qualified employees are covered under the Miscellaneous 2% at 55 Risk Pool (Miscellaneous 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.

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 for the years ending June 30, 2019 and 2018 were hired after January 1, 2013. The Miscellaneous Pool 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. For the Miscellaneous Pool, eligible 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, 2018	9.096%
June 30, 2017	9.055%

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

Employer contributions rates may change if plan contracts are amended. Starting with the year ending June 30, 2019, employees paid all their required pension contributions. For the prior year, SGA made a portion of the contributions required of employees on their behalf and for their account. For the years ended June 30, 2019 and 2018, the employer required contributions to the plan were \$27,571 and \$27,004 respectively. Additionally, SGA made non-required employer pension contributions of \$47,350 and \$26,900 for the years ended June 30, 2019 and 2018, further reducing 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, 2018 and 2017 for the years ended June 30, 2019 and 2018, respectively. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2017 and 2016 rolled forward to June 30, 2018 and 2017, respectively, using standard update procedures. For the years ended June 30, SGA's proportionate share of the Plan's NPL are as follows:

	2019	2018
Net Pension Liability	\$ 84,845	\$ 116,581

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, 2018 and 2017 measurement date. The following tables show SGA's employer allocation factors for the Plan as of the measurement dates for June 30:

2018:	Plan
Proportion - June 30, 2018	.0022513%
Proportion - June 30, 2017	.0029574%
Change – decrease	(.0007061)%
 2017:	Plan
Proportion - June 30, 2017	.0029574%
Proportion - June 30, 2016	.0030755%
Change – decrease	(.0001181)%

For the measurement periods ended June 30, 2018 and 2017 (the measurement dates), SGA incurred a pension expense of \$39,694 and \$58,620, respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

	Deferred Outflow of Resources	
	2019	2018
Contributions after measurement date	\$ 76,921	\$ 53,904
Difference between actual and expected experience	3,255	402
Changes in assumptions	9,673	49,858
Net difference between projected and actual earnings on plan investments	419	11,276
Adjustments due to differences in proportions	<u>20,591</u>	<u>3,104</u>
	<u>\$ 110,859</u>	<u>\$ 118,544</u>

The \$76,921 and \$53,904 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, 2020 and 2019, respectively.

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

	Deferred Inflow of Resources	
	2019	2018
Difference between actual and expected experience	\$ 1,108	\$ 5,757
Changes in assumptions	2,371	3,802
Differences between employer contributions and the employer's proportionate share of contributions	16,613	14,211
Adjustments due to differences in proportions	<u>7,820</u>	<u>17,318</u>
	<u>\$ 27,912</u>	<u>\$ 41,088</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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:

2019:

Measurement Period Ended June 30:	Deferred Outflows/ (Inflows) of Resources
2019	\$ 742
2020	4,946
2021	1,103
2022	(764)
	\$ 6,027

2018:

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

Actuarial Assumptions

For the measurement periods ended June 30, 2018 and 2017 (the measurement dates), the TPL was determined by rolling forward the June 30, 2017 and 2016 TPL, respectively. The June 30, 2018 and 2017 TPL were based on the following actuarial methods and assumptions:

2018:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
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 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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.

Changes in Assumptions

For the measurement period ended June 30, 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. The inflation rate for CalPERS was lowered from 2.75% to 2.50%. The discount rate did not change in 2018 Measurement period. For the measurement period ended June 30, 2017, the discount rate for the Plan decreased from 7.65% to 7.15%. Deferred outflows of resources for the change in assumptions represent the unamortized portion of this assumption change for the period ended June 30, 2017.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2018 and 2017 (the measurement date) was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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+ 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 for each fund. 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 adjusted to account for assumed administrative expenses.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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, 2018 and 2017.

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(a)	June 30, 2018		
	New Strategic Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
Total	100.0%		

(a) In the CalPER's System CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.0% used for this period.

(c) An expected inflation of 2.92% used for this period.

SACRAMENTO GROUNDWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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.

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% for both measurement dates June 30, 2018 and 2017, 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 one percentage-point lower or one percentage-point higher than the current rate:

2018:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Agency's Proportionate Share of Plan's NPL	\$ 136,285	\$ 84,845	\$ 42,383

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

Payable to the Pension Plan – At June 30, 2019 and 2018, SGA did not have outstanding payables to the pension plan.

SACRAMENTO GROUNDWATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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

The governmental fund balance sheet for June 30, 2019 is converted to the statement of net position by recording several financial transactions. As a result of GASB 68, SGA records \$110,859 in deferred outflows related to pensions, \$84,845 in a net pension liability, and \$27,912 in deferred inflows for unamortized pension adjustments. Additionally, SGA decreased deferred inflows by \$161,281 related to unavailable grant revenues, reflecting Sustainable Groundwater Planning (SGWP) grant revenue earned during the year ending June 30, 2019, but not yet collected.

For the year ended June 30, 2019, the statement of revenues, expenditures, and changes in fund balances is converted to the statement of activities by recording depreciation expense of \$528. Grant revenue of \$161,281 also reflects grant revenue earned based upon grant activity incurred. Pension expense has decreased by \$37,227 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 Coverage	100,000	499,900,000	\$1,000 - \$25,000/\$100,000 ⁽¹⁾
Fidelity Insurance	100,000	-	\$1,000
Worker's Compensation Insurance	2,000,000	Statutory	None

(1) Flood and earthquake deductible varies

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, 2019 AND 2018

8. COMMITMENTS AND 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 or the partner agencies of the SGWP grant have 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.

During the year ended June 30, 2019, the Department of Water Resources' (DWR) awarded the 2017 Proposition 1 Sustainable Groundwater Planning Grant (SGWP) for \$994,276 and is expected to take three years to complete. SGA manages the grant and coordinates the matching grant information from partner activities that fulfill the grant agreement requirements.

Independent of the GSA partners, SGA is committed to contribute a total of \$262,682 in project costs over the next several years. Additionally, SGA provided \$6,023 in staff time to manage the project for the year ended June 30, 2019 and expects to incur \$83,924 in total estimated staff time over the three year period.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO GROUNDWATER AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2019

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES			
Program Revenues:			
Assessment Income	\$ 715,800	\$ 715,859	\$ 59
SGMA Grant Income	400,000	50,912	(349,088)
SGMA Partner Fees	-	149,043	149,043
Total Program Revenues	<u>1,115,800</u>	<u>915,814</u>	<u>(199,986)</u>
General Revenue - Interest and Other Income	<u>6,000</u>	<u>35,521</u>	<u>29,521</u>
Total Revenues	<u>1,121,800</u>	<u>951,335</u>	<u>(170,465)</u>
PROGRAM AND GRANT EXPENDITURES			
Wages and Salaries	319,900	291,599	28,301
Employee Taxes and Benefits	197,800	162,605	35,195
Travel and Training	10,500	4,973	5,527
Administrative	<u>528,200</u>	<u>459,177</u>	<u>69,023</u>
Rent	16,200	15,407	793
Insurance	13,300	14,131	(831)
Telephone	6,400	5,952	448
Dues and Subscriptions	5,700	4,647	1,053
Printing and Supplies	10,600	6,773	3,827
Postage	1,500	1,294	206
Computer Maintenance	5,700	5,170	530
Meetings	1,200	1,145	55
Office	<u>60,600</u>	<u>54,519</u>	<u>6,081</u>
Audit	16,000	13,450	2,550
Legal Counsel Expense - General	40,000	27,009	12,991
Payroll and Banking Services	1,100	1,066	34
Consulting - General Support Services	61,300	78,495	(17,195)
Consulting - Program Management	273,300	-	273,300
Professional Fees	<u>391,700</u>	<u>120,020</u>	<u>271,680</u>
Capital Outlay and Equipment	4,200	3,812	388
Total Program Expenditures	<u>984,700</u>	<u>637,528</u>	<u>347,172</u>
SGMA Grant Expenditures	<u>400,000</u>	<u>361,235</u>	<u>38,765</u>
Total Expenditures	<u>1,384,700</u>	<u>998,763</u>	<u>385,937</u>
DEFICIENCY - EXCESS PROGRAM			
EXPENDITURES OVER REVENUES	(262,900)	(47,428)	215,472
Fund Balance, July 1, 2018	<u>771,587</u>	<u>771,587</u>	-
Fund Balance, June 30, 2019	<u>\$ 508,687</u>	<u>\$ 724,159</u>	<u>\$ 215,472</u>

SACRAMENTO GROUNDWATER AUTHORITY

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES			
Program Revenues:			
Assessment Income	\$ 744,100	\$ 744,065	\$ (35)
Grant Awards	-	-	-
Total Program Revenues	<u>744,100</u>	<u>744,065</u>	<u>(35)</u>
General Revenue - Interest and Other Income	<u>3,300</u>	<u>14,077</u>	<u>10,777</u>
Total Revenues	<u>747,400</u>	<u>758,142</u>	<u>10,742</u>
PROGRAM EXPENDITURES			
Wages and Salaries	303,200	306,160	(2,960)
Employee Taxes and Benefits	184,700	149,019	35,681
Travel and Training	<u>10,300</u>	<u>6,581</u>	<u>3,719</u>
Administrative	<u>498,200</u>	<u>461,760</u>	<u>36,440</u>
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	<u>1,100</u>	<u>2,102</u>	<u>(1,002)</u>
Office	<u>57,050</u>	<u>52,075</u>	<u>4,975</u>
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
Consulting - General Support Services	52,600	38,379	14,221
Consulting - Program Management	<u>248,300</u>	<u>28,598</u>	<u>219,702</u>
Professional Fees	<u>353,400</u>	<u>90,735</u>	<u>262,665</u>
Capital Outlay and Equipment	<u>14,100</u>	<u>3,512</u>	<u>10,588</u>
Total Program Expenditures	<u>922,750</u>	<u>608,082</u>	<u>314,668</u>
(DEFICIENCY) EXCESS REVENUE OVER PROGRAM EXPENDITURES	(175,350)	150,060	325,410
Fund Balance, July 1, 2017	<u>621,527</u>	<u>621,527</u>	<u>-</u>
Fund Balance, June 30, 2018	<u>\$ 446,177</u>	<u>\$ 771,587</u>	<u>\$ 325,410</u>

SACRAMENTO GROUNDWATER AUTHORITY

REQUIRED SUPPLEMENTARY DISCLOSURES PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST TEN YEARS

	Measurement Date		
	2018	2017	2016
Proportion of the net pension liability	0.002251%	0.002957%	0.003076%
Proportionate share of the net pension liability	\$ 84,845	\$ 116,581	\$ 106,839
Covered - employee payroll	\$ 289,758	\$ 263,178	\$ 266,850
Proportionate share of the net pension liability as a percentage of covered payroll	29.28%	44.30%	40.04%
Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	75.87%
SGA fiduciary net position as a percentage of the SGA pension liability	92.10%	90.24%	89.09%

Notes to Schedule:

For the June 30, 2018 measurement date, the inflation rate was lowered from 2.75% to 2.50%.

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 LAST TEN YEARS

	Fiscal Year		
	<u>2018-2019</u>	<u>2017-2018</u>	<u>2016-2017</u>
Contractually required contribution (actuarially determined)	\$ 27,571	\$ 27,004	\$ 23,831
Contributions in relation to the actuarially determined contributions	<u>76,921</u>	<u>53,904</u>	<u>50,731</u>
Contribution excess	<u>\$ (49,350)</u>	<u>\$ (26,900)</u>	<u>\$ (26,900)</u>
Covered - employee payroll	\$ 285,636	\$ 289,758	\$ 263,178
Contributions as a percentage of covered - employee payroll	26.93%	18.60%	19.28%
Contributions valuation date	June 30, 2017	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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 7, 2020.

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 CPAs

**GILBERT CPAs
Sacramento, California**

February 7, 2020