

**SACRAMENTO CENTRAL GROUNDWATER
AUTHORITY**

A Joint Powers Authority

Sacramento, California
Independent Auditors' Report,
Management's Discussion and Analysis,
Basic Financial Statements and
Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

Sacramento Central Groundwater Authority

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For the Fiscal Year Ended June 30, 2018**

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sacramento Central Groundwater Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Sacramento Central Groundwater Authority (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 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.

Auditors' 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

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 the General Fund of the Authority, as of June 30, 2018, and the respective changes in financial position for the 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 budgetary comparison information on pages 4–7 and 18–19 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 31, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 31, 2018

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

This section of Sacramento Central Groundwater Authority's (Groundwater Authority) annual financial statements presents a discussion and analysis of the Groundwater Authority's financial performance during the year ended June 30, 2018. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2018 the Groundwater Authority's governmental activities and general fund reported net position and fund balance of \$321,768.
- The decrease in total net position and fund balance of \$43,385 in Fiscal Year 2017-18 was attributable to engineering costs for agricultural water demand updates, basin management and other groundwater management services.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Groundwater Authority's basic financial statements. The Groundwater Authority's basic financial statements are comprised of three components: 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the Groundwater Authority's finances in a manner similar to private-sector businesses.

The *Statement of Net Position* presents information on all Groundwater Authority assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Groundwater Authority is improving or declining.

The *Statement of Activities* shows changes in net position during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., warrants payable).

The purpose of both of these government-wide financial statements is to report the functions of the Groundwater Authority that are principally supported by operating grants and contributions (*governmental activities*).

The government-wide financial statements can be found on pages 8 through 9 of this report.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018**

Fund Financial Statements are groupings of related accounts that are used to control resources that have been segregated for specific activities or objectives. The Groundwater Authority, like other states and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. As stated previously, the Groundwater Authority has only one *governmental fund*, the General Fund.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Groundwater Authority's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The governmental funds financial statements can be found on pages 10 through 11 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, can be found on pages 12-20 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Groundwater Authority is improving or declining.

**Statement of Net Position
Governmental Activities
June 30, 2018**

	2018	2017	Increase / (Decrease)	
			Amount	Percentage
Total current assets	\$ 369,225	\$ 443,917	\$ (74,692)	-16.8%
Current and other liabilities	47,457	78,764	(31,307)	-39.7%
Net position Unrestricted	\$ 321,768	\$ 365,153	\$ (43,385)	-11.9%

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018**

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$321,768 in *net position*. The decrease in net position is primarily due to a decrease in current assets as a result of a decreased cash balance in the County pool, and groundwater protection and preservation operating costs exceeding member contributions and general revenue.

The following table indicates the changes in net position for the Groundwater Authority's governmental activities:

Statement of Activities Governmental Activities Year Ended June 30, 2018				
	2018	2017	Increase / (Decrease)	
			Amount	Percentage
Revenues:				
Program revenues:				
Contributions	\$ 641,585	\$ 565,568	\$ 76,017	13.4%
General revenues:				
Interest	8,417	6,443	1,974	30.6%
Total revenues	<u>650,002</u>	<u>572,011</u>	<u>77,991</u>	<u>13.6%</u>
Expenses:				
Groundwater protection and preservation	<u>693,387</u>	<u>773,918</u>	<u>(80,531)</u>	<u>-10.4%</u>
Total expenses	<u>693,387</u>	<u>773,918</u>	<u>(80,531)</u>	<u>-10.4%</u>
Change in net position	(43,385)	(201,907)	158,522	-78.5%
Net position, July 1	365,153	567,060	(201,907)	-35.6%
Net position, June 30	<u>\$ 321,768</u>	<u>\$ 365,153</u>	<u>\$ (43,385)</u>	<u>-11.9%</u>

The increase in program revenues is attributable to an increase in member connection contributions and groundwater usage contributions in Fiscal Year 2017-18. The decrease in expenses is attributable to an overall decrease in professional services incurred with GEI Consultants in the amount of \$68,148 and RMC Water and Environment in the amount of \$16,560, and a decrease in legal fees incurred with Stole Rives and County Counsel in the amount of \$45,839.

FINANCIAL ANALYSIS OF THE GROUNDWATER AUTHORITY'S FUNDS

As noted earlier, the Groundwater Authority uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Groundwater Authority's general fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Groundwater Authority's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2018, the Groundwater Authority's general fund reported a fund balance of \$321,768.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018**

The following table presents the amount of revenues from various sources.

**Revenues Classified by Source
Governmental Funds**

Revenues by Source	FY 2018		FY 2017		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Contributions	\$ 641,585	98.7%	\$ 565,568	98.9%	\$ 76,017	13.4%
Interest	8,417	1.3%	6,443	1.1%	1,974	30.6%
Total	<u>\$ 650,002</u>	<u>100.0%</u>	<u>\$ 572,011</u>	<u>100.0%</u>	<u>\$ 77,991</u>	<u>13.6%</u>

Contributions revenue increased due to an increase in connection contributions in the amount of \$26,681, an increase in groundwater usage contribution in the amount of \$109,336, offset by an overall decrease in base contributions in the amount of \$60,000 in Fiscal Year 2017-18.

The following table presents expenditures by object class.

**Expenditures by Object Class
Governmental Funds**

Expenditures by Object Class	FY 2018		FY 2017		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Insurance	\$ 6,403	0.9%	\$ 7,940	1.1%	\$ (1,537)	(19.4%)
Professional services and fees	273,460	39.4%	375,737	48.5%	(102,277)	(27.2%)
County services	413,524	59.6%	390,241	50.4%	23,283	6.0%
Total	<u>\$ 693,387</u>	<u>100.0%</u>	<u>\$ 773,918</u>	<u>100.0%</u>	<u>\$ (80,531)</u>	<u>(10.4%)</u>

The decrease in expenditures can be explained on page 5.

General Fund Budgetary Highlights

The Fiscal Year 2017-18 Final Budget was adopted by the Groundwater Authority's Board of Directors on June 14, 2017.

There were no changes between the Original Budget and the Final Budget for Fiscal Year 2017-18.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (*Continued*)
For the Fiscal Year Ended June 30, 2018**

There were some significant variances in Fiscal Year 2017-18 final budget versus actual costs. The Groundwater Authority budgeted based off of actual costs incurred in the prior year. The Groundwater Authority incurred less costs than anticipated for County services and other professional services by \$33,241 and \$185,421, respectively, while incurring increased costs for Water Resources services in the amount of \$53,163 in Fiscal Year 2017-18.

Budget savings in County services and other professional services were offset by exceeded budget in Water Resources services by \$53,163 in Fiscal Year 2017-18. This was attributable to increased hours worked by Water Resources Engineers and Department of Technology staff for web re-design.

Member contributions was less than budget by \$40,000 in Fiscal Year 2017-18 and this was due to the Groundwater Accounting Program (GAP) study in collaboration with Sacramento County Regional Sanitation District not being performed.

Economic Factors and Next Year's Budget

The Fiscal Year 2018-19 Final Budget was adopted by the Groundwater Authority's Board of Directors on June 27, 2018.

The proposed means of financing the \$814,930 in budgeted expenditures for Fiscal Year 2018-19 includes member contributions totaling \$852,707.

Request for Information

This financial report is designed to provide a general overview of the Groundwater Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Herman T. Williams, CPA, Chief Financial & Administrative Officer, Sacramento County Department of Water Resources, 827 7th Street, Room 301, Sacramento, CA 95814.

BASIC FINANCIAL STATEMENTS

Sacramento Central Groundwater Authority
Statement of Net Position - Governmental Activities
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 365,068
Interest receivable	<u>4,157</u>
Total Assets	<u>369,225</u>
LIABILITIES	
Warrants and accounts payable	<u>47,457</u>
NET POSITION	
Unrestricted	<u><u>\$ 321,768</u></u>

Sacramento Central Groundwater Authority
Statement of Activities - Governmental Activities
Year Ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants and</u> <u>Contributions</u>	<u>Net Revenue /</u> <u>(Expense) and</u> <u>Change in</u> <u>Net Position</u>
FUNCTIONS/PROGRAMS			
Groundwater protection and preservation	\$ 693,387	\$ 641,585	\$ (51,802)
Total Governmental Activities	<u>\$ 693,387</u>	<u>\$ 641,585</u>	<u>(51,802)</u>
General revenues:			
Interest and other income			8,417
Change in Net Position			(43,385)
Net Position, July 1			<u>365,153</u>
Net Position, June 30			<u>\$ 321,768</u>

Sacramento Central Groundwater Authority
Balance Sheet
Governmental Fund
June 30, 2018

	General Fund
ASSETS:	
Cash and investments	\$ 365,068
Interest receivable	4,157
Total Assets	\$ 369,225
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Warrants and accounts payable	47,457
 FUND BALANCE:	
Unassigned	321,768
Total Liabilities and Fund Balance	\$ 369,225

Sacramento Central Groundwater Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2018

	General Fund
REVENUES:	
Contributions	\$ 641,585
Interest	8,417
Total Revenues	650,002
 EXPENDITURES:	
Current:	
Groundwater Protection and	
Preservation:	
Insurance	6,403
Professional services and fees	273,460
County services	413,524
Total Expenditures	693,387
Net Change in Fund Balance	(43,385)
Fund Balance - Beginning	365,153
Fund Balance - Ending	\$ 321,768

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorized Legislation and Organization

The Sacramento Central Groundwater Authority (Groundwater Authority), which was created effective August 29, 2006, pursuant to Section 6500 of the California State Government Code and the provisions of a Joint Exercise of Powers Agreement, is a political subdivision of the State of California. The Groundwater Authority is a jointly governed organization under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No.14 and No.34*. Parties to this agreement are the City of Elk Grove, City of Folsom, City of Rancho Cordova, City of Sacramento, County of Sacramento, Sacramento Regional County Sanitation District, Florin Resource Conservation District/Elk Grove Water Service, Omochumne-Hartnell Water District, and Rancho Murieta Community Services District. The Groundwater Authority was formed to maintain the long-term sustainable yield of the Central Basin; ensure implementation of the Basin Management Objectives prescribed in the Groundwater Management Plan; oversee the operation of a Well Protection Program; manage the use of groundwater in the Central Basin and facilitate implementation of an appropriate conjunctive use program by water purveyors; coordinate efforts among those entities represented on the governing body of the Groundwater Authority to devise and implement strategies to safeguard groundwater quality; and to work collaboratively with other entities in order to promote coordination of water policies and activities throughout the region. The Groundwater Authority is governed by a Board of Directors, which consists of sixteen members. Representation includes a Board member from nine public agencies, two private water purveyors, one representative of agricultural interests, one representative of agriculture-residential groundwater users, one representative of commercial/industrial self-supplied groundwater users, one representative of conservation landowners, and one representative of public agencies that are self-supplied groundwater users. The County of Sacramento is responsible for the Treasurer and Controller functions of the Groundwater Authority.

Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (Groundwater Authority).

The statement of activities presents direct expenses and program revenues for each function of the Groundwater Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function.

Program revenues include grants and contributions that are intended to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including interest income, are presented instead as general revenues.

When both restricted and unrestricted resources are available, restricted resources are used first, then unrestricted resources as needed.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The fund financial statements provide information about the Groundwater Authority's funds, which include only *governmental funds*.

The Groundwater Authority reports the following major governmental fund:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the Groundwater Authority.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Groundwater Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and contributions. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Non-grant revenues are considered measurable and available when their receipt occurs within sixty days after the end of the accounting period. For grant revenues, the period of availability is 120 days.

Contribution Revenue

Each member of the Groundwater Authority contributes annually based on various formulas set forth in the Joint Powers Agreement. Budgeting for each fiscal year is based on the amount to be received from these contributions. Contributions are payable in annual installments within 30 days of receipt of billing.

Fund Balance

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Groundwater Authority's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Groundwater Authority's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Only the Board has the authority to assign unassigned fund balance amounts where the Groundwater Authority's intent is for those amounts to be used for specific purposes.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

The Board of Directors, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a resolution. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use through the same type of formal action taken to establish the commitment. Board action to commit fund balance needs to occur within the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

Minimum Fund Balance Policy

The Groundwater Authority is required to budget for and maintain a 20% operating reserve. This is an ongoing reserve with the purpose of assuring adequate funds are available for operations pending the receipt of annual contributions from member agencies. The policy requires unassigned fund balance to be at least equal to 20% of budgeted expenditures.

Cash and Investments

Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of Sacramento (County) has custody of all cash for the Groundwater Authority. The Groundwater Authority's share of the pooled cash account is separately accounted for and interest earned, net of related expenses, is apportioned at the end of each quarter based upon the relationship of its daily cash balance to the total of the pooled account. The value of the Groundwater Authority's shares in the pools is determined on an amortized cost basis, which approximates fair market value.

Fair Value Measurement

The Groundwater Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 2 – CASH AND INVESTMENTS

The Groundwater Authority's cash and investment are held in the County Treasurer's pool. The County Treasurer's pool is not rated by credit rating agencies. At June 30, 2018, the Groundwater Authority's cash and investments held in the County Treasurer's pool totaled \$365,068. Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County's basic financial statements. The Groundwater Authority has not formally adopted an investment policy that addresses any of the risks previously noted.

**Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Groundwater Authority’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made on the basis of cost and not fair value.

Accordingly, the measurement of fair value of the Groundwater Authority’s proportionate share of investments in the County Pool at June 30, 2018 of \$ 365,068 is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

NOTE 3 – RISK MANAGEMENT

The Groundwater Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Groundwater Authority reports all of its risk management activities in its General Fund. The Groundwater Authority purchases commercial insurance for property damage and liability through an insurance agent, who obtains the appropriate insurance coverage needed by the Groundwater Authority from insurance companies.

Sacramento Central Groundwater Authority deductibles and maximum coverage follows:

Coverage	Limits	Deductibles/SIR	Carrier	Effective Date	Policy Number or Memorandum Number
General Liability, Automotive, Public Officials Errors and Omissions	\$5,000,000 Each Occurrence and Aggregate	\$1,000	Alliant Insurance Services, Inc.	9/29/2017– 9/29/2018	PAC 2145100 00
	\$1,000,000 Damage to Rented Premises			9/29/2018– 9/29/2019	PAC 2145100 01

Since the inception of the policy in September 2013, there were no instances of settlements which exceeded insurance coverage. There have been no significant reductions in insurance coverage.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 4 – RELATED PARTY TRANSACTIONS

The Groundwater Authority uses County of Sacramento departments for other services, such as engineering, administrative, and legal counsel. Expenditures paid to the County of Sacramento during the year were \$413,524.

Engineering	\$ 358,440
Administrative	29,377
County Counsel	<u>25,707</u>
Related Party Transactions	<u>\$ 413,524</u>

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Groundwater Authority is a defendant in various matters of litigation. Of these matters, management and the Groundwater Authority’s legal counsel do not anticipate any material effect on the June 30, 2018 financial statements.

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards, any of which may have a significant impact on the Groundwater Authority’s financial reporting process. Future new standards which may impact the Groundwater Authority include the following:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations (ARO)*. This statement addresses accounting and financial reporting for certain asset retirement obligations. A government has a legal obligation to perform future asset retirement activities related to its tangible capital assets, and should recognize a liability. This statement is effective for periods beginning after June 15, 2018. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement is effective for periods beginning after December 15, 2018. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for periods beginning after December 15, 2019, but earlier application is encouraged. The Groundwater Authority has not determined the effect, if any, on the financial statements.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for periods beginning after June 15, 2018. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for periods beginning after December 15, 2019, but earlier application is encouraged. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for periods beginning after December 15, 2018. The Groundwater Authority has not determined the effect, if any, on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Sacramento Central Groundwater Authority
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (GAAP Basis)
Year Ended June 30, 2018
General Fund

	Budgeted amounts		Actual	Variance with Final Budget -
	Original	Final		Positive (Negative)
REVENUES:				
Contributions	\$ 681,585	\$ 681,585	\$ 641,585	\$ (40,000)
Interest	3,800	3,800	8,417	4,617
Total Revenues	685,385	685,385	650,002	(35,383)
EXPENDITURES:				
Current:				
Groundwater Protection and Preservation:				
Insurance	6,500	6,500	6,403	97
Professional services and fees	458,881	458,881	273,460	185,421
County services	446,765	446,765	413,524	33,241
Total Expenditures	912,146	912,146	693,387	33,338
Excess / (Deficiency) of Revenues Over / (Under) Expenditures	(226,761)	(226,761)	(43,385)	183,376
NET CHANGE IN FUND BALANCE (GAAP BASIS)	(226,761)	(226,761)	(43,385)	183,376
FUND BALANCE, July 1	365,153	365,153	365,153	-
FUND BALANCE, June 30	\$ 138,392	\$ 138,392	\$ 321,768	\$ 183,376

**Sacramento Central Groundwater Authority
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

Budget and Budgetary Accounting

The Groundwater Authority prepares and legally adopts a final budget on or before June 30 of each fiscal year. The Groundwater Authority's operation, commencing July 1st, is governed by the proposed budget, adopted by the Groundwater Authority Board of Directors by June of the prior fiscal year.

After the budget is approved, modifications can only be made after consideration and approval by the Groundwater Authority Board of Directors. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Groundwater Authority's board.

The Executive Director prepares and submits a proposed budget to the Board of Directors no later than the last regularly scheduled meeting before the commencement of the ensuing fiscal year. After reviewing the proposed budget and making such revisions as it may deem advisable, a final budget is prepared and adopted no later than the June board meeting. Budgetary control is at the fund and object levels. An operating budget is adopted each year on the modified accrual basis.

OTHER REPORTS



INDEPENDENT AUDITOR'S 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

To the Board of Directors
Sacramento Central 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 governmental activities and the General Fund of the Sacramento Central Groundwater Authority (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 31, 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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

December 31, 2018