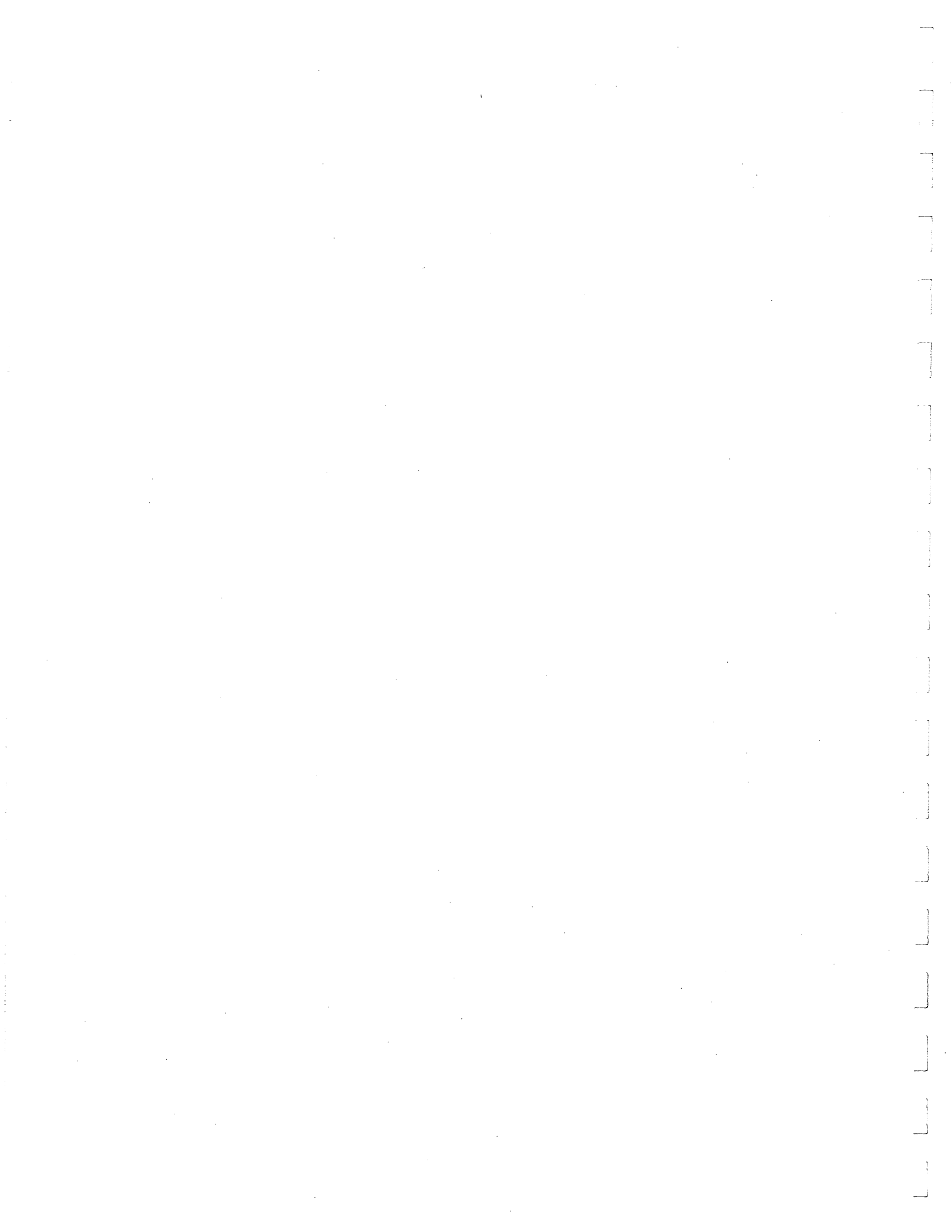


**SACRAMENTO CENTRAL GROUNDWATER AUTHORITY**  
**A Joint Powers Authority**  
Sacramento, California

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

**For the Fiscal Year Ended June 30, 2008**



**Sacramento Central Groundwater Authority**

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**June 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sacramento Central Groundwater Authority  
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Sacramento Central Groundwater Authority (the Groundwater Authority), as of and for the year ended June 30, 2008, which collectively comprise the Groundwater Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Groundwater Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Groundwater Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our 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 Sacramento Central Groundwater Authority, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2010, on our consideration of the Groundwater 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and General Fund budgetary comparison information on pages 3 through 6 and 18, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Varrinck, Trine, Day & Co. LLP*

Sacramento, California  
July 16, 2010

## Sacramento Central Groundwater Authority

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

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, 2008. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

#### FINANCIAL HIGHLIGHTS

- As of June 30, 2008 the Groundwater Authority's governmental funds reported a fund balance of \$251,991.
- The increase in total assets in Fiscal Year 2007-08 was attributable to the contributions the Groundwater Authority received from member agencies and interest earned on contributions.

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

The *Statement of Activities* shows changes in net assets during the fiscal year. All changes in net assets 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 distinguish functions of the Groundwater Authority that are principally supported by grants and other intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). However, the Groundwater Authority does not have business-type activities. The governmental activities of the Groundwater Authority consist of groundwater protection and preservation.

The government-wide financial statements can be found on pages 7 through 8 of this report.

**Sacramento Central Groundwater Authority**

**Management's Discussion and Analysis (Continued)  
For the Fiscal Year Ended June 30, 2008**

**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. However, the Groundwater Authority only has *governmental funds* and does not have *proprietary funds* or *fiduciary funds*.

**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 9 through 10 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. The notes can be found starting on page 11 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

**Statement of Net Assets (Deficit)**

	Governmental Activities June 30,			
	2008	2007	Increase/(Decrease)	
			Amount	Percentage
Total current assets	\$ 252,937	\$ 193,175	\$ 59,762	30.9%
Current and other liabilities	946	147	799	543.5%
Total liabilities	946	147	799	543.5%
Net assets (deficit):				
Unrestricted	\$ 251,991	\$ 193,028	\$ 58,963	30.5%



**Sacramento Central Groundwater Authority**

**Management's Discussion and Analysis (Continued)  
For the Fiscal Year Ended June 30, 2008**

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$251,991 in *net assets*.

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

**Statement of Activities**

	Year Ended June 30,		Increase / (Decrease)	
	2008	2007	Amount	Percentage
Revenues:				
Program revenues:				
Contributions	\$ 270,471	\$ 214,740	\$ 55,731	26.0%
General revenues:				
Interest	14,462	2,514	11,948	475.3%
Total revenues	<u>284,933</u>	<u>217,254</u>	<u>67,679</u>	<u>31.2%</u>
Expenses:				
Groundwater protection and preservation	225,970	24,226	201,744	832.8%
Total expenses	<u>225,970</u>	<u>24,226</u>	<u>201,744</u>	<u>832.8%</u>
Change in net assets	58,963	193,028	(134,065)	-69.5%
Net assets, July 1	193,028	-	193,028	-
Net assets, June 30	<u>\$ 251,991</u>	<u>\$ 193,028</u>	<u>\$ 58,963</u>	<u>30.5%</u>

**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 *governmental funds* 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, *unreserved 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, 2008, the Groundwater Authority's governmental funds reported a fund balance of \$251,991.

**Sacramento Central Groundwater Authority**

**Management's Discussion and Analysis (Continued)  
For the Fiscal Year Ended June 30, 2008**

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

**Revenues Classified by Source  
Governmental Funds**

Revenues by Source	FY 2008		FY 2007		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Contributions	\$ 270,471	94.9%	\$ 214,740	98.8%	\$ 55,731	26.0%
Interest	14,462	5.1%	2,514	1.2%	11,948	74.0%
<b>Total</b>	<b>\$ 284,933</b>	<b>100.0%</b>	<b>\$ 217,254</b>	<b>100.0%</b>	<b>\$ 67,679</b>	<b>31.2%</b>

The following table presents expenditures by function.

**Expenditures by Function  
Governmental Funds**

Expenditures by Function	FY 2008		FY 2007		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Groundwater protection and preservation	\$ 225,970	100.0%	\$ 24,226	100.0%	\$ 201,744	832.8%
<b>Total</b>	<b>\$ 225,970</b>	<b>100.0%</b>	<b>\$ 24,226</b>	<b>100.0%</b>	<b>\$ 201,744</b>	<b>832.8%</b>

**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 Susan R. Purdin, CPA, Chief Financial and Administrative Officer, Sacramento County Department of Water Resources, 827 7<sup>th</sup> Street #301, Sacramento, California 95814.

**Sacramento Central Groundwater Authority**  
**Statement of Net Assets – Governmental Activities**  
**June 30, 2008**

**ASSETS**

Cash and investments	\$ 247,292
Due from Sacramento County	<u>5,645</u>
Total Assets	<u>252,937</u>

**LIABILITIES**

Due to Sacramento County	<u>946</u>
Total Liabilities	<u>946</u>

**NET ASSETS**

Unrestricted	<u><u>\$ 251,991</u></u>
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See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority**

**Statement of Activities – Governmental Activities  
Year Ended June 30, 2008**

	Expenses	Operating Grants & Contributions	Net Revenue / (Expense) and Changes in Net Assets
<b>FUNCTIONS/PROGRAMS</b>			
Groundwater protection and preservation	\$ 225,970	\$ 270,471	\$ 44,501
Total Governmental Activities	\$ 225,970	\$ 270,471	\$ 44,501
General revenues:			
Interest			14,462
Total General Revenues			14,462
Change in Net Assets			\$ 58,963
Net Assets, July 1			193,028
Net Assets, June 30			\$ 251,991

See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority**

**Balance Sheet  
Governmental Fund  
June 30, 2008**

	<u>General Fund</u>
<b>ASSETS:</b>	
Cash and investments	\$ 247,292
Due from Sacramento County	<u>5,645</u>
Total Assets	<u><u>\$ 252,937</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
Due to Sacramento County	<u>946</u>
Total Liabilities	<u>946</u>
<b>FUND BALANCE:</b>	
Unreserved	<u>251,991</u>
Total Fund Balance	<u>251,991</u>
Total Liabilities and Fund Balance	<u><u>\$ 252,937</u></u>

See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority**

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
Year Ended June 30, 2008**

	<u>General Fund</u>
REVENUES:	
Contributions	\$ 270,471
Interest	14,462
Total Revenues	<u>284,933</u>
EXPENDITURES:	
Current:	
Groundwater protection and preservation	225,970
Total Expenditures	<u>225,970</u>
Excess of Revenues Over Expenditures	<u>58,963</u>
Beginning Fund Balance	<u>193,028</u>
Ending Fund Balance	<u><u>\$ 251,991</u></u>

See accompanying notes to the basic financial statements.

## **Sacramento Central Groundwater Authority**

### **Notes to the Basic Financial Statements June 30, 2008**

#### **NOTE 1 – REPORTING ENTITY**

##### **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. 14, *the Financial Reporting Entity*. 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.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### *Basis of Presentation*

##### *Government-wide Financial Statements*

The statement of net assets 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.

**Sacramento Central Groundwater Authority**

**Notes to the Basic Financial Statements  
June 30, 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Government-wide Financial Statements (Continued)*

Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

*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's.

*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 donations. 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. Certain state and federal grants are accrued when their receipt occurs within three hundred sixty-five days after the end of the accounting period so as to be both measurable and available. Interest and all other forms of revenue are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

*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.



**Sacramento Central Groundwater Authority**

**Notes to the Basic Financial Statements  
June 30, 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Accounting Pronouncements Implemented*

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Groundwater Agency's financial reporting process. The following pronouncements were implemented for the year ended June 30, 2008:

*Governmental Accounting Standard No. 45*

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

*Government Accounting Standards Board Statement No. 48*

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenue and Intra-Entity Transfers of Assets*. This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. This Statement does not apply to a government's pledge of its "full faith and credit" as security for its own debt of a component unit. The requirements of this Statement apply to the financial statements of all state and local governments. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

*Government Accounting Standards Board Statement No. 50*

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures-an amendment of GASB statements No. 25 and No. 27*. This statement No. 50 amends GASB Statement No. 27 to require employers participating in a cost sharing plan to include the following in the note disclosure: the required contribution rates of the employer in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, and how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost sharing plan is financed on a pay-as-you-go basis. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

**Sacramento Central Groundwater Authority**

**Notes to the Basic Financial Statements  
June 30, 2008**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. 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.

Cash and investments in the Groundwater Authority's investment pools are presented at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The value of the Groundwater Authority's shares in the pools is determined on an amortized cost basis, which may be different from fair value. The County's Comprehensive Annual Financial Report, containing all of the applicable provisions of GASB 40, can be obtained from the County Auditor-Controller's Office.

**NOTE 3 – CASH AND INVESTMENTS**

As discussed in Note 2, 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, 2008, the Groundwater Authority's cash and investments held in the County Treasurer's pool totaled \$247,292.

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 3 of the County's basic financial statements.

**NOTE 4 – RELATED PARTY TRANSACTIONS**

The Groundwater Authority uses other County of Sacramento departments for other services, such as engineering, administrative, accounting, etc. Expenditures paid to the County of Sacramento during the year were \$185,449.

## Sacramento Central Groundwater Authority

### Notes to the Basic Financial Statements

June 30, 2008

#### NOTE 5 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards 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:

##### *Governmental Accounting Standard No. 49*

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements of this Statement are effective for financial statements for periods ending June 30, 2009. The Groundwater Authority has not determined its effect, if any, on the financial statements.

##### *Governmental Accounting Standard No. 51*

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Groundwater Authority has not determined its effect, if any, on the financial statements.

##### *Governmental Accounting Standard No. 52*

In November 2007, The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008 (June 30, 2009). The Groundwater Authority has not determined its effect, if any, on the financial statements.

**Sacramento Central Groundwater Authority**

**Notes to the Basic Financial Statements  
June 30, 2008**

**NOTE 5 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

*Governmental Accounting Standard No. 53*

In June 2007, The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, with earlier application encouraged. The Groundwater Authority has not determined its effect, if any, on the financial statements.

*Governmental Accounting Standard No. 54*

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. The Groundwater Authority has not determined its effect, if any, on the financial statements.

*Governmental Accounting Standard No. 55*

In March 2008, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of general accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The Groundwater Authority has not determined its effect, if any, on the financial statements.

*Governmental Accounting Standard No. 56*

In March 2008, The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. The Groundwater Authority has not determined its effect, if any, on the financial statements.

**Sacramento Central Groundwater Authority**

**Notes to the Basic Financial Statements  
June 30, 2008**

**NOTE 5 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

*Governmental Accounting Standard No. 57*

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses issued related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plan. This statement is effective for periods beginning after June 15, 2011. The Groundwater Authority has not determined its effect, if any, on the financial statements.

*Governmental Accounting Standard No. 58*

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement is effective for periods beginning after June 15, 2009. The Groundwater Authority has not determined its effect, if any, on the financial statements.

**Sacramento Central Groundwater Authority**

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2008**

**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 1<sup>st</sup>, is governed by the proposed budget, adopted by the JPA 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 JPA 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 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.

An operating budget is adopted each year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

**OTHER REPORTS**

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**INDEPENDENT AUDITORS' 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**

Board of Directors  
Sacramento Central Groundwater Authority  
Sacramento, California

We have audited the financial statements of the Sacramento Central Groundwater Authority (the Groundwater Authority), as of and for the year ended June 30, 2008, which collectively comprise the Groundwater Authority's basic financial statements and have issued our report thereon dated July 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Groundwater Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Groundwater Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Groundwater Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Groundwater Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Groundwater Authority's financial statements that is more than inconsequential will not be prevented or detected by the Groundwater Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Groundwater Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Groundwater Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, the Groundwater Authority's management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
July 16, 2010