

**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
and Other Reports

For the Fiscal Year Ended June 30, 2010

Sacramento Central Groundwater Authority

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June 30, 2010**

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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, 2010, 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, 2010, 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 7, 2011, 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 7 and 20 through 21, 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.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California

July 7, 2011

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

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, 2010. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2010 the Groundwater Authority's governmental funds reported a fund balance of \$491,549.
- The increase in total net assets in Fiscal Year 2009-10 was attributable to the contributions the Groundwater Authority received from member agencies, interest earned on contributions and operating grants.

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 8 through 9 of this report.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2010**

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 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. The notes can be found starting on page 12 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
Governmental Activities
June 30,**

	2010	2009	Increase / (Decrease)	
			Amount	Percentage
Total current assets	\$ 546,631	\$ 389,077	\$ 157,554	40.5%
Current and other liabilities	36,613	23,972	12,641	52.7%
Net assets				
Unrestricted	\$ 510,018	\$ 365,105	\$ 144,913	39.7%

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$510,018 in *net assets*. The increase in net assets is primarily due to the winding down of the AB303 grant. This resulted in a decrease in reimbursable grant expenditures.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2010**

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

Statement of Activities
Year Ended June 30,

	2010	2009	Increase / (Decrease)	
			Amount	Percentage
Revenues:				
Program revenues:				
Contributions	\$ 267,146	\$ 263,336	\$ 3,810	1.4%
State Grants	73,686	111,008	(37,322)	-33.6%
General revenues:				
Interest	4,741	9,347	(4,606)	-49.3%
Total revenues	<u>345,573</u>	<u>383,691</u>	<u>(38,118)</u>	<u>-9.9%</u>
Expenses:				
Groundwater protection and preservation	<u>200,660</u>	<u>270,577</u>	<u>(69,917)</u>	<u>-25.8%</u>
Total expenses	<u>200,660</u>	<u>270,577</u>	<u>(69,917)</u>	<u>-25.8%</u>
Change in net assets	144,913	113,114	31,799	28.1%
Net assets, July 1	<u>365,105</u>	<u>251,991</u>	<u>113,114</u>	<u>44.9%</u>
Net assets, June 30	<u>\$ 510,018</u>	<u>\$ 365,105</u>	<u>\$ 144,913</u>	<u>39.7%</u>

Costs reimbursable under the grant for the Authority's database management system maintenance decreased from the prior year. The decrease in expenses resulted in a corresponding decrease in grant revenue.

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, 2010, the Groundwater Authority's governmental funds reported a fund balance of \$491,549.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2010**

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

**Revenues Classified by Source
Governmental Funds**

Revenues by Source	FY 2010		FY 2009		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Contributions	\$ 267,146	79.0%	\$ 263,336	70.7%	\$ 3,810	1.4%
State Grants	66,318	19.6%	99,907	26.8%	(33,589)	-33.6%
Interest	4,741	1.4%	9,347	2.5%	(4,606)	-49.3%
Total	<u>\$ 338,205</u>	<u>100.0%</u>	<u>\$ 372,590</u>	<u>100.0%</u>	<u>\$ (34,385)</u>	<u>-9.2%</u>

State grants decreased as a result in a decrease in reimbursable grant expenditures.

The following table presents expenditures by function.

**Expenditures by Function
Governmental Funds**

Expenditures by Function	FY 2010		FY 2009		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Groundwater protection and preservation	\$ 200,660	100.0%	\$ 270,577	100.0%	\$ (69,917)	(25.8%)
Total	<u>\$ 200,660</u>	<u>100.0%</u>	<u>\$ 270,577</u>	<u>100.0%</u>	<u>\$ (69,917)</u>	<u>(25.8%)</u>

Costs reimbursable under the grant for the Authority's database management system maintenance decreased from the prior year.

General Fund Budgetary Highlights

The fiscal year 2009-2010 Final Budget was adopted by the Groundwater Authority's Board of Directors on June 10, 2009.

The AB303 grant was budgeted at its full amount during the 2008-09 fiscal year though part of it was not earned until 2009-10. This resulted in a favorable budget variance in State Grant Revenue. Reimbursable costs associated with the AB303 grant were budgeted in full during the 2008-09 fiscal year though part of those costs were not incurred until 2009-10. This resulted in an unfavorable budget variance in Other Professional Fees. Due to the winding down of the AB303 grant, no additional large projects were implemented during the current year. This resulted in a favorable budget variance in Administrative Services.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (*Continued*)
For the Fiscal Year Ended June 30, 2010**

Economic Factors and Next Year's Budget

The fiscal year 2010-2011 Final Budget was adopted by the Groundwater Authority's Board of Directors on May 12, 2010.

The proposed means of financing the \$308,300 in budgeted expenditures for fiscal year 2010-11 includes:

- Member Contributions: \$268,461
- Use of Prior Year Fund Balance: \$93,047

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 Susan R. Purdin, CPA, Chief Financial & Administrative Officer, Sacramento County Department of Water Resources, 827 7th Street, Room 301, Sacramento, CA 95814.

Sacramento Central Groundwater Authority
Statement of Net Assets – Governmental Activities
June 30, 2010

ASSETS

Cash and investments	\$ 491,333
Due from Sacramento County	1,530
Due from other governments	<u>53,768</u>
Total Assets	<u>546,631</u>

LIABILITIES

Warrants payable and accounts payable	35,705
Due to Sacramento County	<u>908</u>
Total Liabilities	<u>36,613</u>

NET ASSETS

Unrestricted	<u><u>\$ 510,018</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, 2010

	Expenses	<u>Program Revenues</u> Operating Grants and Contributions	Net Revenue / (Expense) and Change in Net Assets
FUNCTIONS/PROGRAMS			
Groundwater protection and preservation	\$ 200,660	\$ 340,832	\$ 140,172
 Total Governmental Activities	\$ 200,660	\$ 340,832	\$ 140,172
 General revenues:			
Interest and other income			4,741
Total General Revenues			4,741
 Change in Net Assets			\$ 144,913
 Net Assets, July 1			365,105
 Net Assets, June 30			\$ 510,018

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority
Balance Sheet
Governmental Fund
June 30, 2010

	General Fund
ASSETS:	
Cash and investments	\$ 491,333
Due from Sacramento County	1,530
Due from other governments	53,768
Total Assets	\$ 546,631
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Deferred revenue	18,469
Warrants payable and claims payable	35,705
Due to other funds	908
Total Liabilities	55,082
 FUND BALANCE:	
Reserve for Encumbrances	68,469
Unreserved	423,080
Total Fund Balance	491,549
Total Liabilities and Fund Balance	\$ 546,631

Reconciliation to Statement of Net Assets:

Total Fund Balance - Above	\$ 491,549
 Amounts reported for Governmental Activities in the Statement of Net Assets (Page 8) are different because:	
Accounts receivable not available to pay for current period expenditures are deferred in the fund	18,469
Net Assets of Governmental Activities (Page 8)	\$ 510,018

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, 2010

	General Fund
REVENUES:	
Contributions	\$ 267,146
State Grant Revenue	66,318
Interest	4,741
Total Revenues	338,205
EXPENDITURES:	
Current:	
Groundwater protection and preservation	200,660
Total Expenditures	200,660
Excess of Revenues Over Expenditures	137,545
Beginning Fund Balance	354,004
Ending Fund Balance	\$ 491,549
Reconciliation to Statement of Activities:	
Net Change in Fund balance - Above	\$ 137,545
Amounts reported for Governmental Activities in the Statement of Activities (Page 9) are different because:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund	
Deferred Grant Revenues earned but not received within the 60-day accrual period	7,368
Change in Net Assets of Governmental Activities (Page 9)	\$ 144,913

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

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 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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

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.

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. 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, retentions withheld pertaining to revenue earned, 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.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from Other Governments

These amounts represent receivables due from other government agencies, which includes amounts due from the state for reimbursable grant expenditures. Management believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

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.

Reserve Requirement

The 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.

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's Authority's financial reporting process. The Groundwater Authority became subject to the following GASB Statements for the year ended June 30, 2010:

Governmental Accounting Standard No. 51

In June 2007, the GASB issued Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets. The statement requires that all intangible assets not specifically excluded by scope provisions be classified as capital assets. This Statement is effective for the fiscal year ending June 30, 2010. 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, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Governmental Accounting Standard No. 53

In June 2008, the GASB issued Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments*. The objective of this Statement is to address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is effective for the fiscal year ending June 30, 2010. The Groundwater Authority currently has no investments in derivative instruments.

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. Currently this statement does not apply to the Groundwater Authority.

Cash Equivalents 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.

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.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

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, 2010, the Groundwater Authority’s cash and investments held in the County Treasurer’s pool totaled \$491,333.

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 County of Sacramento departments for other services, such as engineering, administrative, accounting, etc. Expenditures paid to the County of Sacramento during the year were \$113,937.

NOTE 5 – DEFERRED REVENUE

Unavailable Revenue

Governmental funds report deferred revenue on the balance sheet in connection with resources that have been earned, but are not yet available to finance expenditures of the current fiscal period. This type of deferred revenue is unique to governmental funds, since it is tied to the modified accrual basis of accounting. Accordingly, deferred unavailable revenue is not reported on the Statement of Net Assets. At the end of the current fiscal year, the component of unavailable deferred revenue resulting from retentions not received with the 60-day accrual period was as follows:

Major Fund:

General Fund – State Grant	<u>\$ 18,469</u>
Total Deferred Unavailable Revenue for Governmental Funds	<u>\$ 18,469</u>

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

NOTE 6 – COMMITMENTS

The Groundwater Authority has contracted with Sacramento County Department of Water Resources and Information Management Engineering, Inc. (WRIME) for consulting services and project management until contracted services are complete, which is estimated to be December 31, 2010. This contract is cancelable at anytime, with or without cause, upon 30-days written notice by the Groundwater Authority. The aggregate contractual commitment totals \$249,964 through the end of the contract.

NOTE 7 – STATE GRANT

The Groundwater Authority has entered into a reimbursement based operating grant agreement with the State of California. Under the grant agreement, the State of California has agreed to provide funds to the Groundwater Authority for the purpose of conducting groundwater studies and for carrying out groundwater monitoring and management activities. The grant term shall expire when all parties to the agreement have fulfilled their obligations under the agreement, which is estimated to be December 31, 2010. The maximum payable under the agreement shall not exceed \$249,964. As of June 30, 2010, unexpended grant funds totaled \$83,739.

NOTE 8 – 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:

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. The Groundwater Authority has not determined its effect on the financial statements.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

NOTE 8 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

Governmental Accounting Standard No. 57

In December 2009, the GASB issued statement No. 57, *OPEB Measurements by Agent Employers and Agent Multi-Employer Plans*. The objective of this statement is to address issues 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) plans. This statement is effective for periods beginning after June 15, 2011. The Groundwater Authority has not determined its effect on the financial statements.

Governmental Accounting Standard No. 59

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Statement 59 addresses significant practice issues when accounting for financial instruments by increasing the consistency of measurements and providing clarification of existing standards. This guidance will improve financial reporting in ways that benefit both users and preparers of financial reports. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. The Groundwater Authority has not determined its effect on the financial statements.

Governmental Accounting Standard No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Services Concession Arrangements*, for financial statements for periods beginning after December 15, 2011. The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for services concession arrangements (SCAs) for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Groundwater Authority has not determined its effect on the financial statements.

Governmental Accounting Standard No. 61

In November 2010, the GASB issued Statement No. 61, *Financial Reporting Entity: Omnibus*, effective for financial statements for periods beginning after June 15, 2012. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2010

NOTE 8 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

Governmental Accounting Standard No. 61 (Continued)

elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic. Lastly, the requirements for reporting equity interests in component units help ensure that primary government financial statements do not understate their financial position and provide for more consistent and understandable display of those equity interests. The Groundwater Authority has not determined its effect on the financial statements.

Governmental Accounting Standard No. 62

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for financial statements for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Applicable pronouncements are those that were issued on or before November 30, 1989 and which do not conflict with or contradict GASB pronouncements. The Groundwater Authority has not determined its effect 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)
For the Year Ended June 30, 2010
General Fund

	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Contributions	\$ 267,146	\$ 267,146	\$ 267,146	\$ -
State grant revenue	-	-	66,318	66,318
Interest	15,000	15,000	4,741	(10,259)
Total Revenues	282,146	282,146	338,205	56,059
EXPENDITURES:				
Current:				
Groundwater Protection and Preservation:				
Insurance - Liability	1,000	1,000	-	1,000
Office supplies	400	400	-	400
Printing services	1,000	1,000	-	1,000
Accounting services	6,000	6,000	11,800	(5,800)
Legal services	5,000	5,000	1,236	3,764
Other professional services	53,000	53,000	73,687	(20,687)
Administrative services	217,900	217,900	113,937	103,963
Total Expenditures	284,300	284,300	200,660	83,640
Excess of Revenues Over Expenditures	(2,154)	(2,154)	137,545	139,699
NET CHANGE IN FUND BALANCE (GAAP BASIS)	\$ (2,154)	\$ (2,154)	\$ 137,545	\$ 139,699
FUND BALANCE, July 1	354,004	354,004	354,004	-
FUND BALANCE, June 30	\$ 351,850	\$ 351,850	\$ 491,549	\$ 139,699

Sacramento Central Groundwater Authority
Notes to Required Supplementary Information
For the Year Ended June 30, 2010

Budget and Budgetary Accounting

Sacramento Central Groundwater Authority prepares and legally adopts a final budget on or before June 30 of each fiscal year. Sacramento Central 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 Sacramento Central 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



**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 governmental activities and the General Fund of the Sacramento Central Groundwater Authority (the Groundwater Authority), as of and for the year ended June 30, 2010, which collectively comprise the Groundwater Authority's basic financial statements and have issued our report thereon dated July 7, 2011. 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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 7, 2011

SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and responses.

Finding No.	Condition	Status
2009-01	Revenue Recognition	Implemented
2009-02	Cut-off Procedures	Implemented
2009-03	Interest Apportionment	Implemented