

**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, 2011

Sacramento Central Groundwater Authority

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For the Fiscal Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sacramento Central Groundwater Authority, JPA
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), a joint powers authority, as of and for the year ended June 30, 2011, 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 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 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 Groundwater Authority, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the Groundwater Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012, 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 should be considered in assessing the results of our audit.

The management's discussion and analysis and General Fund budgetary comparison information on pages 3 through 7 and 18 through 19, 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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

March 7, 2012

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

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, 2011. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2011 the Groundwater Authority's general fund reported a fund balance of \$610,712.
- The increase in total net assets in Fiscal Year 2010-11 was attributable to the contributions the Groundwater Authority received from member agencies, interest earned on contributions and operating grants exceeding expenses.

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, 2011**

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*.

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,				
	2011	2010	Increase / (Decrease)	
	<u> </u>	<u> </u>	<u>Amount</u>	<u>Percentage</u>
Total current assets	\$ 631,813	\$ 546,631	\$ 85,182	15.6%
Current and other liabilities	<u>21,101</u>	<u>36,613</u>	<u>(15,512)</u>	<u>-42.4%</u>
Net assets				
Unrestricted	<u>\$ 610,712</u>	<u>\$ 510,018</u>	<u>\$ 100,694</u>	<u>19.7%</u>

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$610,712 in *net assets*. The increase in net assets is primarily due to member contributions exceeding operating expenses.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011**

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

Statement of Activities				
Year Ended June 30,				
	2011	2010	Increase / (Decrease)	
	<u> </u>	<u> </u>	Amount	Percentage
Revenues:				
Program revenues:				
Contributions	\$ 268,461	\$ 267,146	\$ 1,315	0.5%
State Grants	65,266	73,686	(8,420)	-11.4%
General revenues:				
Interest	3,396	4,741	(1,345)	-28.4%
Total revenues	<u>337,123</u>	<u>345,573</u>	<u>(8,450)</u>	<u>-2.4%</u>
Expenses:				
Groundwater protection and preservation	<u>236,429</u>	<u>200,660</u>	<u>35,769</u>	<u>17.8%</u>
Total expenses	<u>236,429</u>	<u>200,660</u>	<u>35,769</u>	<u>17.8%</u>
Change in net assets	100,694	144,913	(44,219)	-30.5%
Net assets, July 1	<u>510,018</u>	<u>365,105</u>	<u>144,913</u>	<u>39.7%</u>
Net assets, June 30	<u>\$ 610,712</u>	<u>\$ 510,018</u>	<u>\$ 100,694</u>	<u>19.7%</u>

While costs pertaining to the data management system (DMS) update continued, the portion of the DMS update project funded by the State AB303 grant was completed during the fiscal year ended June 30, 2011. This resulted in a decrease in grant revenue.

The increase in groundwater protection and preservation expenditures was attributable to increased activity under the Groundwater Authority's DMS, part of which was not reimbursed under the AB303 grant. Additionally, the development of the groundwater monitoring plan and support required for the Ag/Ag-Res conservation committee resulted in increased County engineering and administrative services.

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, 2011, the Groundwater Authority's general fund reported a fund balance of \$610,712.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011**

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

**Revenues Classified by Source
Governmental Funds**

Revenues by Source	FY 2011		FY 2010		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Contributions	\$ 268,461	75.5%	\$ 267,146	79.0%	\$ 1,315	0.5%
State Grants	83,735	23.5%	66,318	19.6%	17,417	26.3%
Interest	3,396	1.0%	4,741	1.4%	(1,345)	-28.4%
Total	<u>\$ 355,592</u>	<u>100.0%</u>	<u>\$ 338,205</u>	<u>100.0%</u>	<u>\$ 17,387</u>	<u>5.1%</u>

Contributions and interest revenue remained relatively stable from FY 2010 to FY 2011. Grant revenue increased due to the recognition of prior year deferred revenue that had resulted from retentions earned but not yet considered available.

The following table presents expenditures by object class.

**Expenditures by Object Class
Governmental Funds**

Expenditures by Object Class	FY 2011		FY 2010		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Professional services and fees	\$ 100,667	42.6%	\$ 85,487	42.6%	\$ 15,180	17.8%
County engineering and administrative services	135,762	57.4%	115,173	57.4%	20,589	17.9%
Total	<u>\$ 236,429</u>	<u>100.0%</u>	<u>\$ 200,660</u>	<u>100.0%</u>	<u>\$ 35,769</u>	<u>17.8%</u>

The increase in expenditures was attributable to increased activity under the Groundwater Authority's DMS, part of which was not reimbursed under the AB303 grant. Additionally, the development of the groundwater monitoring plan and support required for the Ag/Ag-Res conservation committee resulted in increased County engineering and administrative services.

General Fund Budgetary Highlights

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

The AB303 grant was budgeted at its full amount during the 2008-09 fiscal year though part of it was not earned until 2010-11 due to the grant's retention requirements. This resulted in a favorable budget variance in State Grant Revenue.

**Sacramento Central Groundwater Authority
Management's Discussion and Analysis (*Continued*)
For the Fiscal Year Ended June 30, 2011**

General Fund Budgetary Highlights (Continued)

Reimbursable costs associated with the AB303 grant exceeded the current year budget due to it being the final year on the contract. Overall, contract costs over its life were consistent with agreed upon costs. This resulted in an unfavorable variance in Other Professional Fees for fiscal year 2010-11.

During the winding down of the AB303 grant, fewer dollars were spent on Water Resources Services than budgeted. This resulted in a favorable budget variance.

Economic Factors and Next Year's Budget

The fiscal year 2011-2012 Final Budget was adopted by the Groundwater Authority's Board of Directors on May 11, 2011.

The proposed means of financing the \$264,000 in budgeted expenditures for fiscal year 2011-12 includes member contributions totaling \$264,048.

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, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 631,385
Due from Sacramento County	428
	<hr/>
Total Assets	631,813
	<hr/>
LIABILITIES	
Warrants payable and accounts payable	21,101
	<hr/>
Total Liabilities	21,101
	<hr/>
NET ASSETS	
Unrestricted	\$ 610,712
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority
Statement of Activities – Governmental Activities
Year Ended June 30, 2011

	Expenses	<u>Program Revenues</u> Operating Grants and Contributions	Net Revenue / (Expense) and Changes in Net Assets
FUNCTIONS/PROGRAMS			
Groundwater protection and preservation	\$ 236,429	\$ 333,727	\$ 97,298
Total Governmental Activities	\$ 236,429	\$ 333,727	\$ 97,298
General revenues:			
Interest and other income			3,396
Total General Revenues			3,396
Change in Net Assets			\$ 100,694
Net Assets, July 1			510,018
Net Assets, June 30			\$ 610,712

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority
Balance Sheet
Governmental Fund
June 30, 2011

	General Fund
ASSETS:	
Cash and investments	\$ 631,385
Interest receivable from Sacramento County	428
Total Assets	\$ 631,813
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Warrants payable and accounts payable	21,101
Total Liabilities	21,101
 FUND BALANCE:	
Unassigned	610,712
Total Fund Balance	610,712
Total Liabilities and Fund Balance	\$ 631,813

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, 2011

	General Fund
REVENUES:	
Contributions	\$ 268,461
State Grant Revenue	83,735
Interest	3,396
Total Revenues	355,592
 EXPENDITURES:	
Current:	
Professional services and fees	100,667
County Engineering and Administrative Services	135,762
Total Expenditures	236,429
 Excess of Revenues Over Expenditures / Net Change in Fund Balance	119,163
 Fund Balance - Beginning	491,549
 Fund Balance - Ending	\$ 610,712
 Reconciliation to Statement of Activities:	
Net Change in Fund balance - Above	\$ 119,163
 Amounts reported for Governmental Activities in the Statement of Activities (Page 9) are different because:	
 Revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances not reported as revenue in the Statement of Activities Recognition of Deferred Grant Revenues earned in prior year but not received within the 60-day accrual period	(18,469)
 Change in Net Assets of Governmental Activities (Page 9)	\$ 100,694

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2011

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. 14. 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.

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.

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
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (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. Revenues are considered measurable and available when their receipt occurs within sixty days after the end of the accounting period.

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.

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.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011:

Governmental Accounting Standard No. 54

For the fiscal year ended June 30, 2011, the Groundwater Authority implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions.*" The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It 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. These classifications are described in the Fund Balance Reporting section of this footnote.

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. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

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.

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.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 – 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. 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.

NOTE 2 – 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, 2011, the Groundwater Authority's cash and investments held in the County Treasurer's pool totaled \$631,385.

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. The Groundwater Authority has not formally adopted an investment policy that addresses any of the risks previously noted.

NOTE 3 – 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 \$135,762.

NOTE 4 – 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 expired with all work being substantially complete in December 2010. The maximum payable under the agreement was \$249,964. The total amount received under the contract was \$249,961.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2011

NOTE 5 – 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. 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 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.

Sacramento Central Groundwater Authority
Notes to the Basic Financial Statements
June 30, 2011

NOTE 5 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

Governmental Accounting Standard No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statements for periods beginning after December 15, 2011. The requirements of this Statement result in improved financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources as well as their effects on net financial position. The Groundwater Authority has not determined its effect on the financial statements.

NOTE 6 – RISK MANAGEMENT

The Groundwater Authority is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. As of June 30, 2011, the Groundwater Authority has not taken action to mitigate these risks and thus retains the risk of loss.

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, 2011
General Fund

	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Contributions	\$ 268,461	\$ 268,461	\$ 268,461	\$ -
State Grant Revenue	-	-	83,735	83,735
Interest	15,000	15,000	3,396	(11,604)
Total Revenues	<u>283,461</u>	<u>283,461</u>	<u>355,592</u>	<u>72,131</u>
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	7,000	7,000	8,600	(1,600)
Legal Services	5,000	5,000	45	4,955
Other Professional Services	51,000	51,000	92,067	(41,067)
Administrative Services	1,600	1,600	342	1,258
Water Resources Services	<u>241,300</u>	<u>241,300</u>	<u>135,375</u>	<u>105,925</u>
Total Expenditures	<u>308,300</u>	<u>308,300</u>	<u>236,429</u>	<u>71,871</u>
Excess / (Deficiency) of Revenues Over / (Under) Expenditures	<u>(24,839)</u>	<u>(24,839)</u>	<u>119,163</u>	<u>144,002</u>
NET CHANGE IN FUND BALANCE (GAAP BASIS)	\$ (24,839)	\$ (24,839)	\$ 119,163	\$ 144,002
FUND BALANCE, July 1	491,549	491,549	491,549	-
FUND BALANCE, June 30	<u><u>\$ 466,710</u></u>	<u><u>\$ 466,710</u></u>	<u><u>\$ 610,712</u></u>	<u><u>\$ 144,002</u></u>

See accompanying notes to the required supplementary information.

Sacramento Central Groundwater Authority
Notes to Required Supplementary Information
For the Year Ended June 30, 2011

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. 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, JPA
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, 2011, which collectively comprise the Groundwater Authority's basic financial statements and have issued our report thereon dated March 7, 2012. Our report includes an explanatory paragraph; referring to the Groundwater Authority's adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 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

Management of the Groundwater Authority is responsible for establishing and maintaining effective 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 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 the 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*.

We noted certain matters that we reported to management of the Groundwater Authority in a separate letter dated March 7, 2012.

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.

Varrinck, Trine, Day & Co. LLP

Sacramento, California
March 7, 2012