

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, 2009



Sacramento Central Groundwater Authority

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June 30, 2009

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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, 2009, 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, 2009, 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.

Vavrinick, 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, 2009

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, 2009. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2009 the Groundwater Authority's governmental funds reported a fund balance of \$354,004.
- The increase in total assets in Fiscal Year 2008-09 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 7 through 8 of this report.

Sacramento Central Groundwater Authority

**Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2009**

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,	
	2009	2008	Increase / (Decrease)	
			Amount	Percentage
Total current assets	\$ 389,077	\$ 252,937	\$ 136,140	53.8%
Current and other liabilities	23,972	946	23,026	2434.0%
Total liabilities	23,972	946	23,026	2434.0%
Net assets (deficit):				
Unrestricted	\$ 365,105	\$ 251,991	\$ 113,114	44.9%

Sacramento Central Groundwater Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2009

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$354,004 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)	
	2009	2008	Amount	Percentage
Revenues:				
Program revenues:				
Contributions	\$ 263,336	\$ 270,471	\$ (7,135)	-2.6%
State Grants	111,008	-	111,008	100.0%
General revenues:				
Interest	9,347	14,462	(5,115)	-35.4%
Total revenues	<u>383,691</u>	<u>284,933</u>	<u>98,758</u>	<u>34.7%</u>
Expenses:				
Groundwater protection and preservation	<u>270,577</u>	<u>225,970</u>	<u>44,607</u>	<u>19.7%</u>
Total expenses	<u>270,577</u>	<u>225,970</u>	<u>44,607</u>	<u>19.7%</u>
Change in net assets:	113,114	58,963	54,151	91.8%
Net assets, July 1	<u>251,991</u>	<u>193,028</u>	<u>58,963</u>	<u>30.5%</u>
Net assets, June 30	<u>\$ 365,105</u>	<u>\$ 251,991</u>	<u>\$ 113,114</u>	<u>44.9%</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, 2009, the Groundwater Authority's governmental funds reported a fund balance of \$354,004.

Sacramento Central Groundwater Authority

**Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2009**

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

**Revenues Classified by Source
Governmental Funds**

Revenues by Source	FY 2009		FY 2008		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Contributions	\$ 263,336	70.7%	\$ 270,471	94.9%	\$ (7,135)	-2.6%
State Grants	99,907	26.8%	-	0.0%	99,907	100.0%
Interest	9,347	2.5%	14,462	5.1%	(5,115)	-35.4%
Total	\$ 372,590	100.0%	\$ 284,933	100.0%	\$ 87,657	30.8%

The following table presents expenditures by function.

**Expenditures by Function
Governmental Funds**

Expenditures by Function	FY 2009		FY 2008		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
Groundwater protection and preservation	\$ 270,577	100.0%	\$ 225,970	100.0%	\$ 44,607	19.7%
Total	\$ 270,577	100.0%	\$ 225,970	100.0%	\$ 44,607	19.7%

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 7th Street #301, Sacramento, California 95814.

Sacramento Central Groundwater Authority
Statement of Net Assets – Governmental Activities
June 30, 2009

ASSETS

Cash and investments	\$ 275,809
Due from Sacramento County	2,260
Due from other governments	<u>111,008</u>
 Total Assets	 <u>389,077</u>

LIABILITIES

Warrants payable and accounts payable	<u>23,972</u>
 Total Liabilities	 <u>23,972</u>

NET ASSETS

Unrestricted	<u><u>\$ 365,105</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, 2009**

	Expenses	Operating Grants and Contributions	Net Revenues / (Expenses) and Changes in Net Assets
FUNCTIONS/PROGRAMS			
Groundwater protection and preservation	\$ 270,577	\$ 374,344	\$ 103,767
<hr/>			
Total Governmental Activities	\$ 270,577	\$ 374,344	\$ 103,767
General revenues:			
Interest and other income			9,347
Total General Revenues			9,347
Change in Net Assets			\$ 113,114
Net Assets, July 1			251,991
Net Assets, June 30			\$ 365,105

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority

**Balance Sheet
Governmental Fund
June 30, 2009**

	General Fund
ASSETS:	
Cash and investments	\$ 275,809
Due from Sacramento County	2,260
Due from other governments	111,008
Total Assets	\$ 389,077
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Deferred revenue	11,101
Warrants payable and accounts payable	23,972
Total Liabilities	35,073
 FUND BALANCE:	
Unreserved	354,004
Total Fund Balance	354,004
Total Liabilities and Fund Balance	\$ 389,077
 Reconciliation to Statement of Net Assets:	
Total Fund Balance - Above	\$ 354,004
 Amounts reported for Governmental Activities in the Statement of Net Assets (Page 7) are different because:	
Accounts receivable not available to pay for current period expenditures are deferred in the fund	11,101
Net Assets of Governmental Activities (Page 8)	\$ 365,105

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, 2009

	General Fund
REVENUES:	
Contributions	\$ 263,336
State grant revenue	99,907
Interest	9,347
Total Revenues	372,590
EXPENDITURES:	
Current:	
Groundwater protection and preservation	270,577
Total Expenditures	270,577
Excess of Revenues Over Expenditures	102,013
Beginning Fund Balance	251,991
Ending Fund Balance	\$ 354,004
 Reconciliation to Statement of Activities:	
Net Change in Fund balance - Above	\$ 102,013
 Amounts reported for Governmental Activities in the Statement of Activities (Page 8) 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	11,101
Change in Net Assets of Governmental Activities (Page 8)	\$ 113,114

See accompanying notes to the basic financial statements.

Sacramento Central Groundwater Authority

Notes to the Basic Financial Statements June 30, 2009

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.

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.

Sacramento Central Groundwater Authority

**Notes to the Basic Financial Statements
June 30, 2009**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

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 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 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.

Due from Other Governments

These amounts represent receivables from other government agencies. 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.

Sacramento Central Groundwater Authority

Notes to the Basic Financial Statements
June 30, 2009

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 Authority's financial reporting process. The following pronouncements were implemented for the year ended June 30, 2009:

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 Groundwater Authority has determined that this statement did not have a material effect 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 Groundwater Authority has determined that this statement did not have a material effect 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.

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 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, 2009**

NOTE 8 – 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. 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. 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.

Sacramento Central Groundwater Authority

**Notes to the Basic Financial Statements
June 30, 2009**

NOTE 8 – 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 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) 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.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

The Groundwater Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Groundwater Authority's responses and, accordingly, we express no opinion on them.

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

SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2009

The following findings represent significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards:

FINDING 2009-01 REVENUE RECOGNITION

Criteria:

Procedures should be in place to ensure that revenue is appropriately matched with its corresponding expenditures.

Condition:

Material expenditure reimbursements from the California AB-303 grant agreement were received subsequent to June 30, 2009 and not accounted for adequately during the reporting period. Expenditures for which State reimbursements corresponded to were incurred during the fiscal year. However, related reimbursement requests submitted to the State prior to June 30, 2009 were not adequately accounted for nor processed by the appropriate accounts receivable personnel.

Context:

The condition noted above was identified in our testing over the collection of subsequent receipts.

Cause:

The invoices submitted to the State for reimbursement were not appropriately accounted for in the accounting system in order to accrue earned revenues and match them with expenditures incurred.

Effect:

The absence of procedures over the revenue recognition process resulted in a material understatement of revenues of approximately \$99,900 in the Statement of Revenues, Expenditures and Changes in Fund Balance and approximately \$111,000 in the Statement of Activities.

Recommendation:

We recommend that the Groundwater Authority management implement stronger billing procedures to ensure transactions are being accounted for on an accrual basis and establish stronger controls over those procedures to identify errors.

View of responsible officials:

Although procedures are in place to ensure revenue is properly recorded, in this instance, procedures were not followed. As a result management has provided additional training to program staff to reduce the likelihood of this happening in the future.

SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2009

FINDINGS 2009-02 CUT-OFF PROCEDURES

Criteria:

Proper year-end cutoff is critical for budgetary compliance and the accuracy of accrual basis accounting.

Generally accepted accounting principles require that entities accrue liabilities and expenditures for most expenditures in the period in which the entity incurs the liability.

In accordance with the Department of Finance's Year-End Fiscal Procedures for FY 2008-2009, the Groundwater Authority is required to perform a "thorough analysis of accounts receivable and accounts payable".

Condition:

During our audit, it was noted that a significant expenditure had not been accrued in the respective year-end fund general ledger, resulting in an audit adjustment.

Context:

The Groundwater Authority did not properly accrue for goods and services received prior to June 30, 2009.

Cause:

The Groundwater Authority did not comply with the Year-End Fiscal Procedures for FY 2008-2009. This procedures memo provided the necessary instructions pertaining to the accounting for expenditure accruals.

Effect:

The effect of this significant deficiency resulted in significant adjustments to liability and expense accounts.

Recommendation:

We recommend that the Groundwater Authority management implement stronger cut-off procedures and a review process to ensure that accruals are properly identified and recorded.

View of responsible officials:

While a single instance occurred in which a liability was not properly accrued at June 30, 2009, it was not due to a lack of proper cut-off procedures. From June of each year through the audit report date, existing procedures require a thorough analysis of all accounts payable invoices in considering them for accrual.

In this situation, an AB303 grant existed on which an Accounts Payable invoice was received and processed in a timely and accurate manner. A grant reimbursement request was subsequently prepared by Sacramento Central Groundwater Authority which referenced the Accounts Payable invoice. However, the grant reimbursement request was for the period June 27, 2009 – December 18, 2009. Upon reviewing the grant reimbursement request, the omitted Accounts Payable invoice was incorrectly treated as falling under the same timeline. For this reason, it was overlooked in the year-end accrual process.

To prevent a future occurrence, cut-off procedures will always be applied to invoices independent of grant reimbursement reporting periods.

SACRAMENTO CENTRAL GROUNDWATER AUTHORITY

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

FINDING 2009-03 - INTEREST APPORTIONMENTS

Criteria:

Procedures should be in place to ensure that interest revenue received from the County of Sacramento treasurer is properly accounted for during the year and accrued at year end.

Condition:

County interest allocation apportionments made directly into the COMPASS accounting system were being inaccurately accounted for in the accounting system. As such, interest revenue was not recognized during the year or accrued for as of the period ended June 30, 2009.

Context:

The condition noted above was identified in our substantive procedures over the reasonableness of interest revenue as of June 30, 2009.

Cause:

Controls over the monitoring of recorded interest revenues were not present to detect interest apportionment errors.

Effect:

The absence of monitoring procedures to detect interest apportionment errors could potentially result in a material misstatement in interest revenue in future years.

Recommendation:

We recommend that the Groundwater Authority management implement procedures to monitor the County's apportioning of periodic interest revenues and design controls over those procedures to ensure interest apportionment errors are detected and corrected in a timely manner.

View of responsible officials:

Management has implemented procedures to monitor and verify the County's apportioning of interest earnings on a quarterly basis.

