

**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, 2016**

**Sacramento Central Groundwater Authority**

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For the Fiscal Year Ended June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Sacramento Central Groundwater Authority (Groundwater Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Groundwater Authority's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Groundwater Authority, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As described in Note 1 to the financial statements, the Groundwater Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the budgetary comparison information on pages 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Groundwater Authority's internal control over financial reporting and compliance.



Sacramento, California  
February 24, 2017

**Sacramento Central Groundwater Authority  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016**

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, 2016. Please read it in conjunction with the Groundwater Authority's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- As of June 30, 2016 the Groundwater Authority's general fund reported a fund balance of \$567,060.
- The decrease in total net position in Fiscal Year 2015-16 was attributable to engineering costs for agricultural water demand updates, basin management and other groundwater management services.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

The purpose of both of these government-wide financial statements is to 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*). While the Groundwater Authority has no business-type activities, it does have governmental activities which 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  
For the Fiscal Year Ended June 30, 2016 (Continued)**

**Fund Financial Statements** are groupings of related accounts that are used to control resources that have been segregated for specific activities or objectives. The Groundwater Authority, like other states and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. As stated previously, the Groundwater Authority has only *governmental funds*, not *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 position may serve as a useful indicator as to whether the financial position of the Groundwater Authority is improving or declining.

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

	2016	2015	Increase / (Decrease)	
			Amount	Percentage
Total current assets	\$ 675,420	\$ 939,152	\$ (263,732)	-28.1%
Current and other liabilities	108,360	51,279	57,081	111.3%
Net position				
Unrestricted	\$ 567,060	\$ 887,873	\$ (320,813)	-36.1%

At the end of the current fiscal year, the Groundwater Authority reported a balance of \$567,060 in *net position*. The decrease in net position is primarily due to operating expenses exceeding member contributions.

**Sacramento Central Groundwater Authority  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016 (Continued)**

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

<b>Statement of Activities</b>		Year Ended June 30,		Increase / (Decrease)	
	2016	2015	Amount	Percentage	
Revenues:					
Program revenues:					
Contributions	\$ 210,423	\$ 236,962	\$ (26,539)	-11.2%	
State grants	-	192,353	(192,353)	0.0%	
General revenues:					
Interest	1,503	2,280	(777)	-34.1%	
Total revenues	211,926	431,595	(219,669)	-50.9%	
Expenses:					
Groundwater protection and preservation	532,739	377,836	154,903	41.0%	
Change in net position	(320,813)	53,759	(374,572)	-696.8%	
Net position, July 1	887,873	834,114	53,759	6.4%	
Net position, June 30	\$ 567,060	\$ 887,873	\$ (320,813)	-36.1%	

The increase in groundwater protection and preservation expenditures was attributable to costs incurred on compliance issues related to the Sustainable Groundwater Management Act.

**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, 2016, the Groundwater Authority's general fund reported a fund balance of \$567,060.

**Sacramento Central Groundwater Authority  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016 (Continued)**

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

<u>Revenues by Source</u>	FY 2016		FY 2015		Increase / (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
	Contributions	\$ 210,423	94.8%	\$ 236,962	55.2%	\$ (26,539)
State Grant Revenue	9,991	4.5%	189,833	44.2%	(179,842)	-94.7%
Interest	1,503	0.7%	2,280	0.6%	(777)	-34.1%
Total	\$ 221,917	100.0%	\$ 429,075	100.0%	\$ (207,158)	-48.3%

Contributions revenue decreased due to a reduction of the amount of groundwater pumped from the basin. State grant revenue decreased due to the AB303 grant concluding in the prior year.

The following table presents expenditures by object class.

<u>Expenditures by Object Class</u>	FY 2016		FY 2015		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Change
	Office supplies	\$ 6,291	1.2%	\$ 6,848	1.8%	\$ (557)
Professional services and fees	218,062	40.9%	210,133	55.6%	7,929	3.8%
County engineering and administrative services	308,386	57.9%	160,855	42.6%	147,531	91.7%
Total	\$ 532,739	100.0%	\$ 377,836	100.0%	\$ 154,903	41.0%

The increase in expenditures was mainly attributable to costs incurred on compliance issues related to the Sustainable Groundwater Management Act.

**Sacramento Central Groundwater Authority  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016 (Continued)**

**General Fund Budgetary Highlights**

The fiscal year 2015-2016 final budget was adopted by the Groundwater Authority's Board of Directors on May 13, 2015.

The increase in legal services as compared to prior year reflects the change in frequency of Board meetings attended by County Counsel, and additional assistance with compliance issues related to the Sustainable Groundwater Management Act.

Other professional services increased as compared to the prior year mainly due to additional consultant work associated with the Sustainable Groundwater Management Act.

The water resources services increase is primarily due to the change in frequency of Board meetings, and compliance issues related to the Sustainable Groundwater Management Act.

While legal services, professional services, and water resources services increased as compared to the prior year, the fiscal year 2015-16 overall budget variance remains favorable.

**Economic Factors and Next Year's Budget**

The fiscal year 2016-2017 final budget was adopted by the Groundwater Authority's Board of Directors on June 8, 2016.

The proposed means of financing the \$797,588 in budgeted expenditures for fiscal year 2016-17 includes member contributions totaling \$573,057. The remaining expenditures will be paid with residual balances in the fund.

**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 7<sup>th</sup> Street, Room 301, Sacramento, California 95814.

**Sacramento Central Groundwater Authority**  
**Statement of Net Position – Governmental Activities**  
**June 30, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 671,012
Interest receivable from Sacramento County	<u>4,408</u>
Total Assets	<u>675,420</u>
<b>LIABILITIES</b>	
Warrants payable and accounts payable	<u>108,360</u>
<b>NET POSITION</b>	
Unrestricted	<u><u>\$ 567,060</u></u>

See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority  
Statement of Activities – Governmental Activities  
Year Ended June 30, 2016**

<b>FUNCTIONS/PROGRAMS</b>	Expenses	Program Revenues Operating Grants and Contributions	Net Revenue / (Expense) and Change in Net Position
Groundwater protection and preservation	\$ 532,739	\$ 210,423	\$ (322,316)
General revenues:			
Interest and other income			1,503
Change in Net Position			\$ (320,813)
Net Position, July 1			887,873
Net Position, June 30			\$ 567,060

See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority  
Balance Sheet  
Governmental Fund  
June 30, 2016**

	<b>General Fund</b>
<b>ASSETS:</b>	
Cash and investments	\$ 671,012
Interest receivable from Sacramento County	4,408
Total Assets	\$ 675,420
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
Warrants payable and accounts payable	108,360
<b>FUND BALANCE:</b>	
Unassigned	567,060
Total Liabilities and Fund Balance	\$ 675,420

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, 2016**

	<b>General Fund</b>
<b>REVENUES:</b>	
Contributions	\$ 210,423
State grant revenue	9,991
Interest	1,503
Total Revenues	221,917
<b>EXPENDITURES:</b>	
Current:	
Groundwater protection and preservation:	
Office supplies	6,291
Professional services and fees	218,062
County engineering and administrative services	308,386
Total Expenditures	532,739
Excess / (Deficiency) of Revenues Over / (Under) Expenditures and Changes in Fund Balance	(310,822)
Fund Balance - Beginning	877,882
Fund Balance - Ending	\$ 567,060
Reconciliation of the Net Change in Fund Balances - Governmental Fund to the Statement of Activities	
Change in Fund Balance	\$ (310,822)
Recognition of grant revenue earned but unavailable in the prior year. These revenues provided for the use of current financial resources and were included in the Statement of Revenues, Expenditures and Changes in Fund Balance this year	(9,991)
Change in net position, governmental activities	\$ (320,813)

See accompanying notes to the basic financial statements.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Authorized Legislation and Organization

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

Basis of Presentation

*Government-wide Financial Statements*

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

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

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (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.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Non-grant revenues and grant revenues are considered measurable and available when their receipts occur within 60 days and 120 days, respectively, 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. Beginning fiscal year end June 30, 2017, the annual contributions to fund the Sacramento Groundwater Authority will be revised from the initial funding contributions identified in the Joint Powers Agreement.

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.

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, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value

As of July 1, 2015, the Groundwater Authority retrospectively applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Groundwater Authority does not have any investments that are measured using Level 3 inputs.

**NOTE 2 – 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.

The Groundwater Authority is a participant in the Sacramento County Treasurer’s Pool (County Pool). The County Pool is an external investment pool, is not rated and is not registered with the Securities Exchange Commission (SEC). The Sacramento County Treasury Oversight Committee conducts County Pool oversight. Cash on deposit in the County Pool at June 30, 2016 is stated at fair value. The County Pool values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the County Pool, refer to the County of Sacramento Comprehensive Annual Financial Report.

At June 30, 2016, the Groundwater Authority’s cash and investments held in the County Treasurer’s pool totaled \$671,012. Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County of Sacramento’s Comprehensive Annual Financial Report. The Groundwater Authority has not formally adopted an investment policy that addresses any of the risks previously noted.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

*Fair Value Measurement*

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Groundwater Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of the Groundwater Authority's proportionate share of investments in the County Pool at June 30, 2016 of \$671,012 is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

**NOTE 3 – RELATED PARTY TRANSACTIONS**

The Groundwater Authority uses the County of Sacramento departments for other services, such as engineering, administrative, accounting, etc. Expenditures paid to the County of Sacramento during the year were \$308,386.

**NOTE 4 – RISK MANAGEMENT**

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

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 4 – RISK MANAGEMENT (Continued)**

SCGA deductibles and maximum coverage follows:

Coverage	Limits	Deductibles/SIR	Carrier	Effective Date	Policy Number or Memorandum Number
General Liability, Automotive, Public Officials Errors and Omissions	\$5,000,000 Each Occurrence and Aggregate \$1,000,000 Damage to Rented Premises	\$1,000	Alliant Insurance Services, Inc.	9/29/2015– 9/29/2016	PAC 1000001 04

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

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

The Groundwater Authority is a defendant in various matters of litigation. Of these matters, management and the Groundwater Authority’s legal counsel do not anticipate any material effect on the June 30, 2016 financial statements.

**NOTE 6 – NEW EFFECTIVE ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Groundwater Authority implemented this statement as of July 1, 2015.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 6 – NEW EFFECTIVE ACCOUNTING PRONOUNCEMENTS (Continued)**

GASB Statement No. 73, *Accounting And Financial Reporting For Pensions And Related Assets That Are Not Within The Scope Of GASB Statement 68, And Amendments for Certain Provisions of GASB Statements No. 67 And No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement effective for fiscal years beginning after June 15, 2015. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Groundwater Authority implemented this standard as of July 1, 2015. The Groundwater Authority has determined that this statement did not have a material effect on the financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. Certain provisions of this Statement are effective for reporting periods beginning after June 15, 2015. This statement did not have material effect on the financial statements.

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS**

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

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for periods beginning after June 15, 2016. The Groundwater Authority has not determined the effect, if any, on the financial statements.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)**

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for periods beginning after June 15, 2017. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 78 – In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state of local governmental employers whose employees are provided with such pensions. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 79 – In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The Groundwater Authority is in the County Investment Pool. The Groundwater Authority has not determined the effect, if any, on the financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units- An Amendment Of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Groundwater Authority has not determined the effect, if any, on the financial statements.

**Sacramento Central Groundwater Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2016**

**NOTE 7 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)**

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The Groundwater Authority has not determined the effect of this statement on the financial statements.

GASB Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements Nos.67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice or financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Groundwater Authority has not determined the effect of this statement on the financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. The Groundwater Authority has not determined the effect of this statement 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, 2016**  
**General Fund**

	Budgeted amounts		(Modified Accrual Basis)	Variance w/ Final Budget - Positive (Negative)
	Original	Final	Actual	
<b>REVENUES:</b>				
Contributions	\$ 210,423	\$ 210,423	\$ 210,423	\$ -
State grant revenue	29,000	29,000	9,991	(19,009)
Interest	2,905	2,905	1,503	(1,402)
Total Revenues	242,328	242,328	221,917	(20,411)
<b>EXPENDITURES:</b>				
Current:				
Groundwater Protection and Preservation:				
Business / conferences	1,500	1,500	25	1,475
Insurance liability	6,000	6,000	6,266	(266)
Membership dues	150	150	-	150
Office supplies	150	150	-	150
Accounting services	9,000	9,000	6,000	3,000
Legal services	12,000	12,000	52,298	(40,298)
Other professional services	324,000	324,000	208,877	115,123
System development services	-	-	1,484	(1,484)
GS contract management services	675	675	1,700	(1,025)
Administrative services	1,325	1,325	300	1,025
Water resources services	276,000	276,000	255,789	20,211
Total Expenditures	630,800	630,800	532,739	98,061
Excess / (Deficiency) of Revenues Over / (Under) Expenditures	(388,472)	(388,472)	(310,822)	77,650
<b>NET CHANGE IN FUND BALANCE (GAAP BASIS)</b>	(388,472)	(388,472)	(310,822)	77,650
FUND BALANCE, July 1	818,373	818,373	877,882	(59,509)
FUND BALANCE, June 30	\$ 429,901	\$ 429,901	\$ 567,060	\$ 8,138

See accompanying note to the required supplementary information

**Sacramento Central Groundwater Authority**  
**Note to Required Supplementary Information**  
**For the Year Ended June 30, 2016**

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 1<sup>st</sup>, 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. Budgetary control is at the fund and object levels.

An operating budget is adopted each year on the modified accrual basis.



**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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Sacramento Central Groundwater Authority (Groundwater Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Groundwater Authority's basic financial statements, and have issued our report thereon dated February 24, 2017. Our report included an emphasis of matter paragraph regarding the Groundwater Authority's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Groundwater Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Groundwater Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Groundwater Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sacramento, California  
February 24, 2017