

SACRAMENTO AREA FLOOD CONTROL AGENCY

Independent Auditors' Reports,
Management's Discussion and Analysis,
Basic Financial Statements, Required Supplementary
Information, Supplemental Information
and Other Reports

For the Fiscal Year Ended June 30, 2011

**SACRAMENTO AREA FLOOD CONTROL AGENCY
For the Fiscal Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sacramento Area Flood Control Agency
Sacramento, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA) as of and for the year ended June 30, 2011, which collectively comprise SAFCA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SAFCA'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 Agency'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency 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 discussed in Notes 2 and 3 to the financial statements, SAFCA has adopted 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 December 30, 2011, on our consideration of SAFCA'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, budgetary comparison, and notes to the required supplemental information on pages 3 through 10 and 31 through 32, are not a required part of the basic financial statements but is 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 about the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SAFCA's basic financial statements. The combining nonmajor funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Vaurinik, Trine, Day & Co. LLP

Sacramento, California
December 30, 2011

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

As management of the Sacramento Area Flood Control Agency (SAFCA), we offer readers of SAFCA's financial statements this narrative overview and analysis of the financial activities of SAFCA for the year ended June 30, 2011. Please read it in conjunction with SAFCA's basic financial statements following this section.

Financial Highlights

- The liabilities of SAFCA exceeded its assets at the 2010-2011 fiscal year by \$(48,628,296) (*deficit net assets*). Of this amount, \$52,787,045 was invested in capital assets \$67,997,623 was restricted for specific purposes, and \$266,441 was an endowment for the Hansen Ranch. The unrestricted net assets for the current fiscal year amount to \$(169,679,405) due to the fact that SAFCA issued bonds to improve existing levees, but the levees are owned by other entities.
- SAFCA's total net assets decreased by \$(17,142,097) during fiscal year 2010-2011. This decrease was due to lower reimbursements received from the State of California, Department of Water Resources (DWR) and the operation and expenditures of the Consolidated Capital Assessment District Project (CCAD).
- As of the 2010-2011 fiscal year, SAFCA's governmental funds reported ending fund balances of \$69,966,812 a decrease of \$23,261,527 in comparison with the prior year primarily due to the expenditures of CCAD. Approximately 2% of this total amount, \$1,558,021 is *available for spending* at the Agency's discretion (*unassigned fund balance*).
- At the end of the fiscal year, unassigned fund balance for the general fund was \$1,558,021.
- SAFCA's total debt increased by a net amount of \$3,119,788 during the current fiscal year. This increase is primarily due to issuance of Bond Anticipation Notes which were offset by the principal payment of the O&M Bond and Consolidated Capital Assessment District Bond, Series 2007 and 2008.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to SAFCA's basic financial statements. SAFCA's basic financial statements comprise three components: 1) governmental-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of SAFCA's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of SAFCA's 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 of whether the financial position of SAFCA is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent 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 only result in cash flows in future fiscal periods.

The statement of activities distinguish functions of SAFCA that are principally supported by charges for services and capital grants and contributions (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs. The governmental activities of SAFCA include public protection, and public ways and facilities.

The government-wide financial statements can be found on pages 11-12 of this report.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SAFCA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of SAFCA are governmental funds.

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 nonspendable and 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 government'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 the comparison between *governmental funds* and *governmental activities*.

SAFCA maintains three major governmental funds: General Fund, Consolidated Capital Assessment Fund, and Consolidated Capital Assessment Debt Service Fund. Information is presented separately for each major fund in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* in the supplemental information to the basic financial statements.

SAFCA adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 13-14 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15-30 of this report.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of SAFCA, liabilities exceeded assets by \$48,628,296 at the end of the 2010-2011 fiscal year.

**Statement of Net Assets (Deficit)
June 30,**

	<u>2011</u>	<u>2010</u>
Assets:		
Current and other assets	\$94,862,779	\$113,403,985
Capital assets, net	52,787,045	44,314,613
Total assets	147,649,824	157,718,598
Long-term liabilities outstanding	174,563,818	171,444,030
Other liabilities	21,714,302	17,760,767
Total liabilities	196,278,120	189,204,797
Net assets (deficit):		
Invested in capital assets	52,787,045	44,314,613
Restricted for:		
Debt services	12,145,655	12,165,710
Capital projects	48,233,437	73,386,140
Endowment:		
Hansen Ranch	176,098	148,402
Nonspendable	90,343	117,475
Unrestricted	(162,060,874)	(161,618,539)
Total net assets (deficit)	(48,628,296)	(\$31,486,199)

Key elements of the current year decreases/increases are as follows:

SAFCA issued bonds to acquire land and to improve existing levees, with the majority of the land and levees conveyed to other entities. Therefore, negative net assets are recorded. The current and other assets decreased \$18,541,206 mainly due to the expenditures and operations of the CCAD, and fewer reimbursements and contributions from the State of California DWR. Total liabilities increased \$7,073,323 mainly due to the Natomas Basin Local Assessment District (NBLAD) BAN, Series 2011 issuance. Total invested in capital assets debt increased \$8,472,432 due to new acquisition of land related to the CCAD Project.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Governmental activities. Governmental activities decreased SAFCA's net assets by \$17,142,097 during the year.

**Statement of Activities
For the Year Ended June 30,**

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 24,366,377	\$25,084,625
Capital grants and contributions	51,276,912	84,235,153
Total program revenues	75,643,289	109,319,778
General revenues:		
Intergovernmental not restricted to specific programs	309,074	-
Interest and other income	1,796,803	1,101,825
Total general revenues	2,105,877	1,101,825
Total revenues	77,749,166	110,421,603
Expenses:		
Public protection	4,733,505	4,173,845
Public ways and facilities	81,474,778	80,515,200
Interest	8,682,980	8,842,784
Total expenses	94,891,263	93,531,829
Change in net assets	(17,142,097)	16,889,774
Net assets (deficit), beginning of year	(31,486,199)	(48,375,973)
Net assets (deficit), end of year	\$ (48,628,296)	\$ (31,486,199)

Key elements of current year decreases/increases are as follows:

- Capital grants and contributions decreased by \$32,958,241 (39%) during the year. This decrease was due to fewer contributions and reimbursements from the State of California DWR.
- Intergovernmental revenue not restricted to specific programs increased by \$309,074 (100%) during the year resulting from contributions from the State of California during the year.
- Interest and other income increased by \$694,978 (63%) during the year primarily due to an insurance claim settlement.
- Public protection expenditures increased by \$559,660 (13%) during the year primarily due to the increase of engineering and accounting services.
- Public ways and facilities expenditures increased by \$959,578 (1%) during the year due to operations and construction contracts services related to the CCAD project.

Financial Analysis of the Government's Funds

As noted earlier, SAFCA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of SAFCA's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing SAFCA'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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

At June 30, 2011, SAFCA's governmental funds reported combined fund balances of \$69,966,812 a decrease of \$(23,261,527) in comparison with the prior year. Approximately \$90,343 or 1% of the total is Nonspendable fund balance, which are amounts that are not in spendable form or amounts that are legally or contractually required to be maintained intact. The remaining 99% or \$69,876,469 is available to meet the Agency's current and future needs.

The **General Fund** is the chief operating fund of SAFCA. As of June 30, 2011, unassigned fund balance of the General Fund, was \$9,176,552, while total fund balance was \$9,442,993. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 194% of total General Fund expenditures, while total fund balance represents 199% of that same amount. The fund balance of SAFCA's General Fund increased by \$2,111,878 during fiscal year 2011 was mainly due to contributions from other governments and insurance proceeds from a prior year claim.

The **Consolidated Capital Assessment District Fund** is the largest capital projects fund of SAFCA. As of June 30, 2011, total fund balance was \$36,101,361. The CCAD is the consolidation of two capital assessment districts in order to fairly apportion among benefiting property owners. The purpose of this project is improve levees and ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-years or greater) for the Sacramento area. The fund balance of the CCAD Fund decreased by \$(32,162,548) during fiscal year 2011 was due to fewer contributions and reimbursements from the State of California Department of Water Resource, and the operations and construction expenses related to the CCAD project.

The **Consolidated Capital Assessment Debt Service fund** has a total fund balance of \$11,362,693 all of which is restricted for the payment of debt service. The fund balance decreased by \$21,066 during fiscal year 2011 due to a decrease in interest income.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	FY 2011		FY 2010		Increase/Decrease	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenues by Source						
Special benefit assessments	\$ 6,247,875	8.1%	6,260,466	5.7%	\$ (12,591)	-0.2%
Special capital assessments	18,118,502	23.6%	18,824,159	17.1%	(705,657)	-3.8%
Capital Grants & Contributions	50,381,521	65.6%	84,235,153	76.3%	(33,853,632)	-40.2%
Intergovernmental	309,074	0.4%	-	0.0%	309,074	100.0%
Interest and other income	1,796,803	2.3%	1,101,825	1.0%	694,978	63.1%
Total revenues	\$ 76,853,775	100.0%	110,421,603	100.0%	\$ (33,567,828)	-30.0%
Expenditures by Function						
Public protection	\$ 4,733,505	4.5%	4,173,845	3.7%	\$ 559,660	13.4%
Public ways and facilities	89,610,539	84.3%	95,494,859	85.4%	(5,884,320)	-6.2%
Miscellaneous	112,434	0.1%	92,458	0.1%	19,976	21.6%
Bond issuance cost	58,898	0.1%	-	0.0%	58,898	100.0%
Principal on long-term debt	3,080,000	2.9%	3,180,668	2.8%	(100,668)	-3.2%
Interest on long-term debt	8,719,926	8.2%	8,877,869	7.9%	(157,943)	-1.8%
Total expenditures	\$ 106,315,302	100.0%	111,819,699	100.0%	\$ (5,504,397)	-5.0%

The Capital grants and contribution revenue had a decrease of \$33,853,632 primarily due to fewer contributions and reimbursements from the State of California DWR related to the CCAD project. The Special capital assessments had a decrease of \$705,657 due to less assessments collected. Interest and other income revenue had an increase of \$694,978 was primarily due to insurance proceeds from a prior year claim. Public ways and facilities expenditure decreases by \$5,884,320 during the fiscal year were due to less usage of construction and engineering services related to the CCAD project.

General Fund Budgetary Highlights

During the year, actual revenues were higher than final budgeted amount by \$912,128. Actual expenditures were less than budgetary estimates by \$751,708. The decrease in public protection expenditures of \$751,708 during the year was primarily due to the decreased usage of public work services and O&M activities.

Capital Asset and Debt Administration

Capital Assets - SAFCA's investments in capital assets for its governmental activities as of June 30, 2011 amount to \$52,787,045 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, and equipment. The total increase in the SAFCA's investment in capital assets for the current fiscal year was 19%, or \$8,472,432. This increase was due to land acquisitions related to the CCAD project. SAFCA keeps records of all assets for governmental activities. (See table on next page)

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Capital Assets, Net of Depreciation
June 30,**

	<u>2011</u>	<u>2010</u>
Land	\$52,715,631	\$44,258,213
Permanent Easements	55,675	55,675
Assets Under Construction	15,739	-
Equipment	-	725
Total	\$52,787,045	\$44,314,613

Additional information on SAFCA's capital assets can be found in **Note 6** on page 24 of the Notes to the Basic Financial Statements.

Long-term debt - At the end of the current fiscal year, SAFCA had revenue bonds and loans outstanding of \$175,175,000. The majority amount of SAFCA's debt represents bonds secured by the Consolidated Capital Assessment District and Operations & Maintenance Assessment Districts. Additional information on long-term debt can be found in **Note 7** on pages 25-27 of the Notes to the Basic Financial Statements.

Summary of Outstanding Long Term Obligations

	Fiscal Years Ended June 30,	
	<u>2011</u>	<u>2010</u>
Revenue Bonds	\$ 175,175,000	\$ 172,055,000
Loans		
Add: Premium on Bonds Payable	1,889,841	2,024,829
Less: Discount on Bonds Payable	(1,275,588)	(1,322,832)
Less: Deferred Amount on Refunding	(1,225,435)	(1,312,967)
Totals	\$ 174,563,818	\$ 171,444,030

Economic Factors and Next Year's Budgets and Rates

The Fiscal Year 2011-12 Final Budget was adopted by SAFCA's Board of Directors on June 16, 2011. The budget supports SAFCA's continuing efforts to address the region's flood control needs during the coming year and is consistent with the objectives of SAFCA's current Strategic Plan. SAFCA's Strategic Plan identifies the efforts which SAFCA will undertake to ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-years or greater) for the Sacramento area.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The proposed means of financing some of the \$158.39 million in budgeted expenditures for fiscal year 2011-12 includes:

- Estimated prior year fund balances:
 - Operations & Maintenance Assessment District Fund: \$931,719
 - North Area Local Project Capital Fund: \$728,614
 - Consolidated Capital Assessment District Fund: \$21,840,000
 - Develop Impact Fee Fund: \$202,531
- Actual interest earnings:
 - Operations & Maintenance Assessment District Fund: \$20,000
 - North Area Local Project Capital Fund: \$45,000
 - Consolidated Capital Assessment District Fund: \$310,000
 - Development Impact Fee Fund: \$5,000
- Assessments:
 - Operations & Maintenance Assessment District Fund: \$6,300,000
 - Consolidated Capital Assessment District Fund: \$6,600,000
- Local Aid: \$2,590,000
- State Aid: \$77,238,000
- Development Impact Fees: \$200,000
- Miscellaneous: \$1,800
- Contributions: \$6,500
- Natomas Basin Local Assessment District 2011 Bonds: \$20,500,000
- Estimated Reserve Release: \$377,958

The following assumptions were made in preparing the 2011-12 Budget:

- The Operations & Maintenance assessment rates will remain at current (2010-11) levels.
- Consolidated Capital Assessment District rates will be levied at the maximum rate specified on the formula set forth in the Final Engineer's Report.
- Although NALP Assessment District No.2 assessment collections have been terminated, SAFCA is required to maintain funds in this account to discharge remaining NALP obligations.
- SAFCA anticipates that State of California DWR will provide \$70,100,000 through reimbursements to SAFCA for prior NLIP expenditures and direct contributions under California's Flood safe Program. The anticipated State funds have been appropriated by the Legislature, the State General Obligation Bonds authorized through those appropriations have been sold, and the allocation of bond proceeds needed for NLIP has been committed to SAFCA and set aside by DWR.
- If all other means of managing the FY2011-12 cash flow prove insufficient, SAFCA has the option of issuing \$20,500,000 bonds in 2011 as a contingency. Bond proceeds would be used to repay the NBLAD Bond Anticipation Notes, Series 2011 and cover NLIP construction costs pending receipt of State reimbursement funds.
- The proposed bonds would be secured by NBLAD assessments collectable beginning in 2013-2014 and by reserve funds advanced from the O&M fund.

Requests for Information

This financial report is designed to provide a general overview of SAFCA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Julie Lienert, Director of Administration, Sacramento Area Flood Control Agency, 1007 7th Street, 7th Floor, Sacramento, CA 95814 or phone (916) 874-7606.

SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF NET ASSETS (DEFICIT) – GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

ASSETS

Cash and investments	\$ 79,051,952
Interest receivable	84,151
Accounts receivable	1,538
Due from other governments	4,291,665
Deposit with others	7,012,309
Deferred charge	4,421,164
Capital assets:	
Land	52,715,631
Permanent easement	55,675
Assets under construction	15,739
Total capital assets	<u>52,787,045</u>
 Total assets	 <u>147,649,824</u>

LIABILITIES

Warrants payable	14,050,838
Accounts payable	5,392,955
Due to other governments	135,619
Accrued interest payable	2,134,890
Long-term liabilities:	
Due within one year	3,545,214
Due in more than one year	<u>171,018,604</u>
 Total liabilities	 <u>196,278,120</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	52,787,045
Restricted for:	
Debt services	12,145,655
Capital projects	48,233,437
Endowment:	
Expendable	176,098
Nonexpendable	90,343
Unrestricted	<u>(162,060,874)</u>
 Total net assets (deficit)	 <u>\$ (48,628,296)</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Capital Grants and Contributions	
Functions/Programs				
Public protection	\$ 4,733,505	\$ 6,247,875		\$ 1,514,370
Public ways and facilities	81,474,778	18,118,502	\$ 51,276,912	(12,079,364)
Interest	8,682,980			(8,682,980)
Total governmental activities	\$ 94,891,263	\$ 24,366,377	\$ 51,276,912	\$ (19,247,974)
General Revenues:				
Intergovernmental not restricted to specific programs				309,074
Interest and other income				1,796,803
Total general revenues				<u>2,105,877</u>
Change in net assets				(17,142,097)
Net assets (deficit) - July 1				<u>(31,486,199)</u>
Net assets (deficit), June 30				<u><u>\$ (48,628,296)</u></u>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	Capital Project Fund		Debt Service		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Consolidated Capital Assessment Fund	Consolidated Capital Assessment Fund	Consolidated Capital Assessment Fund		
ASSETS						
Cash and investments	\$ 10,917,482	\$ 43,755,419	\$ 11,286,701	\$ 13,092,350		\$ 79,051,952
Interest receivable	43,819	21,518	17,259	1,555		84,151
Accounts receivable	-	46	-	1,492		1,538
Deposits with others	-	7,012,309	-	-		7,012,309
Due from other funds	58,898	-	-	-		58,898
Due from other governments	20,712	4,150,862	58,733	61,358		4,291,665
Total assets	\$ 11,040,911	\$ 54,940,154	\$ 11,362,693	\$ 13,156,755		\$ 90,500,513
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants & claims payable	\$ 1,570,206	\$ 12,442,788	\$ -	\$ 37,844		\$ 14,050,838
Accounts payable	-	5,392,955	-	-		5,392,955
Deferred revenue	-	895,391	-	-		895,391
Due to other funds	-	-	-	58,898		58,898
Due to other governments	27,712	107,659	-	248		135,619
Total liabilities	1,597,918	18,838,793	-	96,990		20,533,701
Fund balances:						
Nonspendable						
Hanson Ranch	90,343	-	-	-		90,343
Restricted for:						
Hanson Ranch	176,098	-	-	-		176,098
Debt Service	-	-	11,362,693	782,962		12,145,655
Capital projects	-	36,101,361	-	11,236,685		47,338,046
Assigned	-	-	-	1,040,118		1,040,118
Unassigned	9,176,552	-	-	-		9,176,552
Total fund balances	9,442,993	36,101,361	11,362,693	13,059,765		69,966,812
Total liabilities and fund balances	\$ 11,040,911	\$ 54,940,154	\$ 11,362,693	\$ 13,156,755		

Amounts reported for governmental activities in the statement of net assets are different because:

Costs of issuance are deferred in the statement of net assets and reported as expenditures in the fund financial statements	4,421,164
Accounts Receivable not available to pay for current period expenditures are deferred in the funds	895,391
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	52,787,045
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds	(2,134,890)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	<u>(174,563,818)</u>
Net assets (deficit) of governmental activities	<u>\$ (48,628,296)</u>

See accompanying notes to the basic financial statements.

SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Project Fund		Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Consolidated Capital Assessment Fund	Consolidated Capital Assessment Fund		
REVENUES					
Special benefit assessments	\$ 6,247,875	\$ -	\$ -	\$ -	\$ 6,247,875
Special capital assessments	-	54,425	18,064,077	-	18,118,502
Intergovernmental	309,074	50,381,521	-	-	50,690,595
Interest and other income	676,979	332,246	33,706	753,872	1,796,803
Total revenues	7,233,928	50,768,192	18,097,783	753,872	76,853,775
EXPENDITURES					
Current:					
Public protection	4,733,505	-	-	-	4,733,505
Public ways and facilities	-	89,528,149	-	82,390	89,610,539
Miscellaneous	-	-	112,434	-	112,434
Debt service:					
Principal	-	-	2,920,000	160,000	3,080,000
Bond issuance cost	-	-	-	58,898	58,898
Interest	-	-	8,489,006	230,920	8,719,926
Total expenditures	4,733,505	89,528,149	11,521,440	532,208	106,315,302
Excess (deficiency) of revenues over (under) expenditures	2,500,423	(38,759,957)	6,576,343	221,664	(29,461,527)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	6,597,784	375	779,450	7,377,609
Transfers out	(388,545)	(375)	(6,597,784)	(390,905)	(7,377,609)
Bonds anticipation notes issued	-	-	-	6,200,000	6,200,000
Total other financing sources (uses)	(388,545)	6,597,409	(6,597,409)	6,588,545	6,200,000
NET CHANGE IN FUND BALANCES	2,111,878	(32,162,548)	(21,066)	6,810,209	(23,261,527)
Fund balances - July 1	7,331,115	68,263,909	11,383,759	6,249,556	
Fund balances - June 30	\$ 9,442,993	\$ 36,101,361	\$ 11,362,693	\$ 13,059,765	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$8,473,157) exceeded depreciation (\$725) in the current period. 8,472,432

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.

Repay of debt (principal)	3,080,000	
Bond anticipation notes issued	(6,200,000)	(3,120,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Deferred revenues earned, but not received within the 60-day accrual period	895,391
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Some expenses report in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Current year amortization of premium	134,988	
Current year amortization of discount	(47,244)	
Current year amortization of loss of refunding	(87,532)	
Current year amortization of Bond issuance cost	(165,551)	
Change in accrued interest payable	36,946	(128,393)

Change in net assets of governmental activities	\$ (17,142,097)
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See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 – REPORTING ENTITY

Authorized Legislation and Organization

The Sacramento Area Flood Control Agency (SAFCA), which was created effective January 1, 1990 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. SAFCA is a jointly governed organization under GASB Statement No. 14, *The Financial Reporting Entity*. Parties to this agreement are the City of Sacramento, County of Sacramento, Reclamation District No. 1000, American River Flood Control District, and the County of Sutter. SAFCA was formed to plan, coordinate and finance regional flood protection improvements in the Sacramento area. SAFCA is governed by a Board of Directors, which is composed of five members from the Sacramento County Board of Supervisors, three members from the Sacramento City Council, two trustees from the American River Flood Control District, two trustees from Reclamation District No. 1000, and one member from the Sutter County Board of Supervisors. In addition, SAFCA contracts with Sacramento County and the City of Sacramento for its employees.

On June 20, 1991, the SAFCA Board of Directors passed Resolution 91-010, forming the SAFCA Operations and Maintenance Assessment District No. 1. The Sacramento Area Flood Control Agency Act, which was augmented by the California State Legislature, granted SAFCA the ability to levy and collect assessments and to pay for administrative, operations and maintenance costs. The District operates within SAFCA's boundaries and is governed by the same Board of Directors.

On September 21, 1995, the SAFCA Board of Directors passed Resolution 95-112, forming the SAFCA North Area Local Project Capital Assessment District No. 2 and authorizing the issuance of bonds in the principal amount of \$84,345,000. On February 17, 2005, the SAFCA Board authorized additional bonds in the principal amount of \$34,595,000.

On May 31, 2007, the SAFCA Board of Directors passed Resolution No. 07-052, issued the Series 2007 Bonds, forming the SAFCA Consolidated Capital Assessment District. On August 21, 2008, in connection with the issuance of the Series 2007 Bonds, the SAFCA Board of Directors passed Resolution No. 08-098, issued the Series 2008 Bond, the combined principal amount of \$172,095,000.

On May 15, 2008, the Board adopted the SAFCA Development Fee Program Report and established the SAFCA Development Fee Program, Resolution 09-010. The Fee Program became effective January 1, 2009, and will augment existing Consolidated Capital Assessment District funding sources for achieving at least a 200-year level of flood protection for the Sacramento Area over the next 11 years and will thereby offset any increase in exposure to flood damages that might otherwise occur as new development occurs in the protected floodplain during this period.

On April 29, 2011, the SAFCA Board of Directors passed Resolution No. 2011-052, forming the SAFCA Natomas Basin Local Assessment District (NBLAD). On June 16, 2011, the SAFCA Board authorized the issuance of Bond Anticipation Notes (BAN), Series 2011 in the amount of \$6,200,000.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 (SAFCA). These statements include the financial activities of the overall government. The statement of activities presents direct expenses and program revenues for each function of SAFCA'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 1) charges paid by the recipients of goods or services offered by the programs and 2) 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 interest, other income and intergovernmental, 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 SAFCA's funds, which include only *governmental funds*.

SAFCA reports the following major governmental funds:

The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the SAFCA that are not accounted for through other funds. For the District, the General Fund's activities include public protection only.

The *Consolidated Capital Assessment District Fund (CCAD)* is a capital project fund used to account for the bond proceeds and the accumulation of other resources for, and expenditures relating to financing, or reimbursing, SAFCA for the cost of certain flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed in and for the CCAD pursuant to the Act.

The *Consolidated Capital Assessment (CCAD)* is a debt service fund used to account for all proceeds received from the annual levy and collection of assessments account when received. The monies in the Consolidated Capital Assessment are used to punctually pay interest, principal and redemption premiums on the Consolidated Capital Assessment Fund, Series 2007 and 2008. Through June 30, 2011, the CCAD funded all principal and interest payments as scheduled.

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 SAFCA gives (or receives) value without directly receiving (or giving) equal value in exchange, include special assessments, grants, entitlements and donations. On an accrual basis, revenue from special assessments is recognized in the fiscal year for which the assessments are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Special assessments, interest and certain state and federal grants 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. However, debt service expenditures are recorded only when payment is due. General capital assets acquisitions are reported expenditures in governmental funds. Proceeds of general long-term debt and the sale of capital assets are reported as other financing sources.

Cash and Investments

Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of Sacramento (County) has custody of all cash and investment balances and is the fiscal agent for SAFCA. All cash in the debt service funds represent bond reserves; the remainder of SAFCA's cash is pooled with other County funds. SAFCA's share of the pooled cash account is separately accounted for and interest earned, net of related expenses, is apportioned at the end of each quarter based upon the relationship of its daily cash balance to the total of the pooled account.

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

Capital Assets

Capital assets are stated at cost except for assets contributed to SAFCA, which are stated at their market value on the date contributed. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in net income for the period.

Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. The intangible asset class includes permanent easements.

Depreciation of capital assets is computed under the straight-line method over the following estimated useful lives:

Equipment	5 to 10 years
Structures and improvements	10 to 40 years

The SAFCA's policy is to capitalize all capital assets with a cost greater than \$5,000 and a useful life of more than one year.

As of July 1, 2010, the \$5,000 threshold for buildings, structures, and improvements has increased to \$25,000.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Benefit Assessments

Special benefit assessments are recognized and apportioned only as received. The special benefit assessment is billed with the Sacramento and Sutter Counties property tax rolls. It is, however, not a property tax since it is exempt from the tax rate limitation pursuant to Article XIII A of the California Constitution. Assessments are payable in equal installments on November 1 and February 1. They become delinquent after December 10 and April 10, respectively. The assessment date is July 1 and the lien date is January 1 of each year.

Special Capital Assessments

Special capital assessments are levied on parcels of property in the Capital Assessment District to satisfy the annual debt service during the ensuing bond year. Although the annual special capital assessments constitute liens on the lots and parcels assessed, they do not constitute a personal indebtedness of the respective owners of the lots and parcels. Furthermore, there is no assurance as to the ability or the willingness of the owners to pay the special capital assessments.

The special capital assessments are collected annually on the Counties secured tax roll on which general taxes on real property are collected. The special capital assessments are payable and become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes except that accelerated foreclosure procedures are imposed. Amounts not received at year-end are delinquent. Special capital assessments are recognized and apportioned to SAFCA as received by the Counties.

Development Impact Fee

The Counties of Sacramento and Sutter collect the Development Impact Fee as a condition of issuance of a building permit for any building, for which a building permit is required, located in the Program area (Lower American and Sacramento Rivers and their tributaries) that has a finished floor below elevation 35.6 feet. As funds are collected by the Counties, the collections are deposited into SAFCA's separate Development Impact Fee Fund.

Receivables

SAFCA does not accrue an allowance for doubtful accounts for special benefit assessments as the Sacramento Area Flood Control Agency Act provides authority for accelerated judicial foreclosure in the event of nonpayment.

SAFCA does not accrue an allowance for doubtful accounts for special capital assessments as SAFCA participates in the County's Teeter plan where the County has historically purchased 100% of SAFCA's delinquent assessments.

Deposits with others

Deposits with others consist of deposits with the State of California's Condemnation Fund. The disposition of these funds is determined by judicial order. Typically, the funds are applied to the purchase of condemned land or returned to SAFCA. As of June 30, 2011, deposits with the State of California's Condemnation Fund are \$7,012,309.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget Policies

The Sacramento Area Flood Control Agency’s budget for governmental funds is prepared on the modified accrual basis of accounting. Encumbrances not liquidated in the current year are added to the subsequent-year budget for reporting and control purposes.

Deferred Revenue

Some revenues will not be collected before 60 days after the year end, and therefore are not considered “available”. Deferred revenue consists of amounts that are not available or unearned. These amounts are deferred in the governmental funds. As of June 30, 2011, deferred revenues are \$895,391.

Deferred Charges

Deferred charges of \$4,421,164 as of June 30, 2011, net of accumulated amortization, consist of cost incurred for the issuance of the 2007 and 2008 revenue bonds. Amortization of issuance cost is computed using the straight-line method, over the useful life of the related asset.

New Accounting Pronouncements

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010, enhances 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. The Agency implemented the new requirements for the fiscal year 2010-2011 financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, effective for periods beginning after June 15, 2010, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investments pools for which significant issues have been identified in practice. The Agency implemented the new requirements for the fiscal year 2010-2011 financial statements. There was no significant impact to the financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 – FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

As of June 30, 2011, fund balances for government funds are made up of the followings:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact such as an endowment. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: amounts held for perpetuity, prepaid amounts, and long-term receivables.
- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Agency’s Board of Directors such as a ordinance or resolution. Commitments may be established, modified, or rescinded only through resolutions approved by SAFCA’s Board of Directors.
- *Assigned Fund Balance* – comprises amounts intended to be used by the Agency for specific purposes that are neither restricted nor committed. Intent is expressed by (1) SAFCA’s Board of Directors or (b) a body (for example: a budget or finance committee) or official to which SAFCA’s Board of Directors have delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Fund Balance* – is the residual classification for the General Fund, or in the other fund types when there are negative residual resources in excess of what can be properly classified as nonspendable, restricted, committed, or assigned. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 – FUND BALANCES (Continued)

Fund balances for all the major and nonmajor governmental funds as of June 30, 2011, were distributed as follows:

	<u>General Fund</u>	<u>Consolidated Capital Capital Funds</u>	<u>Consolidated Capital Debt Service Funds</u>	<u>Nonmajor Governmental Nonmajor Funds</u>	<u>Total Governmental Total</u>
Nonspendable:					
Hanson Ranch	\$ 90,343	\$ -	\$ -	\$ -	\$ 90,343
Restricted for:					
Hansen Ranch	176,098	-	-	-	176,098
Debt Service	-	-	11,362,693	782,962	12,145,655
Capital projects	-	36,101,361	-	11,236,685	47,338,046
	<u>176,098</u>	<u>36,101,361</u>	<u>11,362,693</u>	<u>12,019,647</u>	<u>59,659,799</u>
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,040,118.00</u>	<u>1,040,118</u>
Unassigned	<u>9,176,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,176,552</u>
Total	<u><u>\$ 9,442,993</u></u>	<u><u>\$ 36,101,361</u></u>	<u><u>\$ 11,362,693</u></u>	<u><u>\$ 13,059,765</u></u>	<u><u>\$ 69,966,812</u></u>

NOTE 4 – CASH AND INVESTMENTS

SAFCA’s cash and investments are held in the County Treasurer’s pool and the County, acting in a fiduciary capacity, established a separate cash and investments pool (fiscal agent pool) to segregate and invest monies in accordance with long-term obligation covenants.

Cash and Investments as of June 30, 2011, consist of the following:

Statement of net assets:	<u>2011</u>
Treasurer acting as Bond fiscal agent	\$ 67,267,886
U.S. Government Agencies	11,784,066
Total cash and investments	<u><u>\$ 79,051,952</u></u>

SAFCA maintains cash deposits and investments with the County and involuntarily participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2011 the carrying amount of SAFCA’s investments held by the County as part of the Treasurer’s pool was \$67,267,886. The weighted average maturity of the Treasurer’s pool was 191 days at June 30, 2011.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 – CASH AND INVESTMENTS (Continued)

California Government Code authorizes the Treasurer of the County to invest excess funds in the following list of eligible securities:

- a) Obligations of the County or any local agency and instrumentality in or of the State of California.
- b) Obligations of the U.S. Treasury, agencies and instrumentalities.
- c) Bankers' acceptances eligible for purchase by the Federal Reserve System.
- d) Commercial paper with an A-1 rating by Moody's Investors Service or a P-1 rating by Standard & Poor's Corporation.
- e) Repurchase agreements or reverse repurchase agreements.
- f) Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories by Moody's Investors Service and Standard & Poor's Corporation.
- g) Shares of beneficial interest issued by diversified management companies (money market funds) investing in securities and obligations as outlined in a) through f) above. Certain security rankings and/or organizational requirements apply to this type of investment.

The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S Treasury Notes and Bills	5 years	80%	None
U.S. Government Agencies	5 years	80%	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rate risk by measuring the weighted average maturity, SAFCA's investments are monitored for interest rate risk by measuring the weighted average maturity.

<u>Investment Type</u>	<u>Fair Value at June 30, 2011</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Government Agencies	11,784,066	0.25
Total	<u>\$ 11,784,066</u>	

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 – CASH AND INVESTMENTS (Continued)

Credit Risk

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. SAFCA is permitted to hold investments of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be A-1 and P-1, and the long-term rating must be A- and A3, respectively by Standard & Poor's and Moody's rating agencies. In addition, the SAFCA is permitted to invest in the State's Local Agency Investment Fund, collateralized certificate of deposits and notes issued by the County that are not rated. NR represents securities that are not rated.

Investment Type	Fair Value at June 30, 2011	Ratings as of June 30, 2011
U.S. Government Agencies	\$ 11,784,066	P-1/A-1+
Total	<u>\$ 11,784,066</u>	

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of SAFCA's total investments are shown below as of June 30, 2011.

Issuer	Investment Type	Fair Value at June 30, 2011
Federal National Mortgage Association Discount Note	Government Securities	\$ 8,035,344
Federal Home Loan Mortgage Corporation Discount Note	Government Securities	\$ 3,748,722

Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, SAFCA would not be able to recover the value of its deposits and investments. As of June 30, 2011, one hundred percent of SAFCA's investments are held in SAFCA's name and not exposed to custodial credit risk. SAFCA does not have a policy for custodial credit risk.

NOTE 5 – INTERFUND TRANSACTIONS

Due to/from other funds

The outstanding balances between funds result from the time lag between the dates the 1) transactions are recorded in the accounting system and 2) payments between funds are made. The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
SAFCA's General Fund	Natomas Basin Local Area District	<u>\$ 58,898</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

Interfund transfers

Interfund transfers during the year ended June 30, 2011 are summarized as follows:

	Transfers In			Total
	<u>Consolidated Capital Assessment</u>	<u>Consolidated Capital Assessment Debt Fund</u>	<u>Nonmajor Governmental Funds</u>	
Transfer Out:				
General Fund			\$ 388,545	\$ 388,545
Consolidated Capital				
Assessment Fund		\$ 375		375
Consolidated Capital				
Assessment Debt Fund	\$ 6,597,784			6,597,784
Nonmajor Governmental			390,905	390,905
Total	<u>\$ 6,597,784</u>	<u>\$ 375</u>	<u>\$ 779,450</u>	<u>\$ 7,377,609</u>

SAFCA's General Fund made a transfer of \$388,545 to Non-major Governmental Funds for Debt Service Payments. Non-major Governmental Funds made a transfer of \$390,905 to other Non-major Governmental Funds for Debt Service Payments. The Capital Assessment Debt Service fund transferred \$6,597,784 to the Consolidated Capital Assessment Capital Project fund for direct levy fees collected and to support fiscal year 2011 operations.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance at June 30, 2011</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 44,258,213	\$ 8,457,418		\$ 52,715,631
Permanent easement	55,675		-	55,675
Assets Under Construction	-	15,739	-	15,739
<i>Capital assets not being depreciated</i>	<u>44,313,888</u>	<u>8,473,157</u>	<u>-</u>	<u>52,787,045</u>
<i>Capital assets, being depreciated:</i>				
Equipment	35,932	-		35,932
Less accumulated depreciation	<u>(35,207)</u>	<u>(725)</u>		<u>(35,932)</u>
<i>Total capital assets, being depreciated, net</i>	<u>725</u>	<u>(725)</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 44,314,613</u>	<u>\$ 8,472,432</u>	<u>\$ -</u>	<u>\$ 52,787,045</u>

Depreciation expense for the year ended June 30, 2011 was \$725 and was charged to the public protection and public ways and facilities functions.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 7 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2011:

Series 1996 Operating and Maintenance term series bonds due on November 1, 2011 through 2016 with interest at 5.800%, optional redemption effective for bonds maturing on or after November 1, 2007, at a premium rate of 0% to 2%.	\$ 1,165,000
Series 1996 Operating and Maintenance term series bonds due on November 1, 2017 through 2025 with interest at 5.900%, optional redemption effective for bonds maturing on or after November 1 2007 at a premium rate of 0% to 2%.	2,690,000
Series 2007A Consolidated Capital Assessment bonds due on October 1, 2011 through 2037 with interest at 5.000%, optional redemption effective for bonds maturing on or after October 1, 2017.	54,535,000
Series 2007A Consolidated Capital Assessment bonds due on October 1, 2011 through 2025 with interest at 5.000%, optional redemption effective for bonds maturing on or after October 1, 2017.	28,455,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2011 through 2014 with interest at 4.000%, optional redemption effective for bonds maturing on or after October 1, 2014.	6,395,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2015 through 2023 with interest at 4.125% to 5.375%, optional redemption effective for bonds maturing on or after October 1, 2019.	19,265,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2024 through 2028 with interest at 5.500%, mandatory redemption effective for bonds maturing on or after October 1of each year.	15,340,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2029 through 2037 with interest at 5.625%, mandatory redemption effective for bonds maturing on or after October 1of each year.	41,130,000
Series 2011 Natomas Basin Local Assessment District BAN due on June 15, 2012 through 2016 with accrued interest at a fixed rate of 3.50%, optional redemption prior to the respective maturity date upon seven days notice.	<u>6,200,000</u>
Total long-term obligations	<u>\$175,175,000</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

The aggregate amount of debt service on long-term debt outstanding at June 30, 2011 is as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,545,000	\$ 8,804,595
2013	3,680,000	8,650,626
2014	3,840,000	8,498,891
2015	3,995,000	8,340,606
2016	8,645,000	8,165,463
2017-2021	21,970,000	37,007,156
2022-2026	28,250,000	30,708,273
2027-2031	34,555,000	22,489,219
2032-2036	45,040,000	11,997,688
2037-2039	<u>21,655,000</u>	<u>1,166,969</u>
Total	<u>\$175,175,000</u>	<u>\$145,829,486</u>

On November 1, 1996, Sacramento Area Flood Control Agency issued \$1,335,000 of serial series and \$4,165,000 of term series 1996 Subordinated Operation and Maintenance Assessment Bonds (O&M Bond). The interest rate on the serial series bonds range from 4.45% to 5.25%. The interest rates on the term bonds are 5.80% and 5.90%.

The bonds are secured by special capital assessments and operations and maintenance assessments levied by SAFCA on property in the Operation and Maintenance Assessment District No. 1 and by certain other funds and accounts. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy in each fiscal year the Operation and Maintenance Assessments in an amount to provide sufficient funds to make the deposits required by the Resolution to be made in the Operation and Maintenance Assessment Obligation Fund in such fiscal year and to pay all budgeted Operation and Maintenance Expenses in such fiscal year. Total principal and interest remaining on the bonds is \$5,794,045, payable through November 2026. As of June 30, 2011, principal and interest paid and total revenues were \$390,920 and \$6,247,875, respectively.

On June 1, 2007, Sacramento Area Flood Control Agency issued \$87,130,000 of term series 2007 Consolidated Capital Assessment District Bonds with interest rates ranging from 5.00% to 5.57%. Proceeds from this issue were used to (i) establish irrevocable escrows to refund in full the \$33,920,000 of 2005 North Area Local Project Capital Assessment District No. 2 Bonds; (ii) repay SAFCA's Bond Anticipation Notes, 2006 Series A and B; (iii) finance certain facilities of SAFCA; (iv) purchase a Reserve Surety Bond in the amount of the reserve fund requirement; and (v) pay the costs of issuance of the Series 2007 Bonds. The bonds are secured by special capital assessments to be levied by SAFCA on property in SAFCA's Consolidated Capital Assessment District. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy the maximum amount in each fiscal year, through fiscal year 2036-2037. The collection of the Consolidated Capital Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service.

On October 9, 2008, in connection with the Series 2007 Bonds, the Series 2008 Bonds were issued in the amount of \$84,965,000 with interest rates ranging from 4.00% to 5.62%. Proceeds from this issue were used to (i) finance, or reimburse SAFCA for the cost of flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed in and for the District, (ii) pay the cost of the Policy and two debt service reserve fund financial guaranty insurance policies for the credit of the Reserve Account and, (iii) pay the costs of issuance of the Series 2008 Bonds. Total principal and interest remaining on the Consolidated Capital Assessment District bonds,

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

series 2007 and 2008 is \$308,032,327, payable through June 2038. As of June 30, 2011, principal and interest paid and total revenues were \$11,409,006 and \$18,064,077, respectively.

As a result of the Consolidated Capital Assessment District bonds issued, the 2005 North Area Local Project Series are considered to be defeased and the liabilities for those bonds were removed from the Sacramento Area Flood Control Agency financial statements in 2008. As of June 30, 2011, the outstanding balance defeased for the 2005 North Area Local Project Series is \$27,770,000.

On June 23, 2011, SAFCA issued Bond Anticipation Notes, series 2011 in the amount of \$6,200,000 with a fixed interest rate of 3.50% per annum, through June 15, 2016. The purpose for which the Notes are issued is to provide interim funds, prior to the issuance of the Proposed NBLAD Bonds, to fund SAFCA's share of the cost of constructing levee improvements needed to provide the Natomas Basin with a 200-year level of flood protection and costs associated with the issuance of the BANs. As of June 30, 2011, the total principal balance of the BAN, series 2011 is \$6,200,000, payable through June 2016.

Changes in long-term obligations for the fiscal year ended June 30, 2011 were as follows:

	July 1, 2010			June 30, 2011	Due within
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>	<u>one year</u>
Revenue Bonds	\$ 172,055,000	\$ 6,200,000	\$ (3,080,000)	\$ 175,175,000	\$ 3,545,000
Deferred Amounts:					
2008 Issuance discount	(1,322,832)		47,244	(1,275,588)	(47,244)
2007 Issuance premium	2,024,829		(134,988)	1,889,841	134,989
2007 Loss on Refunding	(1,312,967)		87,532	(1,225,435)	(87,531)
Total	<u>\$ 171,444,030</u>	<u>\$ 6,200,000</u>	<u>\$ (3,080,212)</u>	<u>\$ 174,563,818</u>	<u>\$ 3,545,214</u>

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. The potential liability, if any, to be paid November 2011 will fluctuate based upon the stream of construction draw downs and changing investment yields. As of June 30, 2011, SAFCA has no arbitrage liability.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 8 – OPERATING LEASES

SAFCA entered into a lease agreement on June 1, 2007 for office space. The lease term is for six years and is cancellable after four years by giving at least 180 days written notice. On April 22, 2010, an amendment was made to the lease agreement. The amendment allows for expansion through addition and deletion of space within the Lease Premises. Rental expenditures for the year ended June 30, 2011 were \$206,755. Future minimum rental payments required under the operating lease as of June 30, 2011 are as follows:

<u>June 30,</u>	
2012	\$ 207,927
2013	<u>195,827</u>
Total	<u>\$ 403,754</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2011, the County of Sacramento, a related party, owed SAFCA \$84,151 for interest earned on Treasury deposits and \$84,664 for special assessments payments received by the County, but not transferred to SAFCA prior to year-end. In addition, some of SAFCA’s employees are employees of the County and SAFCA uses other County departments for other services, such as risk management, engineering, accounting, etc. Expenditures paid to the County during the year for Public Protection and Public Ways and Facilities were \$1,303,147.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, SAFCA has four major construction contracts, Sukut Construction, Nordic Industries, Inc., Independent Construction Company, and Sierra View Landscape, Inc. These construction contracts are for the Consolidated Capital Assessment Project, expected completion dates, January 13, 2012, December 15, 2011, November 15, 2010 and undetermined, respectively. The aggregate contractual commitment totaled \$37,057,106 through the end of the contracts. These contracts are cancelable at anytime, with cause, upon 5-days written notice by the Board.

SAFCA is involved in various claims and litigation, which is considered normal to SAFCA’s regional planning activities. In the opinion of SAFCA’s management, the ultimate resolution of these matters will not have a material effect on SAFCA’s financial position.

NOTE 11 – RISK MANAGEMENT

SAFCA 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. SAFCA reports all of its risk management activities in its General Fund. SAFCA purchases commercial insurance for property damage and liability through an insurance agent, who obtains the appropriate insurance coverage needed by SAFCA from insurance companies. In addition, SAFCA participates in the County’s self-insurance program for workers’ compensation and employer’s liability. Annual premiums are based primarily on claims experience. Current premiums are charged to expense when paid.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 – RISK MANAGEMENT (Continued)

SAFCA deductibles and maximum coverage follows:

Coverage	Limits	Deductibles/SIR	Carrier	Effective Date	Policy Number or Memorandum Number
General Liability, Public Officials Liability and Automobile Liability	(1) \$15,000,000 Occurrence and Aggregate (2) \$20,000,000 Optional Excess (3) \$15,000,000 CLIP Total \$50,000,000	\$100,000 SIR applies to General Liability, Public Officials Liability and Automobile Liability	(1) CSAC Excess Insurance Authority (2) CSAC (3) Lexington	7/1/10 – 7/1/11 7/1/10 – 7/1/11 7/1/10 – 7/1/11	(1) EIA-PE 09 EL 62 (2)EIA-PE 10 OEL-16 (3) 62785165
Workers' Compensation and Employer's Liability	WC - Statutory Employers' Liability - \$5,000,000	\$3,000,000 SIR	CSAC Excess Insurance Authority	7/1/10 to 7/1/11	EIA10 EWC-30
Property All Risk	\$6,984,780	\$1,000	Lexington Insurance	7/1/10 – 7/1/11	P101654-008
Boiler and Machinery (Included in Property Policy)	Included	\$2,500	Included	Included	P101654-008

During the past three fiscal years, there were no instances of settlements, which exceeded insurance coverage and no significant reductions in insurance coverage.

NOTE 12 – DEBT AND BOND COVENANTS

Pursuant to the Series 2007 and 2008 Consolidated Capital Assessment Bonds Agreement, SAFCA is required to faithfully perform and abide by all of the covenants, undertakings, and provisions detailed in the bond agreement. Specific covenants include the following:

- So long as any Bonds are outstanding, SAFCA will annually levy in each fiscal year, through fiscal year 2038, the Consolidated Capital Assessments against all assessable land in the District not to exceed the maximum rates specified in the Final Engineer's Report and make provision for the collection of the Consolidated Capital Assessments in amounts which SAFCA estimates will be sufficient, after making reasonable allowances for contingencies and errors in the estimates, to yield Consolidated Capital Assessments available for debt service equal to at least one hundred ten percent of the annual debt service for such fiscal year.

SAFCA will annually on or before September 1 of each year review the public records of the County of Sacramento and the County of Sutter relating to collection of the Consolidated Capital Assessments in order to determine the amount of the Consolidated Capital Assessments collected in the prior fiscal year in respect of privately-owned assessable land, and if privately-owned assessable land owned by any single property owner in the District is delinquent by more than ten thousand dollars with respect to the Consolidated Capital Assessments due and payable by such property owner by such delinquency date, SAFCA will by December 31 institute, prosecute and pursue foreclosure proceedings and authorized by the Act in order to enforce the lien of such delinquent installments.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 12 – DEBT AND BOND COVENANTS (Continued)

- SAFCA will annually on or before September 1 of each year review the public records of the County of Sacramento and the County of Sutter relating to collection of the Consolidated Capital Assessments in order to determine the amount of the Consolidated Capital Assessments collected in the prior fiscal year in respect of governmentally-owned assessable land, and if property owned by any single governmental entity in the District is delinquent by more than ten thousand dollars with respect to the Consolidated Capital Assessments due and payable by such governmental entity by that date, then SAFCA will by December 31, unless prohibited by an order of a court of competent jurisdiction institute and then prosecute and pursue judicial proceedings to seek enforcement and collection of such delinquent Consolidated Capital Assessments.

For the year ended June 30, 2011, SAFCA has complied with the preceding provisions.

NOTE 13 – CREDITS EARNED TOWARDS LOCAL SHARE OF FEDERAL FLOOD CONTROL PROJECTS

The U.S. Army Corps of Engineers (USACE) is the prime construction entity for the flood control projects encompassed by the American River Common Features Flood Control Project (AR Project). USACE designs the improvements, advertises for bids, and issues contracts for construction. USACE periodically sends the State of California, via the Central Valley Flood Protection Board (formerly The Reclamation Board), an invoice for the non-federal share of the project costs. The State in turn sends SAFCA an invoice for the local cost share.

With enactment and signature of the Water Resources Development Act of 2007, SAFCA has been authorized \$16,119,000 in credits for the federal expenses it incurred for the AR Project. It is anticipated that an amendment to the Local Project Cooperation Agreement (between the State and SAFCA) and the Project Cooperation Agreement (between the State and USACE) will be needed to allow SAFCA to redeem credits instead of providing cash for future projects.

Once the amendments are in place, SAFCA will work with USACE and the State in the federal budgeting and appropriations efforts to utilize the credits. Use of the credits will be requested as part of budget proposals developed by local/state/federal staff and approved by the SAFCA Board of Directors, the State Legislature, and/or the U.S. Congress.

On November 10, 2010, the Assistant Secretary of the Army for Civil Works approved SAFCA's application, as endorsed by the State of California Central Valley Flood Protection Board, for credit for construction work to be performed as part of the American River (Common Features) Project, California. This work, estimated to cost \$132,000,000, will significantly reduce potential flood damages to portions of the Natomas Basin.

REQUIRED SUPPLEMENTARY INFORMATION

**SACRAMENTO AREA FLOOD CONTROL AGENCY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Special benefit assessments	\$ 6,300,000	\$ 6,300,000	\$ 6,247,875	\$ (52,125)
Intergovernmental	-	-	309,074	309,074
Interest and other income	21,800	21,800	676,979	655,179
Total revenues	<u>6,321,800</u>	<u>6,321,800</u>	<u>7,233,928</u>	<u>912,128</u>
EXPENDITURES				
Current:				
Public protection	<u>5,485,213</u>	<u>5,485,213</u>	<u>8,060,758</u>	<u>(2,575,545)</u>
Total Expenditures	<u>5,485,213</u>	<u>5,485,213</u>	<u>8,060,758</u>	<u>(2,575,545)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>836,587</u>	<u>836,587</u>	<u>(826,830)</u>	<u>(1,663,417)</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(378,000)</u>	<u>(378,000)</u>	<u>(388,545)</u>	<u>(10,545)</u>
Total other financing sources (uses)	<u>(378,000)</u>	<u>(378,000)</u>	<u>(388,545)</u>	<u>(10,545)</u>
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	<u>\$ 458,587</u>	<u>\$ 458,587</u>	<u>(1,215,375)</u>	<u>\$ (1,673,962)</u>
Basis adjustment:				
Encumbrances			<u>3,327,253</u>	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>\$ 2,111,878</u>	

See notes to the required supplementary information.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 – BUDGET

The Sacramento Area Flood Control Agency’s budget for governmental funds is prepared on the modified accrual basis of accounting. Encumbrances not liquidated in the current year are added to the subsequent-year budget for reporting and control purposes.

Encumbrances, which are commitments related to the future purchase of goods or services, are recorded in General Fund, special revenue fund, debt service funds, and capital projects funds as restricted, committed, or assigned fund balance. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent-year expenditures.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device for the general fund. All annual appropriations lapse at fiscal year end. The Director of Administration prepares and submits a proposed budget to the Board of Directors in May for review. 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. Revisions to the adopted budget must be presented to the Board of Directors by the Director of Administration and approved by resolution.

Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2011, exceeded the appropriations in the following fund:

	Budget	Actual	Variance
General Fund	\$ 5,485,213	\$ 8,060,758	\$ (2,575,545)

The excess expenditures were covered by available fund balance in the fund.

SUPPLEMENTAL INFORMATION

**SACRAMENTO AREA FLOOD CONTROL AGENCY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011**

	Capital Project Funds			Debt Service Fund			Total Nonmajor Governmental Funds
	Development Impact Fee Fund	N. Area Local Project	Natomas Basin Local Assess Dist.	1996 Redemption	Assessment Obligation	1996 Reserve	
ASSETS							
Cash and investments	\$ 1,006,993	\$ 5,102,566	\$ 6,200,000	\$ 22	\$ 385,151	\$ 397,618	\$ 13,092,350
Due from other governments	61,230	128	-	-	-	-	61,358
Accounts receivable	1,492	-	-	-	67	-	1,492
Interest receivable	688	-	696	8	-	96	1,555
Total assets	1,070,403	5,102,694	6,200,696	30	385,218	397,714	13,156,755
LIABILITIES AND FUND BALANCES							
Liabilities:							
Warrants & claims payable	\$ 30,285	\$ 7,559	\$ -	\$ -	\$ -	\$ -	\$ 37,844
Due to other fund	-	-	58,898	-	-	-	58,898
Due to other government	-	248	-	-	-	-	248
Total liabilities	30,285	7,807	58,898	-	-	-	96,990
Fund balances:							
Restricted for:							
Debt Service	-	-	-	30	385,218	397,714	782,962
Capital Projects	-	5,094,887	6,141,798	-	-	-	11,236,685
Assigned to:							
Capital Projects	1,040,118	-	-	-	-	-	1,040,118
Total fund balances	1,040,118	5,094,887	6,141,798	30	385,218	397,714	13,059,765
Total liabilities and fund balances	\$ 1,070,403	\$ 5,102,694	\$ 6,200,696	\$ 30	\$ 385,218	\$ 397,714	\$ 13,156,755

SACRAMENTO AREA FLOOD CONTROL AGENCY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Project Funds			Debt Service Funds			Total Nonmajor Governmental Funds
	Development Impact Fee Fund	North Area Local Project	Natomas Basin Local Asses Dist	1996 Redemption	Assessment Obligation	1996 Reserve	
REVENUES							
Interest & other income	\$ 749,790	\$ -	\$ 696	\$ 30	\$ 1,898	\$ 1,458	\$ 753,872
Total revenues	<u>749,790</u>	<u>-</u>	<u>696</u>	<u>30</u>	<u>1,898</u>	<u>1,458</u>	<u>753,872</u>
EXPENDITURES							
Current:							
Public ways and facilities	55,047	27,343	-	-	-	-	82,390
Debt service:							
Cost of Issuance	-	-	58,898.00	-	-	-	58,898
Principal	-	-	-	160,000	-	-	160,000
Interest	-	-	-	230,920	-	-	230,920
Total expenditures	<u>55,047</u>	<u>27,343</u>	<u>58,898</u>	<u>390,920</u>	<u>-</u>	<u>-</u>	<u>532,208</u>
Excess (deficiency) of revenues over (under) expenditures	<u>694,743</u>	<u>(27,343)</u>	<u>(58,202)</u>	<u>(390,890)</u>	<u>1,898</u>	<u>1,458</u>	<u>221,664</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	390,905	388,545	-	779,450
Transfers out	-	-	-	-	(389,995)	(910)	(390,905)
Issuance of Bond Anticipation Notes	-	-	6,200,000	-	-	-	6,200,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6,200,000</u>	<u>390,905</u>	<u>(1,450)</u>	<u>(910)</u>	<u>6,588,545</u>
NET CHANGE IN FUND BALANCES	694,743	(27,343)	6,141,798	15	448	548	6,810,209
Fund balances - July 1	<u>345,375</u>	<u>5,122,230</u>	<u>-</u>	<u>15</u>	<u>384,770</u>	<u>397,166</u>	<u>6,249,556</u>
Fund balances - June 30	<u>\$ 1,040,118</u>	<u>\$ 5,094,887</u>	<u>\$ 6,141,798</u>	<u>\$ 30</u>	<u>\$ 385,218</u>	<u>\$ 397,714</u>	<u>\$ 13,059,765</u>

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 Area Flood Control Agency
Sacramento, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2011, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated December 30, 2011. Our report includes an explanatory paragraph, referring to SAFCA'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 SAFCA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SAFCA'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 SAFCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

This report is intended solely for the information and use of the Board of Directors, SAFCA management and Federal awarding agencies and pass-through entities, and others within the organization 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
December 30, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH BOND COVENANTS**

Board of Directors
Sacramento Area Flood Control Agency
Sacramento, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2011, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated December 30, 2011. Our report includes an explanatory paragraph, referring to SAFCA'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.

In connection with our audit, nothing came to our attention that caused us to believe that SAFCA failed to comply with the provisions of the Series 1996 Subordinated Operation and Assessment District No. 1 Bond Agreement, Resolution 96-266, Article V, Sections 5.01 to 5.10, the Series 2007 and 2008 Consolidated Capital Assessment District Bonds, Resolution No. 07-052, Article VII, Sections 7.01 to 7.11, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors, SAFCA management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 30, 2011