

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, 2012

SACRAMENTO AREA FLOOD CONTROL AGENCY
For the Fiscal Year Ended June 30, 2012

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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, 2012, 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 SAFCA'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 previously 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the budgetary comparison information and the notes to the required supplemental information on pages 34 and 35, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SAFCA's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 18, 2012

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012.

Please read it in conjunction with SAFCA's basic financial statements following this section.

Financial Highlights

- The liabilities of SAFCA exceeded its assets at June 30, 2012, by \$(58,391,926) (*deficit net assets*). Of this amount, \$63,496,522 was invested in capital assets, and \$75,173,043 is restricted for specific purposes, and \$267,482 is endowed for the Hansen Ranch. The unrestricted net assets at June 30, 2012 amount to \$(197,328,973) 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 \$9,763,630 during fiscal year 2011-2012. 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).
- At June 30, 2012, SAFCA's governmental funds reported ending fund balances of \$87,551,787 an increase of \$17,584,975 in comparison with the prior year primarily due to the issuance of bonds and a decrease in expenditures of CCAD. Approximately 13 percent of this total amount, \$11,121,049 is *available for spending* at the Agency's discretion (*unassigned fund balance*).
- SAFCA's total debt increased by a net amount of \$37,075,615 during the current fiscal year. This increase is primarily due to the issuance of Consolidated Capital Assessment Bonds, Series 2012, for \$38,000,000.

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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 12-13 of this report.

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 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 14-15 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 16-33 of this report.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 \$58,391,926 at June 30, 2012.

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

	2012	2011
Assets:		
Current and other assets	\$ 112,310,438	\$ 94,862,779
Capital assets, net	63,496,522	52,787,045
Total Assets	175,806,960	147,649,824
Long-term liabilities outstanding	211,639,433	174,563,818
Other liabilities	22,559,453	21,714,302
Total Liabilities	234,198,886	196,278,120
Net assets (deficit):		
Invested in capital assets, net of	63,496,522	52,787,045
Restricted for:		
Debt services	21,405,791	12,145,655
Capital projects	53,767,252	48,233,437
Endowment:		
Expendable	177,139	176,098
Nonspendable	90,343	90,343
Unrestricted	(197,328,973)	(162,060,874)
Total Net Assets (Deficit)	\$ (58,391,926)	\$ (48,628,296)

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, resulting in negative net assets. The current and other assets increased \$17,447,659 mainly due to the issuance of Consolidated Capital Assessment Bonds, Series 2012, in the amount of \$38,000,000, reduction in expenditures and operations of the CCAD, and fewer reimbursements and contributions from the State of California DWR. Total liabilities increased \$37,920,766 mainly due to the issuance of Consolidated Capital Assessment Bonds, Series 2012, in the amount of \$38,000,000. Total invested in capital assets increased \$10,709,477 due to new acquisition of land related to the CCAD Project.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Governmental Activities.

Governmental activities decreased SAFCA's net assets by \$9,763,630 during the year.

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

	2012	2011
Program revenues:		
Charges for services	\$ 24,384,381	\$ 24,366,377
Capital grants and contributions	38,380,328	51,276,912
Total program revenues	62,764,709	75,643,289
General revenues:		
Intergovernmental not restricted to specific programs	-	309,074
Interest and other income	1,315,117	1,796,803
Total general revenues	1,315,117	2,105,877
Total Revenues	64,079,826	77,749,166
Expenses:		
Public protection	4,446,173	4,733,505
Public ways and facilities	60,233,022	81,474,778
Interest	9,164,261	8,682,980
Total expenses	73,843,456	94,891,263
Change in Net Assets	(9,763,630)	(17,142,097)
Net assets (deficit), beginning of year	(48,628,296)	(31,486,199)
Net assets (deficit), end of year	\$ (58,391,926)	\$ (48,628,296)

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

- Capital grants and contributions decreased by \$12,896,584 (25%) 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 decreased by \$309,074 (100%) during the year resulting from discontinuance of contributions from the State of California during the year.
- Interest and other income decreased by \$481,686 (27%) during the year primarily due to a decrease in miscellaneous revenues.
- Public ways and facilities expenditures decreased by \$21,241,756 (26%) during the year due to a reduction in operations and construction contract services related to the CCAD projects.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

At June 30, 2012, SAFCA's governmental funds reported combined fund balances of \$87,551,787 an increase of \$17,584,975 in comparison with the prior year. Approximately \$90,343 or less than 1 percent of this total is nonspendable fund balance, that are amounts that are not in spendable form or amounts that are legally or contractually required to be maintained intact. The remaining 99 percent or \$87,461,444 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, 2012, unassigned fund balance of the General Fund, was \$11,121,049, while the total fund balance was \$11,388,531. 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. The unassigned fund balance represents 250 percent of total General Fund expenditures, while total fund balance represents 256 percent of that same amount. The fund balance of SAFCA's General Fund increased by \$1,945,538 during fiscal year 2012 was mainly due to contributions from other governments and special benefit assessments exceeding public protection expenditures.

The **Consolidated Capital Assessment District Fund** is the largest capital projects fund of SAFCA. As of June 30, 2012, total fund balance was \$43,771,465. The CCAD is the consolidation of two capital assessment districts in order to fairly apportion assessments 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-year or greater) for the Sacramento area. The fund balance of the CCAD Fund increased by \$7,670,104 during fiscal year 2012 due to fewer contributions and reimbursements from the State of California Department of Water Resource, offset by a reduction in the operations and construction expenses related to the CCAD project and the issuance of the Consolidated Capital Assessment Bond 2012 issuance.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The **Consolidated Capital Assessment Debt Service fund** has a total fund balance of \$20,625,912 all of which is restricted for the payment of debt service. The fund balance increased by \$9,263,219 during fiscal year 2012 due to an increase in special capital assessments and a reduction in transfers out to other funds.

	FY 2012		FY 2011		Increase/Decrease	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Revenues by Source						
Special benefit assessments	\$ 6,263,447	9.6%	6,247,875	8.1%	\$ 15,572	0.3%
Special capital assessments	18,120,934	27.9%	18,118,502	23.6%	2,432	0.0%
Capital Grants & Contributions	39,275,719	60.5%	50,381,521	65.6%	(11,105,802)	-22.0%
Intergovernmental	-	0.0%	309,074	0.4%	(309,074)	-100.0%
Interest and other income	1,315,117	2.0%	1,796,803	2.3%	(481,686)	-26.8%
Total revenues	\$ 64,975,217	100.0%	76,853,775	100.0%	\$ (11,878,558)	-15.5%
Expenditures by Function						
Public protection	\$ 4,446,173	5.1%	4,733,505	4.4%	\$ (287,332)	-6.1%
Public ways and facilities	70,704,668	80.3%	89,610,539	84.3%	(18,905,871)	-21.1%
Miscellaneous	86,765	0.1%	112,434	0.1%	(25,669)	-22.8%
Bond issuance cost	454,372	0.5%	58,898	0.1%	395,474	671.5%
Principal on long-term debt	3,545,000	4.0%	3,080,000	2.9%	465,000	15.1%
Interest on long-term debt	8,791,334	10.0%	8,719,926	8.2%	71,408	0.8%
Total expenditures	\$ 88,028,312	100.0%	106,315,302	100.0%	\$ (18,286,990)	-17.2%

The Capital grants and contribution revenue had a decrease of \$11,105,802 primarily due to fewer contributions and reimbursements from the State of California DWR related to the CCAD project. The Special capital assessments had an increase of \$2,432 due to increased assessments collected. Interest and other income revenue had a decrease of \$481,686 due to decrease in miscellaneous revenues as the prior balance included a one-time receipt of insurance proceeds. Public ways and facilities expenditures decreased by \$18,905,871 during the fiscal year due to a decrease in construction and engineering services related to the CCAD project as the project approaches the completion of phases.

General Fund Budgetary Highlights

During the year, actual revenues were higher than final budgeted amount by \$516,036. Actual expenditures were less than budgetary estimates by \$1,821,056. This was primarily due to a decrease in public protection expenditures and a decrease in the public work services and Operations and Maintenance activities.

Capital Asset and Debt Administration

Capital Assets - SAFCA's investments in capital assets for its governmental activities as of June 30, 2012, amount to \$63,496,522 (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 20 percent, or \$10,709,477. 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

	2012	2011
Land	\$63,421,348	\$52,715,631
Permanent easements	75,174	55,675
Assets under construction	-	15,739
Total	\$63,496,522	\$52,787,045

Additional information on SAFCA's capital assets can be found in Note 6 on page 26 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 \$209,630,000. The majority of SAFCA's debt represents bonds secured by the Consolidated Capital Assessment District and Operations and Maintenance Assessment Districts. Additional information on long-term debt can be found in Note 7 on pages 26-30 of the Notes to the Basic Financial Statements.

Summary of Outstanding Long Term Obligations

	Fiscal Years Ended June 30,	
	2012	2011
Revenue bonds	\$ 209,630,000	\$ 175,175,000
Loans		
Add: Premium on bonds	4,375,680	1,889,841
Less: Discount on bonds	(1,228,344)	(1,275,588)
Less: Deferred amount on refunding	(1,137,903)	(1,225,435)
Totals	\$ 211,639,433	\$ 174,563,818

Economic Factors and Next Year's Budgets and Rates

The fiscal year 2012-2013 Final Budget was adopted by SAFCA's Board of Directors on June 21, 2012. 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-year or greater) for the Sacramento area.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The proposed means of financing some of the \$108.49 million in budgeted expenditures for fiscal year 2012-2013 includes:

- Estimated prior year fund balances:
 - Operations & Maintenance Assessment District Fund: \$2,589,892
 - North Area Local Project Capital Fund: \$787,126
 - Consolidated Capital Assessment District Fund: \$4,585,917
 - Develop Impact Fee Fund: \$63,449
 - Natomas Basin Local Assessment District Fund: \$209,128
- Estimated 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
 - Natomas Basin Local Assessment District Fund: \$5,000
- Assessments:
 - Operations & Maintenance Assessment District Fund: \$6,300,000
 - Consolidated Capital Assessment District Fund: \$4,000,000
- Local Aid: \$1,750,000
- State Aid: \$62,672,330
- Development Impact Fees: \$200,000
- Miscellaneous: \$1,800
- Contributions: \$6,500
- Consolidated Capital Assessment District Bond Proceeds, 2012 Series: \$24,942,951

The following assumptions were made in preparing the 2012-2013 budget:

- The Operations & Maintenance assessment rates will remain at current (2011-2012) 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 \$56,300,000 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 fiscal year 2012-2013 cash flow prove insufficient, SAFCA has the option of issuing \$20,500,000 bonds in 2013 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 Operations & Maintenance Fund.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, California 95814, or phone (916) 874-7606.

SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF NET ASSETS (DEFICIT) - GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

ASSETS	
Cash and investments	\$ 93,602,673
Interest receivable	120,792
Accounts receivable	84
Due from other governments	7,072,380
Deposit with others	6,807,494
Deferred charge	4,707,015
Capital assets, net:	
Land	63,421,348
Permanent easement	75,174
Total capital assets	<u>63,496,522</u>
Total assets	<u>175,806,960</u>
 LIABILITIES	
Warrants payable	13,618,414
Accounts payable	6,399,565
Due to other governments	33,657
Accrued interest payable	2,507,817
Long-term liabilities:	
Due within one year	3,783,667
Due in more than one year	<u>207,855,766</u>
Total liabilities	<u>234,198,886</u>
 NET ASSETS (DEFICIT)	
Invested in capital assets	63,496,522
Restricted for:	
Debt service	21,405,791
Capital projects	53,767,252
Endowment:	
Expendable	177,139
Nonexpendable	90,343
Unrestricted	<u>(197,328,973)</u>
Total net assets (deficit)	<u>\$ (58,391,926)</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, 2012**

	<u>Program Revenues</u>		Net (Expense) Revenue and Change in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	
Functions/Programs			
Public protection	\$ 4,446,173	\$ 6,263,447	\$ -
Public ways and facilities	60,233,022	18,120,934	38,380,328
Interest	9,164,261	-	-
Total governmental activities	<u>\$ 73,843,456</u>	<u>\$ 24,384,381</u>	<u>\$ 38,380,328</u>
General Revenues:			
Interest and other income			1,315,117
Total general revenues			<u>1,315,117</u>
Change in net assets			(9,763,630)
Net assets (deficit) - July 1			<u>(48,628,296)</u>
Net assets (deficit), June 30			<u>\$ (58,391,926)</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>Capital Project Fund</u>		<u>Debt Service Fund</u>		Total Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Consolidated Capital Assessment Fund	Consolidated Capital Assessment Fund	Consolidated Capital Assessment Fund		
ASSETS						
Cash and investments	\$ 11,616,798	\$ 53,445,167	\$ 20,560,643	\$ 7,980,065	\$ 93,602,673	
Interest receivable	21,223	31,927	65,269	2,373	120,792	
Accounts receivable	-	84	-	-	84	
Deposits with others	-	6,807,494	-	-	6,807,494	
Due from other funds	537,178	-	-	-	537,178	
Due from other governments	26,802	3,229,234	-	3,816,344	7,072,380	
Total Assets	<u>\$ 12,202,001</u>	<u>\$ 63,513,906</u>	<u>\$ 20,625,912</u>	<u>\$ 11,798,782</u>	<u>\$ 108,140,601</u>	
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants & claims payable	\$ 797,574	\$ 12,788,018	\$ -	\$ 32,822	\$ 13,618,414	
Accounts payable	-	6,399,565	-	-	6,399,565	
Due to other funds	-	537,178	-	-	537,178	
Due to other governments	15,896	17,680	-	81	33,657	
Total Liabilities	<u>813,470</u>	<u>19,742,441</u>	<u>-</u>	<u>32,903</u>	<u>20,588,814</u>	
Fund balances:						
Nonspendable						
Hansen Ranch	90,343	-	-	-	90,343	
Restricted for:						
Debt Service	-	-	20,625,912	779,879	21,405,791	
Capital projects	-	43,771,465	-	9,458,609	53,230,074	
Hansen Ranch	177,139	-	-	-	177,139	
Assigned	-	-	-	1,527,391	1,527,391	
Unassigned	11,121,049	-	-	-	11,121,049	
Total Fund Balances	<u>11,388,531</u>	<u>43,771,465</u>	<u>20,625,912</u>	<u>11,765,879</u>	<u>87,551,787</u>	
Total Liabilities and Fund Balances	<u>\$ 12,202,001</u>	<u>\$ 63,513,906</u>	<u>\$ 20,625,912</u>	<u>\$ 11,798,782</u>		

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	4,707,015
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	63,496,522
Accrued interest payable is not due and payable in the current period, and therefore, is not reported in the funds	(2,507,817)
Long term liabilities, including bonds payable, net of premiums, discounts, and deferred amounts on refunding, are not due and payable in the current period and therefore are not reported in the funds:	<u>(211,639,433)</u>
Net Assets (Deficit) of Governmental Activities	<u>\$ (58,391,926)</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, 2012

	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	\$ 6,263,447	\$ -	\$ -	\$ -	\$ -	\$ 6,263,447
Special capital assessments	-	59,733	18,061,201	-	-	18,120,934
Aid from other governments	-	800,000	-	496,000	-	1,296,000
Intergovernmental	-	34,268,019	-	3,711,700	-	37,979,719
Interest and other income	574,389	172,403	31,690	536,635	-	1,315,117
Total revenues	<u>6,837,836</u>	<u>35,300,155</u>	<u>18,092,891</u>	<u>4,744,335</u>	<u>-</u>	<u>64,975,217</u>
EXPENDITURES						
Current:						
Public protection	4,446,173	-	-	-	-	4,446,173
Public ways and facilities	-	70,611,672	-	92,996	-	70,704,668
Miscellaneous	-	-	86,765	-	-	86,765
Debt service:						
Principal	-	325,000	3,050,000	170,000	-	3,545,000
Bond issuance cost	-	454,372	-	-	-	454,372
Interest	-	212,178	8,357,806	221,350	-	8,791,334
Total expenditures	<u>4,446,173</u>	<u>71,603,222</u>	<u>11,494,571</u>	<u>484,346</u>	<u>-</u>	<u>88,028,312</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,391,663</u>	<u>(36,303,067)</u>	<u>6,598,320</u>	<u>4,259,989</u>	<u>-</u>	<u>(23,053,095)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	6,000,000	2,664,899	837,445	-	9,502,344
Transfers out	(446,125)	(2,664,899)	-	(6,391,320)	-	(9,502,344)
Bond proceeds	-	38,000,000	-	-	-	38,000,000
Bond premium	-	2,638,070	-	-	-	2,638,070
Total other financing sources (uses)	<u>(446,125)</u>	<u>43,973,171</u>	<u>2,664,899</u>	<u>(5,553,875)</u>	<u>-</u>	<u>40,638,070</u>
NET CHANGE IN FUND BALANCES						
	<u>1,945,538</u>	<u>7,670,104</u>	<u>9,263,219</u>	<u>(1,293,886)</u>	<u>-</u>	<u>17,584,975</u>
Fund Balances - July 1	9,442,993	36,101,361	11,362,693	13,059,765	-	
Fund Balances - June 30	<u>\$ 11,388,531</u>	<u>\$ 43,771,465</u>	<u>\$ 20,625,912</u>	<u>\$ 11,765,879</u>	<u>\$ -</u>	

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 expensed. 10,709,477

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.

Bond issuance	(38,000,000)	
Net premium	(2,638,070)	
Cost of issuance	454,372	
Repay of debt (principal)	3,545,000	(36,638,698)

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	152,231	
Current year amortization of discount	(47,244)	
Current year amortization of loss of refunding	(87,531)	
Current year amortization of bond issuance cost	(168,522)	
Change in accrued interest payable	(372,927)	(523,993)

Some Revenues in the Statement of Activities that do not provide current financial resources and, therefore, are not reported as revenues in governmental funds.

Deferred revenue earned in the prior year, but not received within the period of availability		(895,391)
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Change in Net Assets of Governmental Activities \$ (9,763,630)

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, 2012**

NOTE 1 - REPORTING ENTITY

Definition of Reporting Entity and Governing Board

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 Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Parties to this agreement are the County of Sacramento (County), County of Sutter, City of Sacramento, Reclamation District No. 1000, and the American River Flood Control District. 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, one member from the Sutter County Board of Supervisors, three members from the Sacramento City Council, two trustees from Reclamation District No. 1000, and two trustees from the American River Flood Control District. In addition, SAFCA contracts with the County of Sacramento and the City of Sacramento for its employees.

Districts

Several districts were established by the SAFCA Board of Directors to facilitate operations of the organization. These districts which operate within SAFCA's boundaries and governed by the SAFCA Board of Directors include:

Operations and Maintenance Assessment District No. 1

The District which was established by Resolution No. 91-010 on June 20, 1991, resulting from 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.

SAFCA North Area Local Project Capital Assessment District No. 2

The District was established by Resolution No. 95-112 on September 21, 1995. The SAFCA Board of Directors authorized 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.

SAFCA Consolidated Capital Assessment District

The District was established by Resolution No. 07-052 on May 31, 2007. On August 21, 2008, in connection with the issuance of the Series 2007 Bonds, the SAFCA Board passed Resolution No. 08-098 issuing the Series 2008 Bonds, bringing the combined principal amount of \$172,095,000. On March 15, 2012, the SAFCA Board authorized additional bonds in the principal amount of \$38,000,000.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - REPORTING ENTITY, (Continued)

SAFCA Development Fee Program

On May 15, 2008, the Board adopted the SAFCA Development Fee Program Report and established the SAFCA Development Fee Program, Resolution No. 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.

SAFCA Natomas Basin Local Assessment District

The District was established by Resolution No. 2001-052 on April 29, 2011. The SAFCA Board authorized, on June 16, 2011, the issuance of bond anticipation notes in the amount of \$6,200,000.

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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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* (CCAP AD) 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 pay interest, principal and redemption premiums on the Consolidated Capital Assessment Fund, Series 2007, 2008, and 2012. Through June 30, 2012, the CCAP AD 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.

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. Issuance of 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 \$25,000 and a useful life of more than one year.

Special Benefit Assessments

Special benefit assessments are recognized and apportioned only as received. The special benefit assessment is billed with the Sacramento and Sutter 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 County's 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 in installments.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 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 and Contract Retentions. The disposition of these funds is determined by judicial order and construction contract. Typically, the funds are applied to the purchase of condemned land, returned to SAFCA, or for payment of construction contracts. As of June 30, 2012, deposits with the State of California's Condemnation Fund are \$3,353,930. The balance of the account, \$3,453,564 is reserved for contract retentions.

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.

Deferred Charges

Deferred charges of \$4,707,015 as of June 30, 2012, net of accumulated amortization, consist of cost incurred for the issuance of the 2007, 2008, and 2012, revenue bonds. Amortization of issuance cost is computed using the straight-line method, over the useful life of the related bond.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 3 – FUND BALANCES

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, 2012, fund balances for government funds are made up of the following classifications:

- *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 (e.g., 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 an 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, 2012**

NOTE 3 – FUND BALANCES (Continued)

Fund balances for all the major and nonmajor governmental funds as of June 30, 2012, were classified 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 Funds</u>
Nonspendable:					
Hanson Ranch	\$ 90,343	\$ -	\$ -	\$ -	\$ 90,343
Restricted for:					
Public protection	-	-	-	-	-
Hansen Ranch	177,139	-	-	-	177,139
Debt Service	-	-	20,625,912	779,879	21,405,791
Capital projects	-	43,771,465	-	9,458,609	53,230,074
	<u>177,139</u>	<u>43,771,465</u>	<u>20,625,912</u>	<u>10,238,488</u>	<u>74,813,004</u>
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,527,391</u>	<u>1,527,391</u>
Unassigned	<u>11,121,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,121,049</u>
Total	<u><u>\$ 11,388,531</u></u>	<u><u>\$ 43,771,465</u></u>	<u><u>\$ 20,625,912</u></u>	<u><u>\$ 11,765,879</u></u>	<u><u>\$ 87,551,787</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, segregates and invest the SAFCA's bond proceeds in accordance with long-term obligation covenants.

Cash and Investments as of June 30, 2012, consist of the following:

Statement of Net Assets:	<u>2012</u>
Cash held by County Treasurer	\$ 44,253,213
U.S. Treasury Notes and Bills	37,773,783
U.S. Government Agencies	<u>11,575,677</u>
Total Cash and Investments	<u><u>\$ 93,602,673</u></u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 – CASH AND INVESTMENTS, (Continued)

SAFCA maintains cash deposits and investments with the County and participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2012, the carrying amount of SAFCA's investments held by the County as part of the Treasurer's pool was \$44,253,213. The weighted average maturity of the Treasurer's pool was 259 days at June 30, 2012.

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. The maximum maturity of any investment will be five years. The dollar weighted average maturity of all securities will be equal to or less than three years.

<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	100%	None
U.S. Government Agencies	5 years	100%	None
Single Issuer and Related Entities	5 years	80%	10%
Sacramento County Investment Pool	5 years	100%	None

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 – CASH AND INVESTMENTS, (Continued)

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, 2012</u>	<u>Weighted Average Maturity (in years)</u>
U.S. Treasury Notes and Bills	\$ 37,773,783	0.04
U.S. Government Agencies	11,575,677	0.06
Total	<u>\$ 49,349,460</u>	

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 Investor's Service 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.

<u>Investment Type</u>	<u>Fair Value at June 30, 2012</u>	<u>Ratings as of June 30, 2012</u>
U.S. Treasury Notes and Bills	\$ 37,773,783	Aaa/AAA
U.S. Government Agencies	11,575,677	P-1/A-1+
Total	<u>\$ 49,349,460</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, 2012.

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value at June 30, 2012</u>
Federal National Mortgage Association Discount Note	Government Securities	\$ 5,787,148
Federal Home Loan Mortgage Corporation Discount Note	Government Securities	\$ 3,443,459

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 – CASH AND INVESTMENTS, (Continued)

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, 2012, 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 that 1) transactions are recorded in the accounting system, and 2) payments between funds are made. The composition of interfund balances as of June 30, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Consolidated Capital Assessment Fund	<u>\$ 537,178</u>

Interfund Transfers

Interfund transfers during the year ended June 30, 2012 are summarized as follows:

	<u>Transfers In</u>			<u>Total</u>
	<u>Consolidated Capital Assessment</u>	<u>Consolidated Capital Assessment Debt Fund</u>	<u>Nonmajor Governmental Funds</u>	
Transfer Out:				
General	\$ -	\$ -	\$ 446,125	\$ 446,125
Consolidated Capital Assesment Fund	-	2,664,899	-	2,664,899
Nonmajor Governmental Funds	6,000,000	-	391,320	6,391,320
Total	<u>\$ 6,000,000</u>	<u>\$ 2,664,899</u>	<u>\$ 837,445</u>	<u>\$ 9,502,344</u>

SAFCA's General Fund made a transfer of \$387,227 to Non-Major Governmental Funds for Debt Service Payments. Non-Major Governmental Funds made a transfer of \$391,320 to other Non-Major Governmental Funds for Debt Service Payments. Consolidated Capital Assessment Fund made a transfer of \$2,664,899 to Consolidated Capital Assessment Debt Fund for the reserve requirement stipulated in the 2012 Bond issuance. The Non-Major Governmental Funds made a transfer of \$6,000,000 to Consolidated Capital Assessment Fund to support projects.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at June 30, 2011	Additions	Retirement	Balance at June 30, 2012
<i>Capital assets, not being depreciated:</i>				
Land	\$ 52,715,631	\$ 10,705,717	\$ -	\$ 63,421,348
Permanent easement	55,675	19,499	-	75,174
Assets under construction	15,739	-	15,739	-
<i>Capital assets not being depreciated</i>	52,787,045	10,725,216	15,739	63,496,522
<i>Capital assets, being depreciated:</i>				
Equipment	35,932	-	-	35,932
Less accumulated depreciation	(35,932)	-	-	(35,932)
<i>Total capital assets, being depreciated, net</i>	-	-	-	-
Capital assets, net	<u>\$ 52,787,045</u>	<u>\$ 10,725,216</u>	<u>\$ 15,739</u>	<u>\$ 63,496,522</u>

NOTE 7 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2012:

Series 1996 Operating and Maintenance term series bonds due on November 1, 2012 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 %.	\$ 995,000
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, 2012 through 2037, with interest at 5.000%, optional redemption effective for bonds maturing on or after October 1, 2017.	52,990,000
Series 2007A Consolidated Capital Assessment bonds due on October 1, 2012 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, 2012 through 2014, with interest at 4.000%, optional redemption effective for bonds maturing on or after October 1, 2014.	4,890,000

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

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 1 of 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 1 of each year.	41,130,000
Series 2011 Natomas Basin Local Assessment District BAN due on June 15, 2013 through 2016, with accrued interest at a fixed rate of 3.500%, optional redemption prior to the respective maturity date upon seven days notice.	5,875,000
Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2013 through 2029, with interest varying from 3.000% to 5.000 %, optional redemption effective for bonds maturing on or after October 1, 2021.	21,815,000
Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2030 through 2032, with interest at 5.250%, subject to mandatory redemption.	5,420,000
Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2033 through 2037, with interest at 5.000%, subject to mandatory redemption.	<u>10,765,000</u>
Total long-term obligations	<u>\$209,630,000</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

The aggregate amount of debt service on long-term debt outstanding at June 30, 2012 is as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,680,000	\$ 9,461,365
2014	4,820,000	10,205,710
2015	5,000,000	10,018,025
2016	9,680,000	9,802,682
2017	5,050,000	9,409,778
2018-2022	28,985,000	44,215,514
2023-2027	36,360,000	35,240,310
2028-2032	44,785,000	25,056,932
2033-2037	57,820,000	11,717,916
2038	<u>13,450,000</u>	<u>412,328</u>
Total	<u>\$209,630,000</u>	<u>\$165,540,560</u>

On November 1, 1996, SAFCA 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 \$5,402,695, payable through November 2026. As of June 30, 2012, principal and interest paid and total revenues were \$391,350 and \$6,263,447, respectively.

On June 1, 2007, the SAFCA 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

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, Series 2007 and 2008 is \$296,624,523, payable through June 2038. As of June 30, 2012, principal and interest paid were \$11,407,806.

As a result of the Consolidated Capital Assessment District bonds issued, the 2005 North Area Local Project Series is considered to be defeased and the liabilities for those bonds were removed from the SAFCA financial statements in 2008. As of June 30, 2012, the outstanding balance defeased for the 2005 North Area Local Project Series is \$26,350,000.

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, 2012, the total principal balance of the BAN, Series 2012, is \$5,875,000, payable through June 2016.

On March 27, 2012, SAFCA issued \$38,000,000 of term series 2012 Consolidated Capital Assessment District Bonds with interest rates ranging from 3.000% to 5.250%. Proceeds from this issue were used to (i) finance a portion of the cost of certain flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed for the District; (ii) make a deposit to the Reserve Account; and (iii) pay the costs of issuance of the Series 2012 Bonds. The bonds are secured and payable from the Consolidated Capital Assessments on a parity with the Series 2012 Bonds, subject to the satisfaction of the conditions specified in the Resolution. The Agency has covenanted that, so long as any bonds are outstanding, it will annually levy the maximum amount in each fiscal year through 2036-2037 the Consolidated Capital Assessments against all Assessable Land in the District. The collection of the Consolidated Capital Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service. The Series 2012 Bonds maturing on or after October 1, 2021, are subject to optional redemption by the Agency. The Series 2012 Bonds maturing on October 1, 2032, and October 1, 2037, are subject to mandatory redemption by the Agency. Total principal and interest remaining on the Consolidated Capital Assessment District Bonds, Series 2012, is \$65,515,669, payable through October 2038. As of June 30, 2012, principal and interest paid was \$0.

As of June 30, 2012 the total assessment revenues for the 2007, 2008, and 2012, Consolidated Capital Assessment District Bonds is \$20,726,100.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

Changes in long-term obligations for the fiscal year ended June 30, 2012 were as follows:

	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012	Due Within One Year
Revenue Bonds	\$ 175,175,000	\$ 38,000,000	\$ (3,545,000)	\$ 209,630,000	\$ 3,680,000
Deferred Amounts:					
2008 Issuance discount	(1,275,588)	-	47,244	(1,228,344)	(47,244)
2007 Issuance premium	1,889,841	-	(134,989)	1,754,852	134,988
2007 Loss on refunding	(1,225,435)	-	87,532	(1,137,903)	(87,531)
2012 Issuance premium	-	2,638,070	(17,242)	2,620,828	103,454
Total	<u>\$ 174,563,818</u>	<u>\$ 40,638,070</u>	<u>\$ (3,562,455)</u>	<u>\$ 211,639,433</u>	<u>\$ 3,783,667</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 2012, will fluctuate based upon the stream of construction draw downs and changing investment yields. As of June 30, 2012, SAFCA has no arbitrage liability.

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, 2012, were \$213,243. The future minimum rental payments required under the operating lease as of June 30, 2012 is \$195,828.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2012, the County of Sacramento, a related party, owed SAFCA \$65,493 for interest earned on treasury deposits and \$8,372 for special assessments payments received by the County, but not transferred to SAFCA prior to year-end. 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 \$797,923. In addition, some of SAFCA's employees are employees of the City of Sacramento and expenditures paid to the City during the year for Public Protection and Public Ways and Facilities were \$1,705,044.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 10 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, SAFCA has four major construction contracts, totaling \$78,746,861 through the end of the contracts. These construction contracts are for the Consolidated Capital Assessment Project. The expected completion dates are July 2012, and December 2012, respectively. 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.

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) \$25,000,000 Occurrence and Aggregate (2) \$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) Lexington	7/1/2011–7/1/2012 7/1/2011 – 7/1/2012	(1) EIA-PE 11 EL 62 (2) 62785165
Workers' Compensation and Employer's Liability	WC - Statutory Employers' Liability - \$5,000,000	\$3,000,000 SIR	CSAC Excess Insurance Authority	7/1/2011 to 7/1/2012	EIA11 EWC-30
Property All Risk	\$7,473,448	\$1,000	Lexington Insurance	7/1/2011 – 7/1/2012	P112695-008
Boiler and Machinery (Included in Property Policy)	Included	\$2,500	Included	Included	P112695-008

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 – DEBT AND BOND COVENANTS

Pursuant to the Series 2007, 2008 and 2012, 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.
- 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, 2012, 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 – CREDITS EARNED TOWARDS LOCAL SHARE OF FEDERAL FLOOD CONTROL PROJECTS, (Continued)

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 FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Budgetary Basis</u>	Variance with Final Budget -
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
REVENUES				
Special benefit assessments	\$ 6,300,000	\$ 6,300,000	\$ 6,263,447	\$ (36,553)
Interest and other income	21,800	21,800	574,389	552,589
Total revenues	<u>6,321,800</u>	<u>6,321,800</u>	<u>6,837,836</u>	<u>516,036</u>
EXPENDITURES				
Current:				
Public protection	6,278,201	6,278,201	4,457,145	1,821,056
Total Expenditures	<u>6,278,201</u>	<u>6,278,201</u>	<u>4,457,145</u>	<u>1,821,056</u>
Excess (deficiency) of revenues over (under) expenditures	<u>43,599</u>	<u>43,599</u>	<u>2,380,691</u>	<u>2,337,092</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(378,000)</u>	<u>(378,000)</u>	<u>(446,125)</u>	<u>(68,125)</u>
Total other financing sources (uses)	<u>(378,000)</u>	<u>(378,000)</u>	<u>(446,125)</u>	<u>(68,125)</u>
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	<u>\$ (334,401)</u>	<u>\$ (334,401)</u>	1,934,566	<u>\$ 2,268,967</u>
Basis adjustment:				
Encumbrances			<u>10,972</u>	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			<u>\$ 1,945,538</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, 2012**

NOTE 1 – BUDGET

The Sacramento Area Flood Control Agency's budget for the General Fund 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 project 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 included in assigned fund balance.

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.

There were no excess of expenditures over appropriations for fiscal year 2011-2012 for the General Fund.

SUPPLEMENTAL INFORMATION

**SACRAMENTO AREA FLOOD CONTROL AGENCY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Capital Project Funds			Debt Service Funds			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	\$ 1,421,375	\$ 5,568,440	\$ 210,595	\$ 23	\$ 382,751	\$ 396,881	\$ 7,980,065
Due from other governments	104,644	3,711,700	-	-	-	-	3,816,344
Interest receivable	1,453	-	696	1	113	110	2,373
Total Assets	\$ 1,527,472	\$ 9,280,140	\$ 211,291	\$ 24	\$ 382,864	\$ 396,991	\$ 11,798,782
LIABILITIES AND FUND BALANCES							
Liabilities:							
Warrants and claims payable	\$ -	\$ 32,822	\$ -	\$ -	\$ -	\$ -	\$ 32,822
Due to other government	81	-	-	-	-	-	81
Total Liabilities	81	32,822	-	-	-	-	32,903
Fund balances:							
Restricted for:							
Debt service	-	-	-	24	382,864	396,991	779,879
Capital projects	-	9,247,318	211,291	-	-	-	9,458,609
Assigned to:							
Capital projects	1,527,391	-	-	-	-	-	1,527,391
Total Fund Balances	1,527,391	9,247,318	211,291	24	382,864	396,991	11,765,879
Total Liabilities and Fund Balances	\$ 1,527,472	\$ 9,280,140	\$ 211,291	\$ 24	\$ 382,864	\$ 396,991	\$ 11,798,782

SACRAMENTO AREA FLOOD CONTROL AGENCY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	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							
Special benefit assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special capital assessments	-	-	-	-	-	-	-
Aid from other governments	-	496,000	-	-	-	-	496,000
Intergovernmental	-	3,711,700	-	-	-	-	3,711,700
Interest and other income	524,731	270	10,595	24	593	422	536,635
Total revenues	524,731	4,207,970	10,595	24	593	422	4,744,335
EXPENDITURES							
Current:							
Public ways and facilities	37,458	55,538	-	-	-	-	92,996
Debt service:							
Principal	-	-	-	170,000	-	-	170,000
Interest	-	-	-	221,350	-	-	221,350
Total expenditures	37,458	55,538	-	391,350	-	-	484,346
Excess (deficiency) of revenues over (under) expenditures	487,273	4,152,432	10,595	(391,326)	593	422	4,259,989
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	58,898	391,320	387,227	-	837,445
Transfers out	-	-	(6,000,000)	-	(390,174)	(1,146)	(6,391,320)
Total other financing sources (uses)	-	-	(5,941,102)	391,320	(2,947)	(1,146)	(5,553,875)
NET CHANGE IN FUND BALANCES	487,273	4,152,432	(5,930,507)	(6)	(2,354)	(724)	(1,293,886)
Fund balances - July 1	1,040,118	5,094,887	6,141,798	30	385,218	397,714	13,059,765
Fund balances - June 30	\$ 1,527,391	\$ 9,247,319	\$ 211,291	\$ 24	\$ 382,864	\$ 396,990	\$ 11,765,879

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, 2012, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated December 18, 2012. 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 SAFCA'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 is a control 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 previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2012-01 that we consider to be a significant deficiency in internal control over financial reporting. *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.

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*.

SAFCA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the SAFCA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, SAFCA management, 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 18, 2012

**SACRAMENTO AREA FLOOD CONTROL AGENCY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

Finding 2012-01 – YEAR-END CLOSING/FINANCIAL REPORTING

Criteria or Specific Requirement:

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein and for the fair presentation of the financial statements in conformity with U.S generally accepted accounting principles (GAAP). This requires management to work through year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances within the SAFCA's general ledger. Accounts must be reviewed for proper cutoff, classification, and presentation.

Condition Found:

During our testing of year-end cutoff procedures, we proposed material audit adjustments to properly state the following year-end balances:

- Cash and investments
- Accounts payables
- Due from other governments
- Operating transfers
- Special capital assessment.

All adjustments proposed during the current year audit were presented and subsequently posted.

Context:

The above condition was identified during our audit procedures over SAFCA's year-end account balances. SAFCA uses a third-party to assist in the year end close of SAFCA's general ledger and preparation of the financial statements.

Cause:

SAFCA's year end closing procedures did not detect material misstatements in the June 30, 2012, financial statements.

Effect:

Material audit adjustments were proposed and posted to SAFCA's basic financial statements.

Recommendation:

We recommend that the SAFCA strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

View of responsible officials and corrective action:

Management will establish and implement policies and procedures to capture all material year-end accruals.



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

Honorable 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, 2012, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated December 18, 2012. 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 No. 96-266, Article V, Sections 5.01 to 5.10, the Series 2007, 2008, and 2012 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 management of SAFCA and its Board of Directors, and it not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 18, 2012