Attachment 1

SACRAMENTO AREA FLOOD CONTROL AGENCY

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

For the Fiscal Year Ended June 30, 2016

SACRAMENTO AREA FLOOD CONTROL AGENCY
For the Fiscal Year Ended June 30, 2016

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sacramento Area Flood Control Agency
Sacramento, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sacramento Area Flood Control District (SAFCA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SAFCA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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 from material misstatement.

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

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

Opinions

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

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Emphasis of Matter

Implemented GASB Pronouncements

As described in Note 13 to the financial statements, SAFCA adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAFCA's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
January 26, 2017

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, 2016.

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

Financial Highlights

- The liabilities and deferred inflows of resources of SAFCA exceeded its assets and deferred outflows of resources at June 30, 2016 by $(116,533,974) (*net position*). Of this amount, $69,624,286 was invested in capital assets, $32,692,468 is restricted for specific purposes, and $270,439 is restricted for the Hansen Ranch Project. The unrestricted net position for the current fiscal year amounted to $(219,121,167) and is negative due to the fact that SAFCA issued bonds to improve existing levees, but the levees are owned by other entities.

- SAFCA's total net position decreased by $16,500,049 during Fiscal Year 2015-2016. This decrease was due to a decrease in Intergovernmental revenue related to Early Implementation program (EIP).

- As of the 2015-2016 Fiscal Year, SAFCA's governmental funds reported ending fund balances of $48,556,619, a decrease of $4,816,610 in comparison with the prior year. The decrease is due to a decrease in EIP revenue. Thirty two percent of this total amount, $15,593,712, is *available for expenditure* at the Agency's discretion (*assigned and unassigned fund balance*).

- SAFCA's total long-term debt increased by a net amount of $11,815,558 during the current fiscal year primarily due to issuance of the 2015 Consolidated Capital Assessment Bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SAFCA's basic financial statements composed of 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 position* presents information on all of SAFCA's assets, deferred outflows of resources, liabilities, and deferred inflow of resources with the difference amongst the three reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAFCA is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses, and inflows and outflows, are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The governmental activities of SAFCA include public protection, and public ways and facilities.

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

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 SAFCA's funds 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 reports three major governmental funds: General Fund, Capital Projects Fund and 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.

SAFCA adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund, as required supplementary information, to demonstrate compliance with this budget.

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

Notes to the basic financial statements. The notes provide additional information that is essential to provide a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15-39 of this report.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of SAFCA, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $116,533,974 at the end of June 30, 2016. The deficit in net position is caused by the financing of long-term capital improvement projects with funds received from the issuance of local assessment district bonds. In the long-term, property assessments will provide the revenues to pay the long-term debt financing, but the related Capital Improvements are owned by other governmental entities.

Statement of Net Position
June 30,

	2016	2015
Assets:		
Current and other assets	$ 71,502,926	$ 77,071,230
Capital assets, net	69,624,286	69,707,470
Total assets	141,127,212	146,778,700
Deferred outflows of resources	967,878	875,310
Liabilities:		
Long-term liabilities	244,975,972	233,160,414
Other liabilities	13,642,011	9,375,251
Total liabilities	258,617,983	242,535,665
Deferred inflows of resources	11,081	-
Net position:		
Net investment in capital assets	69,624,286	69,707,470
Restricted for:		
Endowment-nonexpendable	90,343	90,343
Endowment-expendable	180,096	179,062
Debt service	20,927,673	22,758,912
Capital projects	11,764,795	12,376,632
Unrestriced	(219,121,167)	(205,146,344)
Total net position	$ (116,533,974)	$ (100,033,925)

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

The current and other assets decreased by $5,568,304. The decrease is mainly due to the decrease in Early Implementation Program (EIP) receivables from the State of California Department of Water Resources (DWR). Total liabilities increased by $16,082,318 due to the issuance of the 2015 Consolidated Capital Assessment Bonds. Current and other liabilities increased by $4,266,760 due to an increase in Contingency Payable and one time transfer of funds. Total net investment in capital assets decreased $83,184 due to the sale of land related to Capital Projects Fund.

Governmental activities

Governmental activities decreased SAFCA's net position by $16,500,049 during the year.

Statement of Activities
Fiscal Year Ended June 30,

	2016	2015
Program revenues:		
Charges for services	$ 31,866,848	$ 27,162,536
Capital grants and contributions	1,867,306	20,257,333
Total program revenues	33,734,154	47,419,869
General revenues:		
Loss on sale of land	(184,592)	-
Interest and other income	1,459,969	1,475,961
Total general revenues	1,275,377	1,475,961
Total revenues	35,009,531	48,895,830
Expenses:		
Public protection	9,073,531	5,685,864
Public ways and facilities	30,637,570	35,932,846
Interest on long-term debt	11,798,479	11,211,724
Total expenses	51,509,580	52,830,434
Change in net position	(16,500,049)	(3,934,604)
Net position, beginning of year, as restated	(100,033,925)	(89,869,424)
Net position, end of year	$ (116,533,974)	$ (93,804,028)

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

- Charges for services increased by $4,704,312 (17%) during the year due to an increase in revenue from other governments and an increase in Development Impact Fees.

- Capital grants and contributions decreased by $18,390,027 (91%) during the year. This decrease was due to lower earned revenue from the State of California DWR Early Implementation Program.

- Interest and other income decreased by $15,992 (1%) during the year primarily due to an adjustment for interest earned in prior periods.

- Public protection expenses increased by $3,387,667 (60%) during the year primarily due to an increase in such costs as: Payroll, Construction, Engineering Services, and Postage Services.

- Public ways and facilities expenses decreased by $4,603,090 (13%) during the year primarily due to a reduction in Contributions to Other Agencies.

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, 2016, SAFCA's governmental funds reported combined fund balances of $48,556,619 a decrease of $4,816,610 in comparison with the prior year. Approximately $90,343 or less than 1 percent of the total fund balance is nonspendable due to a trust agreement regarding Hansen Ranch. The remaining 99 percent or $48,466,276 is available to meet the Agency's current and future needs. $180,096 is restricted for expenses related to Hansen Ranch, $20,927,673 is restricted for debt service payments, $11,764,795 is restricted for capital projects, and the remaining $15,593,712 of assigned and unassigned fund balances can be used for any Agency need.

The **General Fund** is the chief operating fund of SAFCA. As of June 30, 2016, the unassigned fund balance of the General Fund was $11,169,758 while the total fund balance was $11,440,197. 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 122 percent of total General Fund expenditures, while total fund balance represents 125 percent of that same amount. The fund balance of SAFCA's General Fund decreased by $1,682,203 during fiscal year 2016. The decrease was mainly due to increased budgeted expenditures for public protection.

The **Capital Projects Fund** consists of all SAFCA capital projects. As of June 30, 2016, total fund balance was $16,188,749. The Capital Projects Fund consists of all the capital assessment districts and the development impact fee funds. The purpose of these projects is to 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 decreased by $1,303,168 during Fiscal Year 2016. The decrease was due to a decrease in EIP revenue.

The **Debt Service fund** has a total fund balance of $20,927,673 all of which is restricted for the payment of debt service. The fund balance decreased by $1,831,239 during Fiscal Year 2016. The decrease is mainly due to an increase in transfers to the Capital Projects Fund.

The following table compares the revenues and expenditures for Fiscal Years 2016 and 2015 along with the net change from 2015 to 2016, for total governmental funds.

Total Governmental Funds	FY 2016		FY 2015		Increase/(Decrease)	
Revenues by Source	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Special benefit assessments	$ 6,281,006	19.1%	$ 6,248,599	15.4%	$ 32,407	0.5%
Special capital assessments	20,913,514	63.4%	20,913,937	51.6%	(423)	0.0%
Aid from other governments	1,722,862	5.3%	-	0.0%	1,722,862	100.0%
Intergovernmental	(284,964)	-0.9%	11,857,333	29.3%	(12,142,297)	-102.4%
Development impact fees	2,949,466	8.9%	-	0.0%	2,949,466	100.0%
Interest and other Income	1,459,969	4.3%	1,475,961	3.5%	(15,992)	-1.1%
Total revenues	$ 33,041,853	100.0%	$ 40,495,830	100.0%	$ (7,453,977)	-18.4%
Expenditures by Function						
Public protection	$ 9,185,783	16.4%	$ 5,399,519	9.9%	$ 3,786,264	70.1%
Public ways and facilities	29,063,660	51.9%	32,915,775	60.3%	(3,852,115)	-11.7%
Miscellaneous	213,906	0.4%	454,122	0.8%	(240,216)	-52.9%
Bond issuance cost	356,433	0.6%	-	0.0%	356,433	100.0%
Principal on long-term debt	5,400,000	9.6%	4,645,000	8.5%	755,000	16.3%
Interest on long-term debt	11,798,479	21.1%	11,211,724	20.5%	586,755	5.2%
Total expenditures	$ 56,018,261	100.0%	$ 54,626,140	100.0%	$ 1,392,121	2.6%

Special capital assessment revenue increased $32,407 due to normal fluctuations in property values. Aid from other governments increased by $1,722,862 due to SAFCA's implementation of capturing staff costs towards flood control programs. The Intergovernmental revenue had a decrease of $12,142,297 primarily due to decreased contributions and reimbursements from the State of California DWR related to Capital Project Fund projects. Development impact fees increased by $2,949,466 to do increased development. Public Protection expenditures increased by $3,786,264 due to an increase in such costs as: Payroll, Construction, Engineering Services, and Postage Services. Public ways and facilities expenditures decreased by $3,852,115 during the fiscal year due to a decrease in Contributions to Other Agencies. Miscellaneous expenditures decreased by $240,216 due to a decrease in fees related to debt service. Principal payments on long-term debt increased by $755,000 due to the normal increase in principal payments. The interest on long-term debt increased by $586,755 due to increased revenue bond debt from the 2015 Consolidated Capital Assessment bonds.

General Fund Budgetary Highlights

During the year, final budgeted revenues exceeded actual revenues by $1,109,070. Actual expenditures were less than budgetary estimates by $5,282,724, primarily due to conservative budgeting for potential programs and cost increases. Due to the nature of the operations and maintenance of the General Fund it is not always possible to budget for uncertainties and its management's policy to maintain the budget based on potential program costs. Transfers Out were not budgeted.

Capital Asset and Debt Administration

Capital Assets - SAFCA's investments in capital assets for its governmental activities as of June 30, 2016 amount to $69,624,286 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, and equipment. The total decrease in the SAFCA's investment in capital assets for the current fiscal year was less than 1 percent, or $83,184. This decrease was due to loss on sale of land related to Capital Project Fund projects. SAFCA keeps records of all assets for governmental activities.

Capital Assets, Net of Depreciation
June 30,

	2016	2015
Land	$68,866,166	$69,565,996
Permanent Easements	758,120	141,474
Equipment, net	-	-
Total	$69,624,286	$69,707,470

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

Long-term debt - At the end of the current fiscal year, SAFCA had local assessment district bonds outstanding of $237,740,000. The majority of SAFCA's debt represents bonds secured by the assessment revenues of the CCAD, Natomas Basin, and Operations & Maintenance Assessment Districts.

Summary of Outstanding Long Term Obligations

June 30,

	2016	2015
Local Assesssment District Bonds	$ 237,740,000	$ 226,635,000
Add: Premium on Bonds Payable	8,275,340	7,612,026
Less: Discount on Bonds Payable	(1,039,368)	(1,086,612)
Totals	$ 244,975,972	$ 233,160,414

Additional information on long-term debt can be found in Note 7 on pages 25-29 of the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budget

The Fiscal Year 2016-2017 Final Budget was adopted by SAFCA's Board of Directors on June 18, 2016. 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.

The proposed means, excluding fund balance reserves and interfund transfers, of financing some of the $81.3 million in total budgeted expenditures for Fiscal Year 2016-2017 includes:

- Estimated interest earnings:
  - General Fund
    - Operations & Maintenance Assessment District Fund: $ 20,000
  - Capital Projects Fund
    - Consolidated Capital Assessment District Fund: 5,000
- Assessments:
  - General Fund
    - Operations & Maintenance Assessment District Fund: 6,300,000
  - Capital Projects Fund
    - Consolidated Capital Assessment District Fund: 3,000,000
    - Natomas Basin Local Assessment District Fund: 16,000
- Other revenues:
  - General Fund
    - Services to Water Agencies Drainage: 1,000,000
  - Capital Projects Fund
    - Local Aid: 300,000
    - State Aid: 13,487,500
    - Development Impact Fees: 1,000,000

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 Jason D. Campbell, Deputy Executive Director, 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 POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

ASSETS	
Cash and cash equivalents	$ 53,324,968
Interest receivable	258,550
Deposits with others	160,796
Due from other governments	15,468,381
Prepaid expenses	119,805
Prepaid bond insurance	2,170,426
Capital assets:	
Land	68,866,166
Permanent easement	758,120
Total capital assets, net	69,624,286
Total assets	141,127,212
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	787,779
Deferred outflows related to pensions	180,099
Total deferred outflows of resources	967,878
LIABILITIES	
Warrants and accounts payable	5,431,116
Contigency payable	4,950,000
Compensated absences	311,904
Wages payable	29,711
Due to other governments	2,784
Accrued interest payable	2,791,983
Accrued rent payable	81,661
Net pension liability	42,852
Long-term liabilities:	
Due within one year	5,999,712
Due in more than one year	238,976,260
Total long-term debt	244,975,972
Total liabilities	258,617,983
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	11,081
NET POSITION	
Net investment in capital assets	69,624,286
Restricted for:	
Debt service	20,927,673
Capital projects	11,764,795
Endowment:	
Expendable	180,096
Nonexpendable	90,343
Unrestricted	(219,121,167)
Total net position (deficit)	$ (116,533,974)

See accompanying notes to the basic financial statements.

SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		
	Expenses	Charges for Services	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position
Functions/Programs				
Public protection	$ 9,073,531	$ 6,281,006	$ -	$ (2,792,525)
Public ways and facilities	30,637,570	25,585,842	1,867,306	(3,184,422)
Interest on long-term debt	11,798,479	-	-	(11,798,479)
Total governmental activities	$ 51,509,580	$ 31,866,848	$ 1,867,306	(17,775,426)
General Revenues:				
Interest and other income				1,459,969
Loss on sale of land				(184,592)
Total general revenues				1,275,377
Change in net position				(16,500,049)
Net position (deficit), Beginning of the year, as restated				(100,033,925)
Net position (deficit), End of the year				$ (116,533,974)

See accompanying notes to the basic financial statements.

SACRAMENTO AREA FLOOD CONTROL AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and investments	$ 12,194,003	$ 20,281,384	$ 20,849,581	$ 53,324,968
Interest receivable	80,348	100,110	78,092	258,550
Deposits with others	-	160,796	-	160,796
Prepaid Expenses	119,805			119,805
Due from other governments	124,282	15,344,099	-	15,468,381
Total assets	$ 12,518,438	$ 35,886,389	$ 20,927,673	$ 69,332,500
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	$ 1,045,939	$ 4,385,177	$ -	$ 5,431,116
Wages payable	29,711	-		29,711
Due to other governments	2,591	193	-	2,784
Total liabilities	1,078,241	4,385,370	-	5,463,611
Deferred Inflows of Resources				
Unavailable revenue	-	15,312,270	-	15,312,270
Fund balances:				
Nonspendable:				
Hansen Ranch	90,343	-	-	90,343
Restricted for:				
Hansen Ranch	180,096	-	-	180,096
Debt Service	-	-	20,927,673	20,927,673
Capital projects	-	11,764,795	-	11,764,795
Assigned		4,423,954	-	4,423,954
Unassigned	11,169,758	-	-	11,169,758
Total fund balances	11,440,197	16,188,749	20,927,673	48,556,619
Total liabilities, deferred inflows and fund balances	$ 12,518,438	$ 35,886,389	$ 20,927,673	$ 69,332,500

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

Total Fund Balances governmental funds	48,556,619
Prepaid bond insurance is not a current cost and therefore is not reported in the governmental funds.	2,170,426
Revenues earned but unavailabe are not reported in the government funds.	15,312,270
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	69,624,286
Loss on debt refunding is not a current outflow and therefore is not reported in the governmental funds.	787,779
Deferred outflows of resources related to pensions	180,099
Contingency payables are not reported as an expenditure in the governmental funds and are reported as an expense in the statement of net position	(4,950,000)
Compensated Absences are not reported as an expense in the governmental funds and are reported as an expenditure in the statement of governmental activities	(311,904)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds	(2,791,983)
Accrued rent payable is not due and payable in the current period and therefore is not reported in the governmental funds	(81,661)
Net Pension liability	(42,852)
Deferred inflows of resources related to pensions	(11,081)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(244,975,972)
Net position of governmental activities	$ (116,533,974)

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, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Special benefit assessments	$ 6,281,006	$ -	$ -	$ 6,281,006
Special capital assessments	-	31,829	20,881,685	20,913,514
Aid from other governments	1,472,862	250,000	-	1,722,862
Intergovernmental	-	(284,964)	-	(284,964)
Interest	37,634	69,829	78,827	186,290
Development impact fees	-	2,949,466	-	2,949,466
Other Income	2,175	1,271,504	-	1,273,679
Interest and other income	39,809	1,341,333	78,827	1,459,969
Total revenues	7,793,677	4,287,664	20,960,512	33,041,853
EXPENDITURES				
Current:				
Public protection	9,185,783	-	-	9,185,783
Public ways and facilities	-	29,063,660	-	29,063,660
Miscellaneous	-	74,610	139,296	213,906
Debt service:				
Principal	-	-	5,400,000	5,400,000
Bond issuance cost	-	356,433	-	356,433
Interest	-	-	11,798,479	11,798,479
Total expenditures	9,185,783	29,494,703	17,337,775	56,018,261
Excess (deficiency) of revenues over (under) expenditures	(1,392,106)	(25,207,039)	3,622,737	(22,976,408)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	6,274,073	820,097	7,094,170
Transfers out	(290,097)	(530,000)	(6,274,073)	(7,094,170)
Sale of land		583,649		583,649
Bond Issuance	-	16,505,000	-	16,505,000
Bond Premium	-	1,071,149	-	1,071,149
Total other financing sources (uses)	(290,097)	23,903,871	(5,453,976)	18,159,798
NET CHANGE IN FUND BALANCES	(1,682,203)	(1,303,168)	(1,831,239)	(4,816,610)
Fund balances - Beginning of the year, as restated	13,122,400	17,491,917	22,758,912	53,373,229
Fund balances - End of the year	$ 11,440,197	$ 16,188,749	$ 20,927,673	48,556,619

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

Net change in Fund Balances total governmental funds		(4,816,610)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets are capitalized and, except for land and easements, depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation in the current period.		685,056
In the statement of activities, only the gain/(loss) on the sale of the land is reported, whereas in the governmental funds the proceeds from the sale increase financial sources. Thus, the change in net position differs from the change in the fund balance by the cost of the land sold `		(768,241)
Governmental funds do not report contingencies as expenditures. However, in the statement of activities the cost of these contingencies are expensed in the year incurred.		(1,950,000)
Governmental funds report revenues that are measureable and available. However, in the statement of activities revenues are accrued when they are earned.		2,152,270
Compensated Absences are not reported as an expense in the governmental funds and are reported as an expenditure in the statement of governmental activities		(25,559)
The issuance of long-term debt (e.g. bonds, loans) provides current financial resources to governmental fund, 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 position. Also, governmental funds report the effect of prepaid bond insurance discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond Issuance		(16,505,000)
Bond Premium		(1,071,149)
Bond Insurance Premium		41,863
Repayment of Debt (Principal Reduction)		5,400,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Change in pension related amounts	126,166	
Rent	11,645	
Current year amortization of bond insurance	(109,771)	
Current year amortization of bond premium	407,836	
Current year amortization of bond discount	(47,244)	
Current year amortization of loss of refunding	(87,531)	
Change in accrued interest payable	56,220	357,321
Change in net position of governmental activities		$ (16,500,049)

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, 2016

NOTE 1– REPORTING ENTITY

Definition of Reporting Entity and Governing Board

The Sacramento Area Flood Control Agency (SAFCA) is a political subdivision of the State of California. It was created January 1, 1990 under the laws of the State of California and provisions of a Joint Exercise of Powers Agreement. 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 composed of thirteen members appointed by the parties to the agreement. Five members are appointed by the Sacramento County Board of Supervisors, one from the Sutter County Board of Supervisors, three from the Sacramento City Council, two from Reclamation District No. 1000, and two from the American River Flood Control District. Employees of SAFCA are contracted from the County of Sacramento and City of Sacramento.

DISTRICTS AND PROGRAMS

The SAFCA Board of Directors established several assessment districts to facilitate operations of the organization. These assessment 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 91-010 on June 20, 1991 resulting from the Sacramento Area Flood Control Agency Act augmented by the California State Legislature which 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 95-112 on September 21, 1995. The SAFCA Board of Directors authorized the issuance of bonds in the principal amount of $84,345,000; in Fiscal Year 2005 additional bonds were authorized and issued in the principal amount of $34,595,000.

SAFCA Consolidated Capital Assessment District

The district was established by Resolution 07-052 on May 31, 2007. In 2007 and 2008 the SAFCA Board of Directors authorized the issuance of bonds in the principal amount of $172,095,000. In Fiscal Year 2013 additional bonds were authorized and issued in the principal amount of $38,000,000. In Fiscal Year 2016 additional bonds were authorized and issued in the principal amount of $16,505,000.

NOTE 1– REPORTING ENTITY, (Continued)

SAFCA Development Impact Fee Program

The program was established by Resolution 09-010 on May 15, 2008, and becoming effective January 1, 2009. The purpose of the program is to augment the 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 thereby offsetting any increase in exposure to flood damages that might otherwise result as new development occurs in the protected floodplain during this period.

SAFCA Natomas Basin Local Assessment District

The district was established by Resolution 2001-052 on April 29, 2011. The SAFCA Board of Directors authorized on June 16, 2011, the issuance of bond anticipation notes in the amount of $6,200,000. The SAFCA Board of Directors authorized on May 15, 2014, the issuance of bonds in the principal amount of $35,350,000 part of which was used to pay the balance due on the 2011 bond anticipation notes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Government–wide Financial Statements

The statement of net position 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 and other income, are presented instead as general revenues.

When both restricted and unrestricted resources are available, restricted resources are used first, then unrestricted resources as needed.

Fund Financial Statements

The fund financial statements provide information about SAFCA's funds, which include only *governmental funds*.

SAFCA reports the following major governmental funds:

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

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

The *Capital Projects Fund* is 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.

The *Debt Service Fund* is used to account for all revenues received from the annual levy and collection of assessments when received. The monies are used to pay interest, principal and redemption premiums on all debts including the, Series 2007, 2008, 2012, 2014 and 2015 revenue bonds as well as the Operations and Maintenance assessment bonds. Through June 30, 2016, the Debt Service Fund funded all principal and interest payments as scheduled.

Measurement Focus and 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, includes 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 in the accounting period in which they become both measurable and available to finance expenditures of the current period. Special assessments, interest and certain state and federal grants are accrued when their receipt occurs within three hundred sixty five days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and the sale of capital assets are reported as other financing sources.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. SAFCA did not have any of these types of transactions.

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 investments in the debt service fund represent bond reserves held with third party trustees; the remainder of SAFCA's cash is pooled in Sacramento County's Treasury Pool. 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. SAFCA is an involuntary participant in the pool.

The value of SAFCA's shares in the pools is determined on an amortized cost basis, which may be different from fair value.

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 acquisition 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 County property taxes. It is, however, not a property tax since it is exempt from the tax rate limitation pursuant to Article XIIIA 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 Districts 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 levied annually on the County's secured tax roll on which general taxes on real property are billed. 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.

Development Impact Fee

The Counties of Sacramento and Sutter, and the City of Sacramento, 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 and City, the collections are remitted to SAFCA and recorded in SAFCA's Capital Projects Fund.

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

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 percent of SAFCA's delinquent assessments. Under the Teeter Plan, the County purchases the annual delinquent secured property taxes from the local taxing entities and selected special assessment districts in Sacramento County.

Due from other governments for the Early Implementation Plan with the California Department of Water Resources as of June 30, 2016 is $15,335,538.

Deposits with others

Deposits with others consist of Contract Retentions, held in escrow accounts. The disposition of these funds is determined by construction contracts. Typically, the funds are applied to the payment of construction contracts. As of June 30, 2016, deposits for contract retentions were $160,796 respectively.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position may report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an expense/expenditure until then. Deferred outflows of resources consist of the loss incurred in refunding a prior bond issuance and deferred outflows related to pensions from contributions made subsequent to the measurement date and which will be recognized as a reduction of the net pension liability in the following year. As of June 30, 2016 the loss on debt refunding totaled $787,779, net of accumulated amortization. Amortization of the loss on debt refunding is computed using the straight-line method, over the remaining life of the related bond. The deferred outflows related to pensions as of June 30, 2016 is $180,099.

In addition to liabilities, the statement of net position will sometimes report a section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. SAFCA has one type of item that qualifies for reporting in this category. It is deferred inflows related to pensions of $11,081.

In addition to liabilities, the balance sheet of the governmental funds reports a separate section of deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applied to a future period(s) and so will not be recognized as revenue until that time. SAFCA has one item that qualifies for reporting in this category, which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from Early Implementation Program (EIP) of $15,312,270. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

Prepaid Bond Insurance

Bond insurance is required by the issuance of the 2007, 2008, 2014 and 2015 revenue bonds in lieu of making a reserve fund deposit. As of June 30, 2016 prepaid bond insurance totaled $2,170,426, net of accumulated amortization. Amortization of the prepaid bond insurance is computed using the straight-line method, over the remaining life of the related bond.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SAFCA's California Public Employees Retirement System (CalPERS) plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows of resources and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

As of July 1, 2015, SAFCA retrospectively applied Governmental Accounting Standards Board (GASB) statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. SAFCA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

NOTE 3 – FUND BALANCES AND NET POSITION

Fund Balance

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, 2016, fund balances for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact such as an endowment. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: amounts held for perpetuity, prepaid amounts, and long-term receivables.

- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority, SAFCA's Board of Directors. Commitments may be changed or lifted only by the Agency taking the same formal action that imposed the constraint originally. For SAFCA, the commitments would occur by a resolution approved by the 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 the Executive Director, or their nominee, to which SAFCA's Board of Directors have delegated the authority to assign amounts to be used for specific purposes and to assign the residual amount for the capital projects and debt service funds.

- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. 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.

NOTE 4 – CASH AND INVESTMENTS

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

Cash and investments as of June 30, 2016, consist of the following:

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, 2016, the carrying amount of SAFCA's investments held by the County as part of the Treasurer's pool was $53,404,753. The weighted average maturity of the Treasurer's pool was 254 days at June 30, 2016. SAFCA does not have a separate investment policy.

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 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. Permitted investments include investments in the Sacramento County Pooled Investment Fund which is managed by the County of Sacramento Treasurer.

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.

NOTE 4 – CASH AND INVESTMENTS, (Continued)

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
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%

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 the market interest rate.

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, 2016, 100% 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.

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 input are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the Agency held no individual investments. All funds are invested in the County Pool.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Agency's assessment of the significance of particular inputs to these fair value measurements require judgements and considers factors specific to each asset or liability. Deposits and withdrawals from the County Pool are made in the basis of $1 and not fair value. Accordingly, the Agency's proportionate share of investments in the County Pool at June 30, 2016 of $53,404,753 in an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

NOTE 5 – INTERFUND TRANSACTIONS

Interfund transfers

Interfund transfers during the year ended June 30, 2016 are summarized as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Transfer In:	$ -	$ 6,274,073	$ 820,097	$ 7,094,170
Transfers Out:	(290,097)	(530,000)	(6,274,073)	(7,094,170)
Total	$ (290,097)	$ 5,744,073	$ (5,453,976)	$ -

SAFCA's General Fund made a transfer of $290,097 to the Debt Service Fund for debt service payment for the 1996 Operations and Maintenance Bonds. SAFCA Capital project fund made a transfer of $530,000 to Debt Service Fund for NBLAD bond reimbursement. SAFCA also transferred $2,000,000 and $2,274,073 from Debt Service Fund to Capital Projects Fund for capital project construction.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Retirement	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	$ 69,565,996	$ 68,410	(768,240)	$ 68,866,166
Permanent easement	141,474	616,646	-	758,120
Capital assets not being depreciated	69,707,470	685,056	-	69,624,286
Capital assets, being depreciated:				
Equipment	35,932	-	-	35,932
Less accumulated depreciation	(35,932)	-	-	(35,932)
Total capital assets, being depreciated, net	-	-	-	-
Capital assets, net	$ 69,707,470	$ 685,056	$ (768,240)	$ 69,624,286

NOTE 7 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2016:

Series 1996 Operating and Maintenance term bonds due on November 1, 2016 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%.	$ 220,000
Series 1996 Operating and Maintenance term 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 Serial bonds due on October 1, 2016 through 2027 with interest at 4.000% to 5.570%, optional redemption effective for bonds maturing on or after October 1, 2018.	30,625,000
Series 2007A Consolidated Capital Assessment Term bonds due on October 1, 2032 through 2037 with interest at 5.570%, optional redemption effective for bonds maturing on or after October 1, 2018.	43,965,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2013 through 2023 with interest at 4.000% to 5.375%, optional redemption effective for bonds maturing on or after October 1, 2019.	17,500,000
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, 2024 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, 2029 of each year.	41,130,000
Series 2012 Consolidated Capital Assessment District Serial Bonds due on October 1, 2016 through 2029 with interest varying from 3.000% to 5.000%, optional redemption effective for bonds maturing on or after October 1, 2021.	18,795,000
Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2030 through 2032 with interest at 5.250%, subject to mandatory sinking fund redemption.	5,420,000
Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2033 through October 1, 2037 with interest at 5.000%, subject to mandatory sinking fund redemption.	10,765,000
Series 2014 Natomas Basin Local Assessment District Bonds due on October 1, 2016 through October 1, 2017 with interest ranging from 2.000% to 4.000%	1,165,000

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

Series 2014 Natomas Basin Local Assessment District Bonds due on October 1, 2018 through October 1, 2034 with interest at 5.000%. Bonds maturing after October 1, 2025 are subject to optional redemption.	15,885,000
Series 2014 Natomas Basin Local Assessment District Bonds due on October 1, 2035 through October 1, 2039 with interest at 5.000%, subject to mandatory redemption.	7,790,000
Series 2014 Natomas Basin Local Assessment District Bonds due on October 1, 2040 through October 1, 2044 with interest at 5.000%, subject to mandatory redemption.	9,945,000
Series 2015 Consolidated Capital Assessment District Bonds due on December 1, 2018 through December 1, 2034 with interest at 3.000% to 5.000%, subject to optional redemption on or after December 1, 2018.	12,925,000
Series 2015 Consolidated Capital Assessment District Bonds due on December 1, 2035 through December 1, 2037 with interest at 5.000%, subject to mandatory sinking fund redemption.	3,580,000
Total long-term obligations	$237,740,000

The aggregate amount of debt service on long-term debt outstanding at June 30, 2016 is as follows:

Year Ending June 30,	Principal	Interest
2017	$ 5,625,000	$ 11,880,904
2018	5,870,000	11,624,100
2019	6,675,000	11,338,883
2020	6,975,000	11,021,441
2021	7,310,000	10,688,126
2022-2026	42,125,000	47,636,947
2027-2031	51,675,000	35,866,111
2032-2036	66,485,000	20,623,396
2037-2041	36,855,000	4,620,720
2042-2045	8,145,000	839,125
Total	$237,740,000	$166,139,753

On November 1, 1996, Sacramento Area Flood Control Agency issued $1,335,000 of serial and $4,165,000 of term 1996 Subordinated Operation and Maintenance Assessment Bonds (O&M Bond). The interest rates on the term bonds are 5.800% and 5.900%.

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

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 $3,848,580, payable through November 2026. For Fiscal Year 2016, principal and interest paid and total revenues collected were $210,000, $177,560, and $6,281,006, respectively.

On June 1, 2007, the Sacramento Area Flood Control Agency issued $87,130,000 of serial 2007 Consolidated Capital Assessment District Bonds with interest rates ranging from 4.000% to 5.570%. 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 2036-2038. The collection of the Consolidated Capital Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2007 is $122,895,213, payable through June 2038. For Fiscal Year 2016, principal and interest paid were $1,825,000, and $3,763,450 respectively.

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 4.000% to 5.625%. 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 2008 is $128,095,512 payable through June 2038. For Fiscal Year 2016, principal and interest paid were $1,765,000 and $4,054,528 respectively.

On March 27, 2012, the Sacramento Area Flood Control Agency issued $38,000,000 of 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 2007 and 2008 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 2037-2038 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, 2030, and October 1, 2037, are subject to mandatory sinking fund redemption by the Agency. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2012 is $55,865,572 payable through October 2037. For Fiscal Year 2016, principal and interest paid was $1,035,000 and $1,616,520 respectively.

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

On October 28, 2015, the Sacramento Area Flood Control Agency issued $16,505,000 of 2015 Consolidated Capital Assessment District Bonds with interest rates ranging from 3.000% to 5.000%. 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 and (ii) pay the costs of issuance of the Series 2015Subordinated Bonds. The bonds are secured and payable from the Consolidated Capital Assessments on a parity with the Series 2015 Bonds, subject to the satisfaction of the conditions specified in the Subordinated Bond 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 (105%) of the annual debt service. The Series 2015 Bonds maturing on or after December 1, 2018, are subject to optional redemption by the Agency. The Series 2015 Bonds maturing on December 1, 2037 are subject to mandatory sinking fund redemption by the Agency. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2015 is $27,449,600 payable through December 2037. For Fiscal Year 2016, interest paid was $458,921.

For Fiscal Year 2016, the total assessment revenues collected for the 2007, 2008, 2012, and 2015 Consolidated Capital Assessment District Bonds is $18,189,360.

On May 28, 2014, the Sacramento Area Flood Control Agency issued $35,350,000 of 2014 Natomas Basin Local Assessment District Bonds with interest rates ranging from 2.000% to 5.000%. Proceeds from this issue were used to (i) prepay the outstanding amount of the Agency's Bond Anticipation Notes, Series 2011 (ii) 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 under and pursuant to the Act (iii) pay the cost of the Policy and a debt service reserve fund insurance policy and (iv) pay the costs of issuance of the Series 2014 Bonds. The bonds are secured by NBLAD assessments levied by the Agency on property in the Agency's Natomas Basin Local Assessment District. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy in each Fiscal Year, through Fiscal Year 2052-2053, the NBLAD Assessments against all Assessable Land in the District not to exceed the maximum rates specified in the Final Engineer's Report for the District dated April 28, 2011. The collection of the Natomas Basin Local Assessment District Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service.

The Series 2014 Bonds maturing on or after October 1, 2025, are subject to optional redemption by the Agency. The Series 2014 Bonds maturing on October 1, 2039, and October 1, 2044, are subject to mandatory sinking fund redemption by the Agency. Total principal and interest remaining on the Natomas Basin Local Assessment District bonds, series 2014 is $65,725,275 payable through October 2044. For Fiscal Year 2016, principal and interest paid and total revenues collected were $565,000, $1,727,500, and $2,701,195, respectively.

NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

Changes in long-term obligations for the fiscal year ended June 30, 2016 were as follows:

	July 1, 2015 Balance	Increase	Decrease	June 30, 2016 Balance	Due within one year
1996 Local Assessment District Bonds	$ 3,120,000		$ (210,000)	$ 2,910,000	$ 220,000
2007 Local Assessment District Bonds	76,415,000		(1,825,000)	74,590,000	1,915,000
2008 Local Assessment District Bonds	75,735,000		(1,765,000)	73,970,000	1,845,000
2012 Local Assessment District Bonds	36,015,000		(1,035,000)	34,980,000	1,070,000
2014 Local Assessment District Bonds	35,350,000		(565,000)	34,785,000	575,000
2015 Local Assessment District Bonds	-	16,505,000		16,505,000	-
Subtotal	226,635,000	16,505,000	(5,400,000)	237,740,000	5,625,000
Deferred Amounts:					
2008 Issuance Discount	(1,086,612)		47,244	(1,039,368)	(47,244)
2007 Issuance Premium	1,349,887		(134,988)	1,214,899	134,988
2012 Issuance Premium	2,310,466		(103,454)	2,207,012	103,454
2014 Issuance Premium	3,951,673		(135,100)	3,816,573	135,100
2015 Issuance Premium	-	1,071,149	(34,293)	1,036,856	48,414
Total	$ 233,160,414	$ 17,576,149	$ (5,760,591)	$ 244,975,972	$ 5,999,712

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 April 2017 will fluctuate based upon the stream of construction draw downs and changing investment yields. As of June 30, 2016, SAFCA has no arbitrage liability.

NOTE 8 – OPERATING LEASES

SAFCA entered into a lease agreement on August 15, 2013 for office and storage space. The lease term is for 68 months starting March 1, 2014. The lease allows SAFCA two (2) five (5) year extensions with 360 day notice prior to expiration. The agreement does not have an early termination clause.

The agreement provided for no rent for the first eight months to be reduced by any excess cost of construction to be paid by the Lessee. The final Lessee cost was $37,973 and resulted in the rent free period to be reduced to five months and a reduced rental payment. Full rental payments will begin with month seven of the lease. The annual rate increase under the lease is 2.70% per year for office space and 5.00% per year for storage space.

Rent expense is amortized using the straight line method over the life of the lease.

NOTE 8 – OPERATING LEASES, (Continued)

Rental expenditures for the year ended June 30, 2016 were $216,197.

The future minimum rental payments required under the operating lease is as follows

Year Ending June 30,	Amount
2017	$ 222,217
2018	228,244
2019	234,277
2020	78,763
Total	$ 763,501

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2016, the County of Sacramento, a related party, owed SAFCA $56,956 for interest earned on Treasury Deposits, and $48,111 in assessments collected. SAFCA uses other County departments for other services, such as risk management, engineering, accounting, etc. Amounts paid to the County during the year for Public Protection and Public Ways and Facilities were $2,441,330.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2016, SAFCA has thirteen open construction contracts. These contracts are cancelable at any time, with cause, upon five days written notice by the Board. The total amount of construction commitments in the Capital Projects Fund is approximately $3,517,396 and is reported in the restricted fund balance.

Claims

SAFCA has received claims from contractors, of ongoing levee construction contracts, for unexpected costs resulting from an increased water table. Under contract law, claims cannot be filed until after the contract is completed. As such, management believes that there is a reasonable possibility that a potential loss contingency may exist with the estimate for the loss being approximately $2 million which may be partially offset by reimbursement provisions in the Early Implementation Program (EIP) contract with the California Department of Water Resources. Under the Early Implementation Program contract, the California Department of Water Resources reimburses for its share of eligible project costs provided that SAFCA meets the terms of the funding agreement.

NOTE 10 – COMMITMENTS AND CONTINGENCIES, (Continued)

Litigation

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, SAFCA does not believe the ultimate resolution of these matters will have an adverse material effect on SAFCA's financial position.

Conveyance of Land

Several parcels of land and permanent easements acquired with funds from the Early Implementation Program, for the construction of levee projects are to be conveyed to the State of California. SAFCA will retain portions of affected parcels. The transfer of property titles are expected to start occurring in the Fiscal Year ending June 30, 2017.

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. Premiums paid for future accounting periods are recorded as a prepaid expense.

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) $25,000,000 OEL Total $50,000,000	$100,000 SIR applies to General Liability, Public Officials Liability and Automobile Liability	(1) CSAC Excess Insurance Authority (2) Various Insurers	7/1/15 - 7/1/16 7/1/15 - 7/1/16	(1) EIA-PE 14 EL 62 (2) PK1019615
Workers' Compensation and Employer's Liability (As Applicable)	WC - Statutory Employers' Liability $5,000,000	$3,000,000 SIR	CSAC Excess Insurance Authority	7/1/15 - 7/1/16	EIA 14 EWC - 30
Property All Risk	$7,976,332	$1,000	Lexington Insurance	7/1/15 - 7/1/16	017471589/02
Boiler and Machinery (Included in Property Policy)	Included	$2,500	Included	Included	017471589/02

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

NOTE 12 – DEFERRED INFLOWS OF RESOURCES – UNAVAILABLE REVENUES

Deferred inflows resulting from unavailable revenue under the Early Implementation Plan with the California Department of Water Resources but not expected to be collected in the next 365 days. The amount due from DWR for unavailable revenue increased by $2,152,270 since June 30, 2016, going from $13,160,000 to $15,312,270.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) release new accounting and financial reporting standards which may have a significant impact on SAFCA's financial reporting process. New standards applicable to the year ending June 30, 2106 are as follows:

<u>Statement No. 72</u> – Fair - *Value Measurement and Application.* This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The disclosures required by this Statement are included in Note 2.

<u>Statement No. 76</u> – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement provides a framework for the sources and authority of generally accepted accounting principles (GAAP). SAFCA has implemented the provisions of this Statement during the fiscal year ending June 30, 2016.

<u>Statement No. 82</u> – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. SAFCA has implemented the provisions of this Statement during the fiscal year ending June 30, 2016.

SAFCA is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of the following GASB statements:

<u>Statement No. 73</u> – *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68.* This statement provides additional guidance and clarification regarding provisions of GASB No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. SAFCA has not determined its effect on the financial statements for the provisions of this Statement effective for fiscal years beginning after June 15, 2016.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS (Continued)

Statement No. 74 - *Financial Reporting for Postemployment benefit Plans Other Than Pension Plans.* This statement provides guidance for recording other postemployment benefits or OPEB. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016. SAFCA has not determined its effect on the financial statements.

Statement No. 75 – *Accounting and Financial Reporting for Postemployment benefit Plans Other Than Pension Plans.* This statement provides additional guidance and clarification for recording other postemployment benefits or OPEB. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017. SAFCA has not determined its effect on the financial statements.

Statement No. 77 – *Tax Abatement Disclosures.* This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this statement are effective for financial statements for reporting periods beginning after December 15, 2015. SAFCA has not determined its effect on the financial statements.

Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to excluded pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The provisions of this statement are effective for financial statements for reporting periods beginning after December 15, 2015. SAFCA has not determined its effect on the financial statements.

Statement No. 79 – *Certain External Investment Pools and Pool Participants.* This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. SAFCA has not determined its effect on the financial statements for the Statement's provisions applicable to years beginning after December 15, 2015.

Statement No. 80 – *Blending Requirements for Certain Component Units. An Amendment of Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. SAFCA has not determined its effect on the financial statements.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS, (Continued)

Statement No. 81 – *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. SAFCA has not determined its effect on the financial statements.

Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. SAFCA has not determined its effect on the financial statements.

NOTE 14 – SUBSEQUENT EVENTS

SAFCA issued $209,567,595 in Consolidated Capital Assessment District No.2 (CCAD 2) Series 2016 Bonds on November 16, 2016. The CCAD 2 bonds will provide funds to pay for the local share of the cost of carrying out the improvement projects and activities necessary to achieve SAFCA's flood risk management objectives. These projects and activities are essentially the same as the projects and activities covered by the existing Consolidated Capital Assessment District but with an expanded scope and cost. The CCAD 2 Bonds will be refunding the existing CCAD Series 2007, 2008, 2012, and 2015 bonds.

NOTE 15 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the SAFCA's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). SAFCA joined CalPERS in June 2015. Benefit provisions under the Plans are established by State statute and SAFCA resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information can be found on the CalPERS website at: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml

NOTE 15 – DEFINED BENEFIT PENSION PLAN, (Continued)

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013- Classic	On or after January 1, 2013 - PEPRA
Formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-67	52-67
Required employee contribution rates	7%	7%
Required employer contribution rates	13.02%	6.77%

Contributions – Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annual on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SAFCA is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2016, employer contributions were $179,319.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, SAFCA reported net pension liabilities for its proportionate shares of the net pension liability of $42,852.

SAFCA's net pension liability is measured as the proportionate share of net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward using standard update procedures. SAFCA's proportion of the net pension liability based on a projection of SAFCA's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. SAFCA's proportionate share of the net pension liability measured as of June 30, 2015 was .0016 percent. SAFCA joined CalPERS in FY 2015, thus this was the first year SAFCA's liability was measured.

NOTE 15 - DEFINED BENEFIT PENSION PLAN, (Continued)

For the year ended June 30, 2016, SAFCA recognized pension expense of $280,285. At June 30, 2016, SAFCA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
SAFCA employer contributions subsequent to measurement date	$ 179,319	
Differences between actual and expected experience	780	
Changes in assumptions		$ (7,381)
Net differences between projected and actual earnings on plan investments		(3,700)
Total	$ 180,099	$ (11,081)

The amount of $179,319 report as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2017	$ (3,282)
2018	(3,282)
2019	(2,811)
2020	(926)
	$ (10,301)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuations was determined using the following assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.65% (1)
Mortality	Derived using CalPERS' membership data for all funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) Net of pension plan investment expenses, including inflation.

NOTE 15 – DEFINED BENEFIT PENSION PLAN, (Continued)

(2) The mortality table used was developed based on CalPERS's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumption used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml.

Change of Assumptions - GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.5 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June, 2015 measurement date is without reduction of pension plan administrative expense.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long- term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long- term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

NOTE 15 – DEFINED BENEFIT PENSION PLAN, (Continued)

Discount Rate **-** The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate **-** The following presents SAFCA's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what SAFCA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 - percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	$ 87,529
Current Discount Rate	7.65%
Net Pension Liability	$ 42,852
1% Increase	8.65%
Net Pension Liability	$ 25,709

Pension Plan Fiduciary Net Position **-** Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to correct beginning fund balance/Net position in the Capital Projects Fund/governmental activities. The adjustment was made to reflect the prior period adjustment related to due from other governments balance being overstated, unavailable revenue being understated and revenues being overstated. These adjustments are reflected as follows:

Governmental Funds		Capital Projects Fund
Fund balance at July 1, 2015, as previously reported	$	23,721,814
Correction of due from other governments		(4,077,627)
Correction of unavailable revenue		(2,152,270)
Fund balance at July 1, 2015, as restated	$	17,491,917

Governmental Activities

Net Posittion at July 1, 2015, as previously reported	$	(93,804,028)
Correction of due from other governments		(4,077,627)
Intergovernmental revenues		(2,152,270)
Net Position at July, 2015, as restated	$	(100,033,925)

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, 2016

	Budgeted amounts		Budgetary Basis	Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Special benefit assessments	$ 6,300,000	$ 6,300,000	$ 6,281,006	$ (18,994)
Intergovernmental			-	-
Aid from other governments	450,000	450,000	1,472,862	1,022,862
Interest and Other Income	(65,393)	(65,393)	39,809	105,202
Total revenues	6,684,607	6,684,607	7,793,677	1,109,070
EXPENDITURES				
Current:				
Public protection	14,468,507	14,468,507	9,185,783	5,282,724
Total expenditures	14,468,507	14,468,507	9,185,783	5,282,724
Excess (deficiency) of revenues over (under) expenditures	(7,783,900)	(7,783,900)	(1,392,106)	6,391,794
OTHER FINANCING SOURCES (USES)				
Transfer Out	(490,000)	(490,000)	(290,097)	199,903
Total other financing sources (uses)	(490,000)	(490,000)	(290,097)	199,903
NET CHANGE IN FUND BALANCE	$ (8,273,900)	$ (8,273,900)	(1,682,203)	$ 6,591,697

See note to the required supplementary information.

SACRAMENTO AREA FLOOD CONTROL AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SAFCA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COST SHARING DEFINED BENEFIT PENSION PLAN
LAST 10 FISCAL YEARS*

	2016
SAFCA's proportion of the net pension liability	0.0016%
SAFCA's proportionate share of the net pension liability	$ 42,852
SAFCA's covered payroll **	$ 124,835
SAFCA's proportionate share of the net pension liability as a percentage of its covered payroll	34.33%
Plan fiduciary net position as a percentage of the total pension liability	78.40%
Measurement date	June 30, 2015

*Fiscal year 2016 was the first year of implementation, therefore, only one year is shown.

**SAFCA entered into the Plan starting in the beginning of June 2015.

SACRAMENTO AREA FLOOD CONTROL AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SAFCA'S CONTRIBUTIONS
COST SHARING DEFINED BENEFIT PENSION PLAN
LAST 10 FISCAL YEARS*

	2016
Actuarially determined contributions	$ 179,319
Contributions in relation to the actuarially determined contribution	179,319
Contribution deficiency (excess)	$ -
SAFCA's covered payroll	1,498,016
Contribution as a percentage of covered payroll	11.97%

*Fiscal year 2016 was the first year of implementation, therefore, only one year is shown.

SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 – BUDGET

The Sacramento Area Flood Control Agency's budget for the general fund is prepared on the budgetary 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 the General Fund. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as restricted, committed or assigned fund balance for subsequent-year expenditures.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a budgetary basis 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. The Legal level of budgetary control is at the functional level.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Sacramento Area Flood Control Agency
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SAFCA's basic financial statements, and have issued our report thereon dated January 26, 2017. Our report includes an emphasis of a matter for SAFCA's adoption of GASB Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,* effective July 1, 2015.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
January 26, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH BOND COVENANTS

Board of Directors
Sacramento Area Flood Control Agency
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated January 26, 2017. Our report includes an emphasis of a matter for SAFCA's adoption of GASB Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,* effective July 1, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that SAFCA failed to comply with the provisions of the Series 1996 Subordinated Operation and Assessment District No. 1 Bond Agreement, Resolution 96-266, Article V, Sections 5.01 to 5.10, the Series 2007, 2008, and 2012 Consolidated Capital Assessment District Bonds, Resolution No. 07-052, Article VII, Sections 7.01 to 7.11, the Series 2014 Natomas Basin Local Assessment District Bonds, Resolution No. 2014-033, Article VII, Sections 7.01 to 7.12, and the Series 2015 Capital Assessment District Bonds, Resolution No. 2015-096, Article VII, Sections 7.01 to 7.12, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding SAFCA's noncompliance with the above referenced terms, covenants, provisions, or conditions of the Indenture, insofar as they relate to accounting matters.

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
January 26, 2017

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