

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, 2017

SACRAMENTO AREA FLOOD CONTROL AGENCY
For the Fiscal Year Ended June 30, 2017

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sacramento Area Flood Control Agency (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency'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 the Agency, as of June 30, 2017, 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.

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 December 13, 2017, on our consideration of Agency'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 Agency's internal control over financial reporting and compliance.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 13, 2017

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 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, 2017.

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, 2017 by \$(110,169,015) (*net position*). Of this amount, \$71,942,846 was invested in capital assets, \$127,028,955 is restricted for specific purposes, and \$272,929 is restricted for the Hansen Ranch Project. The unrestricted net position for the current fiscal year amounted to \$(309,413,745) and is negative due to the fact that SAFCA issued bonds to improve existing levees and other flood control facilities, but the facilities are owned by other entities.
- SAFCA's total net position increased by \$6,364,959 during Fiscal Year 2016-2017. This increase was due to unanticipated changes in construction schedule and land acquisitions.
- As of the 2016-2017 Fiscal Year, SAFCA's governmental funds reported ending fund balances of \$145,834,276, an increase of \$97,277,657 in comparison with the prior year. The increase is due to the issuance of the 2016 Consolidated Capital Assessment District No. 2 Bonds. Thirteen percent of this total amount, \$18,529,769, 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 \$108,519,940 during the current fiscal year due to issuance of the 2016 Consolidated Capital Assessment District No. 2 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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. SAFCA's Operations and Maintenance Assessment District No. 1 acts as the Agency's General 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 15-37 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 \$110,169,015 at the end of June 30, 2017. 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Condensed Statement of Net Position
June 30,**

	<u>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 169,030,215	\$ 71,502,926
Capital assets, net	<u>71,942,846</u>	<u>69,624,286</u>
Total assets	<u>240,973,061</u>	<u>141,127,212</u>
 Deferred outflows of resources	 <u>14,414,408</u>	 <u>967,878</u>
Liabilities:		
Current and other liabilities	11,991,189	13,642,011
Long-term liabilities	<u>353,495,912</u>	<u>244,975,972</u>
Total liabilities	<u>365,487,101</u>	<u>258,617,983</u>
 Deferred inflows of resources	 <u>69,383</u>	 <u>11,081</u>
Net position:		
Net investment in capital assets	71,942,846	69,624,286
Restricted for:		
Capital projects	107,386,874	11,764,795
Debt service	19,642,081	20,927,673
Endowment-expendable	182,586	180,096
Endowment-nonexpendable	90,343	90,343
Unrestricted	<u>(309,413,745)</u>	<u>(219,121,167)</u>
Total net position	<u>\$ (110,169,015)</u>	<u>\$ (116,533,974)</u>

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

The current and other assets increased by \$97,527,289 (136%), which comprised primarily of an increase in restricted assets-investment due to the issuance of the 2016 Bonds. Total liabilities increased by \$106,869,118 (41%) due to the issuance of the 2016 Consolidated Capital Assessment District No. 2 Bonds. Total net investment in capital assets increased \$2,318,560 (3%) due to the purchase of land related to the Capital Projects Fund.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Governmental Activities

Governmental activities increased SAFCA's net position by \$6,364,959 during the year.

**Condensed Statement of Activities
Fiscal Year Ended June 30,**

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 43,496,344	\$ 31,866,848
Capital grants and contributions	<u>5,162,089</u>	<u>1,867,306</u>
Total program revenues	48,658,433	33,734,154
General revenues:		
Loss on sale of land	-	(184,592)
Interest and other income	<u>408,545</u>	<u>1,459,969</u>
Total general revenues	<u>408,545</u>	<u>1,275,377</u>
Total revenues	<u>49,066,978</u>	<u>35,009,531</u>
Expenses:		
Public protection	7,081,277	9,073,531
Public ways and facilities	24,513,913	30,637,570
Interest on long-term debt	<u>11,106,829</u>	<u>11,798,479</u>
Total expenses	42,702,019	51,509,580
Change in net position	6,364,959	(16,500,049)
Net position (deficit), beginning of year	<u>(116,533,974)</u>	<u>(100,033,925)</u>
Net position (deficit), end of year	<u>\$ (110,169,015)</u>	<u>\$ (116,533,974)</u>

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

- Charges for services increased by \$11,629,496 (36%) during the year primarily due to a \$5,400,000 increase in development impact fees from the City of Sacramento and development fees of \$1,800,000 related to the construction of the Amazon fulfillment center.
- Capital grants and contributions increased by \$3,294,783 (176%) during the year primarily due to increases in the from the State of California Department of Water Resources Early Implementation program, as well as SAFCA receiving funds for the Urban Flood Risk Reduction Program for the first time in FY 2017.
- Interest and other income decreased by \$1,051,424 (72%) during the year primarily due to a one time sale of land in the prior fiscal year.
- Public protection expenses decreased by \$1,992,254 (22%) during the year primarily due to the reduction in Contribution to Other Agencies.
- Public ways and facilities expenses decreased by \$6,123,657 (20%) during the year due to the schedule changes in construction of projects as well as land acquisitions.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017, SAFCA's governmental funds reported combined fund balances of \$145,834,276 an increase of \$97,277,657 (200%) in comparison with the prior year. Approximately \$92,966 or less than 1 percent of the total fund balance is nonspendable due to a trust agreement regarding Hansen Ranch, as well as prepaid expenses. The remaining 99 percent or \$145,743,310 is available to meet the Agency's current and future needs. \$182,586 is restricted for expenses related to Hansen Ranch, \$19,642,081 is restricted for debt service payments, \$107,386,874 is restricted for capital projects, \$11,375,328 assigned for capital projects and the remaining \$7,154,441 of unassigned fund balances can be used for any Agency need.

The **General Fund** is the chief operating fund of SAFCA. As of June 30, 2017, the unassigned fund balance of the General Fund was \$7,154,441 while the total fund balance was \$7,429,993. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 97 percent of total General Fund expenditures, while total fund balance represents 101 percent of that same amount. The fund balance of SAFCA's General Fund decreased by \$4,010,204 during fiscal year 2017. The decrease was mainly due to the reclassification of project costs to the Capital Projects Fund.

The **Capital Projects Fund** consists of all SAFCA capital projects. As of June 30, 2017, total fund balance was \$118,762,202. 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 level of flood protection (200-year or greater) for the Sacramento area. The fund balance increased by \$102,573,453 (634%) during Fiscal Year 2017. The increase was due to the new bond issuance and formation of CCAD2.

The **Debt Service Fund** has a total fund balance of \$19,642,081 all of which is restricted for the payment of debt service. The fund balance decreased by \$1,285,592 (6%) during Fiscal Year 2017. The decrease is mainly due to the early bond repayment.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The following table compares the revenues and expenditures for Fiscal Years 2017 and 2016 along with the net change from 2016 to 2017, for total governmental funds.

Total Governmental Funds	FY 2017		FY 2016		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
Revenues by Source						
Special benefit assessments	\$ 6,220,015	13.0%	\$ 6,281,006	19.0%	\$ (60,991)	-1.0%
Special capital assessments	21,124,450	44.2%	20,913,514	63.3%	210,936	1.0%
Aid from other governments	5,015,588	10.5%	1,722,862	5.2%	3,292,726	191.1%
Intergovernmental	3,923,937	8.2%	(284,964)	-0.9%	4,208,901	1477.0%
Development impact fees	11,136,291	23.3%	2,949,466	9.0%	8,186,825	277.6%
Interest and other Income	408,545	0.8%	1,459,969	4.4%	(1,051,424)	-72.0%
Total revenues	<u>\$ 47,828,826</u>	<u>100.0%</u>	<u>\$ 33,041,853</u>	<u>100.0%</u>	<u>\$ 14,786,973</u>	<u>44.8%</u>
Expenditures by Function						
Public protection	\$ 7,372,694	13.5%	\$ 9,185,783	16.4%	\$ (1,813,089)	-19.7%
Public ways and facilities	29,200,757	53.5%	29,063,660	51.9%	137,097	0.5%
Miscellaneous	170,672	0.3%	213,906	0.4%	(43,234)	-20.2%
Bond issuance cost	1,110,550	2.0%	356,433	0.6%	754,117	211.6%
Principal on long-term debt	5,625,000	10.3%	5,400,000	9.6%	225,000	4.2%
Interest on long-term debt	11,106,829	20.4%	11,798,479	21.1%	(691,650)	-5.9%
Total expenditures	<u>\$ 54,586,502</u>	<u>100.0%</u>	<u>\$ 56,018,261</u>	<u>100.0%</u>	<u>\$ (1,431,759)</u>	<u>-2.6%</u>

Special capital assessment revenue increased \$210,936 due to normal fluctuations in property values. Aid from other governments increased by \$3,292,726 due to charging of actual labor costs towards projects costs. The Intergovernmental revenue had an increase of \$4,208,901 due to the prior period adjustment in FY 2016 of overstated revenue. Development impact fees increased by \$8,186,825 primarily due to a \$5,400,000 increase in development impact fees from the City of Sacramento and development fees of \$1,800,000 related to the construction of the Amazon fulfillment center. Interest and other Income decreased by \$1,051,424 due to a one time sale of land in the prior fiscal year. Public Protection expenditures increased by \$1,813,090 due to the reduction of Contribution to Other Agencies. Miscellaneous expenditures decreased by \$43,234 due to a reduction in expenses from the Development Impact Fee fund. Bond issuance cost increased by \$754,117 due to the issuance of CCAD No. 2 Bonds. Principal payments on long-term debt increased by \$225,000 due to the normal increase in principal payments. The interest on long-term debt decreased by \$691,650 due to the repayment of bonds.

General Fund Budgetary Highlights

During the year, actual revenues exceeded budgeted revenues by \$1,456,514. Actual expenditures were less than budgetary estimates by \$160,982, 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Capital Asset and Debt Administration

Capital Assets - SAFCA's investments in capital assets for its governmental activities as of June 30, 2017 amount to \$71,942,846 (net of accumulated depreciation). This investment in capital assets includes land and equipment. The total increase in the SAFCA's investment in capital assets for the current fiscal year was 3 percent, or \$2,318,560. This increase was due to the purchase of land related to Capital Project Fund projects. SAFCA keeps records of all assets for governmental activities.

**Schedule of Capital Assets
June 30,**

	<u>2017</u>	<u>2016</u>
Land	\$ 71,184,726	\$ 68,866,166
Permanent Easements	758,120	758,120
Total	<u>\$ 71,942,846</u>	<u>\$ 69,624,286</u>

Additional information on SAFCA's capital assets can be found in Note 6 on page 26 of the Notes to the Basic Financial Statements.

Long-term debt - At the end of the current fiscal year, SAFCA had local assessment district bonds outstanding of \$315,095,000. 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,

	<u>2017</u>	<u>2016</u>
Local Assessment District Bonds	\$ 315,095,000	\$ 237,740,000
Add: Premium on		
Bonds Payable	38,400,912	8,275,340
Less: Discount on		
Bonds Payable	-	(1,039,368)
Totals	<u>\$ 353,495,912</u>	<u>\$ 244,975,972</u>

Additional information on long-term debt can be found in Note 7 on pages 26-29 of the Notes to the Basic Financial Statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Economic Factors and Next Year's Budget

The Fiscal Year 2017-2018 Final Budget was adopted by SAFCA's Board of Directors on August 17, 2017. 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, interfund transfers, of financing some of the \$93.8 million in total budgeted expenditures for Fiscal Year 2017-2018 includes:

- Estimated interest earnings:
 - General Fund
 - Operations & Maintenance Assessment District Fund: \$ 20,000
 - Capital Projects Fund
 - Consolidated Capital Assessment District No. 2 Fund: 20,000
- Assessments:
 - General Fund
 - Operations & Maintenance Assessment District Fund: 6,300,000
 - Capital Projects Fund
 - Consolidated Capital Assessment District No. 2 Fund: 15,000,000
- Other revenues:
 - General Fund
 - Services to Water Agencies Drainage: 861,761
 - Capital Projects Fund
 - State Aid: 14,248,413
 - Development Impact Fees: 2,500,000

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, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 50,702,336
Interest receivable	202,809
Deposits with others	49,553
Prepaid expenses	2,623
Due from other governments	18,458,818
Restricted cash and investments	99,437,848
Total Current Assets	<u>168,853,987</u>
Prepaid bond insurance	176,228
Capital assets:	
Land	71,184,726
Permanent easements	758,120
Total capital assets, net	<u>71,942,846</u>
Total Assets	<u>240,973,061</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amounts on refunding	13,338,201
Deferred outflows related to pensions	1,076,207
Total Deferred Outflows of Resources	<u>14,414,408</u>

LIABILITIES

Current liabilities:	
Warrants and accounts payable	2,625,775
Wages payable	40,334
Unearned revenue	3,803,180
Total Current Liabilities	<u>6,469,289</u>
Compensated absences	262,732
Accrued interest payable	2,539,092
Accrued rent payable	63,996
Contingencies payable	2,000,000
Net pension liability	656,080
Long-term debt obligations:	
Due within one year	6,940,365
Due in more than one year	346,555,547
Total long-term debt obligations	<u>353,495,912</u>
Total Liabilities	<u>365,487,101</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>69,383</u>
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NET POSITION

Net investment in capital assets	71,942,846
Restricted for:	
Capital projects	107,386,874
Debt service	19,642,081
Endowment:	
Expendable - Hansen Ranch	182,586
Nonexpendable - Hansen Ranch	90,343
Unrestricted	<u>(309,413,745)</u>
Total Net Position	<u>\$ (110,169,015)</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Capital Grants and Contributions	
Functions/Programs				
Public protection	\$ 7,081,277	\$ 6,220,015	\$ -	\$ (861,262)
Public ways and facilities	24,513,913	37,276,329	5,162,089	17,924,505
Interest on long-term debt	11,106,829	-	-	(11,106,829)
Total governmental activities	<u>\$ 42,702,019</u>	<u>\$ 43,496,344</u>	<u>\$ 5,162,089</u>	5,956,414
General Revenues:				
Interest and other income				408,545
Total general revenues				<u>408,545</u>
Change in net position				6,364,959
Net Position, Beginning of the year				<u>(116,533,974)</u>
Net Position, End of the year				<u>\$ (110,169,015)</u>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and investments	\$ 7,790,323	\$ 27,286,864	\$ 15,625,149	\$ 50,702,336
Interest receivable	39,322	86,563	76,924	202,809
Deposits with others	-	49,553	-	49,553
Prepaid expenditures	2,623	-	-	2,623
Due from other governments	1,097	18,457,721	-	18,458,818
Restricted cash and investments:	-	95,497,840	3,940,008	99,437,848
Total assets	<u>\$ 7,833,365</u>	<u>\$ 141,378,541</u>	<u>\$ 19,642,081</u>	<u>\$ 168,853,987</u>
LIABILITIES				
Warrants and accounts payable	\$ 363,038	\$ 2,262,737	\$ -	\$ 2,625,775
Wages payable	40,334	-	-	40,334
Unearned revenue	-	3,803,180	-	3,803,180
Total liabilities	<u>403,372</u>	<u>6,065,917</u>	<u>-</u>	<u>6,469,289</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	16,550,422	-	16,550,422
FUND BALANCES				
Nonspendable:				
Hansen Ranch	90,343	-	-	90,343
Prepaid expenses	2,623	-	-	2,623
Restricted for:				
Capital projects	-	107,386,874	-	107,386,874
Debt Service	-	-	19,642,081	19,642,081
Hansen Ranch	182,586	-	-	182,586
Assigned		11,375,328	-	11,375,328
Unassigned	7,154,441	-	-	7,154,441
Total fund balances	<u>7,429,993</u>	<u>118,762,202</u>	<u>19,642,081</u>	<u>145,834,276</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,833,365</u>	<u>\$ 141,378,541</u>	<u>\$ 19,642,081</u>	<u>\$ 168,853,987</u>
Amounts reported for governmental activities in the statement of net position are different because:				
Total fund balances - governmental funds			\$	145,834,276
Prepaid bond insurance is not a current financial resource and therefore, is not reported in the governmental funds.				176,228
Other long-term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenue in the funds.				16,550,422
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds				71,942,846
Deferred outflows of resources on refunding amounts				13,338,201
Deferred outflows of resources related to pensions				1,076,207
Long term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.				
Compensated absences			\$	(262,732)
Accrued interest payable				(2,539,092)
Accrued rent payable				(63,996)
Contingencies payable				(2,000,000)
Net pension liability				(656,080)
Bond payable			\$	(353,495,912)
Deferred inflows of resources related to pensions				(69,383)
Net position of governmental activities			\$	<u>(110,169,015)</u>

See accompanying notes to the basic financial statements.

SACRAMENTO AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Special benefit assessments	\$ 6,213,190	\$ 6,825	\$ -	\$ 6,220,015
Special capital assessments	-	13,520	21,110,930	21,124,450
Aid from other governments	2,481,906	2,533,682	-	5,015,588
Intergovernmental	-	3,923,937	-	3,923,937
Development impact fees	-	11,136,291	-	11,136,291
Interest and other income	81,418	175,300	151,827	408,545
Total revenues	8,776,514	17,789,555	21,262,757	47,828,826
EXPENDITURES				
Current:				
Public protection	7,372,694	-	-	7,372,694
Public ways and facilities	-	29,200,757	-	29,200,757
Miscellaneous	-	20,470	150,202	170,672
Debt service:				
Principal	-	-	5,625,000	5,625,000
Bond issuance cost	-	1,110,550	-	1,110,550
Interest	-	-	11,106,829	11,106,829
Total expenditures	7,372,694	30,331,777	16,882,031	54,586,502
Excess (deficiency) of revenues over (under) expenditures	1,403,820	(12,542,222)	4,380,726	(6,757,676)
OTHER FINANCING SOURCES (USES)				
Transfers in	900,000	10,427,305	7,314,024	18,641,329
Transfers out	(6,314,024)	(1,900,000)	(10,427,305)	(18,641,329)
Payment to refunded bond escrow agent	-	(203,074,549)	(6,493,045)	(209,567,594)
Issuance of refunding bonds	-	274,254,992	3,940,008	278,195,000
Bond Premium	-	35,407,927	-	35,407,927
Total other financing sources (uses)	(5,414,024)	115,115,675	(5,666,318)	104,035,333
NET CHANGE IN FUND BALANCES	(4,010,204)	102,573,453	(1,285,592)	97,277,657
Fund balances - Beginning of the year	11,440,197	16,188,749	20,927,673	48,556,619
Fund balances - End of the year	\$ 7,429,993	\$ 118,762,202	\$ 19,642,081	\$ 145,834,276

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

Net change in Fund Balances total governmental funds	\$ 97,277,657
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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.

2,318,560

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

1,238,152

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.

Current year amortization of bond insurance	\$ (6,467)	
Current year amortization of loss of refunding - 2016	(370,506)	
Change in pension related amounts	224,578	
Change in compensated absences	49,175	
Change in accrued interest payable	252,891	
Change in accrued rent payable	17,665	
Change in contingencies payable	2,950,000	
Current year amortization of bond premium	823,587	3,940,923

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.

Issuance of refunding bonds	(278,195,000)	
Bond Premium	(35,407,927)	
Payment to refunded bond escrow agent	209,567,594	
Repayment of Debt (Principal Reduction)	\$ 5,625,000	(98,410,333)

Change in net position of governmental activities	\$ 6,364,959
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See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 (CCAD No. 1) 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.

SAFCA Consolidated Capital Assessment District No. 2

The district was established by Resolution No. 2016-108 adopted on October 20, 2016, as amended by Resolution No. 2016-114 adopted on November 3, 2016. The SAFCA Board of Directors authorized the issuance of bonds in the principal amount of \$278,195,000. SAFCA formed CCAD No. 2 to amend and replace CCAD to increase funding capacity by extending annual assessment revenue collection period and updating the assessment methodology. All four series of SAFCA's bonds secured by the original CCAD assessments have been refunded.

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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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.

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 2014 and 2016 revenue bonds as well as the Operations and Maintenance assessment bonds. Through June 30, 2017, 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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.

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 XIII A of the California Constitution. Assessments are payable in equal installments on November 1 and February 1. They become delinquent after December 10 and April 10, respectively. The assessment date is July 1 and the lien date is January 1 of each year.

Special Capital Assessments

Special capital assessments are levied on parcels of property in the Capital Assessment 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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.

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 totals \$18,458,818 as of June 30, 2017 of which \$16,550,422 is related to the Early Implementation Plan with the California Department of Water Resources.

Deposits with others

Deposits with others consist of contract retentions. 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, 2017, deposits for contract retentions were \$49,553 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, 2017 the loss on debt refunding totaled \$13,338,201, 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, 2017 is \$1,076,207.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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 \$69,383.

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 \$16,550,422. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Prepaid Bond Insurance

Bond insurance is required by the issuance of the 2014 and 2016 revenue bonds in lieu of making a reserve fund deposit. As of June 30, 2017 prepaid bond insurance totaled \$176,228, 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

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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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, 2017, 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 SAFCA is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

As of June 30, 2017, 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 SAFCA's highest level of decision-making authority, SAFCA's Board of Directors. Commitments may be changed or lifted only by SAFCA 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 SAFCA 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 – FUND BALANCES AND NET POSITION, (Continued)

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, 2017, 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, 2017, the carrying amount of SAFCA's investments held by the County as part of the Treasurer's pool was \$54,820,701, of which \$50,702,336 is unrestricted and \$4,118,365 is restricted. The weighted average maturity of the Treasurer's pool was 277 days at June 30, 2017. 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 SAFCA'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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S Treasury Notes and Bills	5 years	100%	None
U.S. Government Agencies	5 years	100%	None
Single Issuer and Related Entities	5 years	80%	10%

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.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>
Held with fiscal agent:		
Treasury Bills	\$ 15,027,609	0.07
FFCB Discount Notes	40,138,783	0.41
FHLB Discount Notes	40,153,092	0.19
Total	<u>\$ 95,319,484</u>	

Credit Risk

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. For short-term investments, the issuers' rating must be A-1 and P-1, and the long-term rating must be A- and A3, respectively by Standard & Poor's and Moody's rating agencies. NR represents securities that are not rated.

<u>Investment Type</u>	<u>Amount</u>	<u>Ratings as of June 30, 2017</u>
Held with fiscal agent:		
Treasury Bills	\$ 15,027,609	Aaa/AA+
FFCB Discount Notes	40,138,783	Aaa/AA+
FHLB Discount Notes	40,153,092	Aaa/AA+
Total	<u>\$ 95,319,484</u>	

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of SAFCA's total investments are shown below as of June 30, 2017. All of the investments are reported in the Debt Service Fund.

<u>Investment Type</u>	<u>Description</u>	<u>Amount</u>	<u>Percentage of portfolio</u>
Treasury Bills	Government Securities	\$ 15,027,609	16%
FFCB Discount Notes	Government Securities	40,138,783	42%
FHLB Discount Notes	Government Securities	40,153,092	42%

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, 2017, 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

SAFCA 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.

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 SAFCA'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, SAFCA's proportionate share of investments in the County Pool at June 30, 2017 of \$50,702,336 in an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 – CASH AND INVESTMENTS (Continued)

The following table summarizes SAFCA's investments within the value hierarchy at June 30, 2017:

Investments by fair value level	Amount	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Treasury Bills	\$ 15,027,609		\$ 15,027,609	
FFCB Discount Notes	40,138,783		40,138,783	
FHLB Discount Notes	40,153,092		40,153,092	
Total debt securities	95,319,484	-	\$ 95,319,484	-
Total Investments by fair value level	\$ 95,319,484			

NOTE 5 – INTERFUND TRANSACTIONS

Interfund transfers

Interfund transfers during the year ended June 30, 2017 are summarized as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Transfer In:	\$ 900,000	\$ 10,427,305	\$ 7,314,024	\$ 18,641,329
Transfers Out:	(6,314,024)	(1,900,000)	(10,427,305)	(18,641,329)
Total	\$ (5,414,024)	\$ 8,527,305	\$ (3,113,281)	\$ -

SAFCA's General Fund made a transfer of \$492,138 to the Debt Service Fund for debt service payment for the 1996 Operations and Maintenance Bonds. Also a \$5,821,886 transfer to the Debt Service Fund for the CCAD No. 2 interest payment and a \$900,000 transfer from the NBLAD for CCAD No. 2 bond issuance costs. SAFCA Capital project fund made a transfer of \$1,000,000 to Debt Service Fund for CCAD No. 2 interest payment. SAFCA transferred \$10,427,305 from Debt Service Fund to Capital Projects Fund for capital project construction and to close out defeased bonds.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance at 6/30/2016	Additions	Retirement	Balance at 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 68,866,166	\$ 2,318,560		\$ 71,184,726
Permanent easement	758,120			758,120
	69,624,286	2,318,560	-	71,942,846
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	<u>\$ 69,624,286</u>	<u>\$ 2,318,560</u>	<u>\$ -</u>	<u>\$ 71,942,846</u>

NOTE 7 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2017:

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 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%	590,000
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 2016 Consolidated Capital Assessment District No. 2 Taxable Bonds Due October 1, 2018 through October 1, 2023 with interest rates ranging from 1.405% to 2.849%	25,700,000

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

Series 2016 Consolidated Capital Assessment District No. 2 Serial Bonds Due October 1, 2023 through October 1, 2036 with interest at 5.000%	103,205,000
Series 2016 Consolidated Capital Assessment District No. 2, 2041 Term Bonds Due October 1, 2037 through October 1, 2041 with interest at 5.000%	58,070,000
Series 2016 Consolidated Capital Assessment District No. 2, 2043 Term Bonds Due October 1, 2042 through October 1, 2043 with interest at 5.000%	27,495,000
Series 2016 Consolidated Capital Assessment District No. 2, 2047 Term Bonds Due October 1, 2044 through October 1, 2047 with interest at 5.000%	 63,725,000
Total long-term obligations	<u>\$315,095,000</u>

The aggregate amount of debt service on long-term debt outstanding at June 30, 2017 is as follows:

Year Ending June 30,	Principal	Interest
2018	\$ 5,625,000	\$ 15,022,407
2019	5,730,000	14,913,484
2020	5,860,000	14,777,762
2021	6,020,000	14,618,472
2022	6,195,000	14,444,105
2023-2027	34,840,000	67,934,317
2028-2032	42,700,000	58,512,750
2033-2037	54,500,000	46,679,125
2038-2042	69,560,000	31,574,500
2043-2047	66,950,000	12,101,500
2048	17,115,000	427,875
Total	<u>\$ 315,095,000</u>	<u>\$ 291,006,297</u>

On November 1, 1996, SAFCA 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%.

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. SAFCA 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 \$3,463,490, payable through November 2026. For Fiscal Year 2017, principal and interest paid and total revenues collected were \$220,000, \$165,090, and \$6,213,190, respectively.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

On May 28, 2014, the SAFCA 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 SAFCA'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 SAFCA on property in the SAFCA Natomas Basin Local Assessment District. SAFCA 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 SAFCA. The Series 2014 Bonds maturing on October 1, 2039, and October 1, 2044, are subject to mandatory sinking fund redemption by SAFCA. Total principal and interest remaining on the Natomas Basin Local Assessment District bonds, series 2014 is \$63,437,050 payable through October 2044. For Fiscal Year 2016, principal and interest paid and total revenues collected were \$575,000, \$1,713,225, and \$2,697,565, respectively.

On October 20, 2016, the SAFCA issued \$252,495,000 Consolidated Capital Assessment District No. 2 Bonds with an interest rate of 5.000% and \$25,700,000 (Federally Taxable) Consolidated Capital Assessment District No. 2 Bonds with interest rate ranging from 1.405% to 2.849%, pursuant to the Sacramento Area Flood Control Agency Act. The Series 2016 Bonds are secured by assessments levied by SAFCA on property in the SAFCA Consolidated Capital Assessment District No. 2. Proceeds of the Series 2016 Bonds will be used to provide funds to (i) refund in full SAFCA's outstanding Capital Assessment District Bonds, Series 2007A, Series 2008, Series 2012, and Consolidated Capital Assessment District Subordinated Bonds, Series 2015, (ii) finance certain flood control facilities; (iii) pay the cost of a debt service reserve insurance policy to be issued by Assured Guaranty Municipal Corp.; (iv) fund capitalized interest on a portion of the Series 2016 Bonds through October 1, 2017; and (v) pay costs of issuance of the Series 2016 Bonds. For Fiscal Year 2017, the total assessment revenues collected for the 2017 Consolidated Capital Assessment District No. 1 Bonds is \$18,413,351.

As a result, the Series 2007A, Series 2008, Series 2012 Capital Assessment District Bonds and the Series 2015 Consolidated Capital Assessment District Subordinated Bonds are considered to be defeased and the liability for those bonds has been removed from SAFCA financial statements. The advance refunding will result in reducing the debt service payments by \$15,561,793 to obtain an economic gain on the refunding (difference between the present value of the debt service payments on refunded debt and refund debt) of \$10,751,178

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)

Changes in long-term obligations for the fiscal year ended June 30, 2017 were as follows:

	July 1, 2016 Balance	Increase	Decrease	June 30, 2017 Balance	Due within one year
1996 Local Assessment District Bonds	\$ 2,910,000		\$ (220,000)	\$ 2,690,000	\$ 235,000
2007 Local Assessment District Bonds	74,590,000		(74,590,000)	-	-
2008 Local Assessment District Bonds	73,970,000		(73,970,000)	-	-
2012 Local Assessment District Bonds	34,980,000		(34,980,000)	-	-
2014 Local Assessment District Bonds	34,785,000		(575,000)	34,210,000	590,000
2015 Local Assessment District Bonds	16,505,000		(16,505,000)	-	-
2016 Local Assessment District Bonds	-	278,195,000	-	278,195,000	4,800,000
Subtotal	237,740,000	278,195,000	(200,840,000)	315,095,000	5,625,000
Deferred Amounts:					
2008 Issuance Discount	(1,039,368)		1,039,368	-	-
2007 Issuance Premium	1,214,899		(1,214,899)	-	-
2012 Issuance Premium	2,207,012		(2,207,012)	-	-
2014 Issuance Premium	3,816,572		(135,100)	3,681,472	135,100
2015 Issuance Premium	1,036,856		(1,036,856)	-	-
2016 Issuance Premium	-	35,407,927	(688,487)	34,719,440	1,180,265
Total	\$ 244,975,971	\$ 313,602,927	\$ (205,082,986)	\$ 353,495,912	\$ 6,940,365

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, 2017, 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 8 – OPERATING LEASES, (Continued)

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

Rental expenditures for the year ended June 30, 2017 were \$222,217.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 228,244
2019	234,277
2020	78,763
Total	<u>\$ 541,284</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2017, the County of Sacramento, a related party, owed SAFCA \$202,809 for interest earned on Treasury Deposits, and \$10,820 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 \$1,925,229.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017, 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 \$24,492,309 and is reported in the restricted fund balance.

Claims

In December of 2012, SAFCA received a claim from Nordic Industries Inc. in the amount of \$6,504,588 for additional costs impacts due to high water in the Sacramento River during the 2010-11 winter season; higher costs due to increased fuel and bentonite costs; and scheduling and sequencing changes. Nordic amended its claim March 8, 2013 to add \$458,242 for a total claim of \$6,962,900. The amended claim added costs for additional productivity losses, further increased fuel and bentonite costs, utility conflicts, and more scheduling and sequencing changes. SAFCA staff and legal and construction management consultants have been and are continuing to negotiate a settlement of Nordic's claim. Mediation was held in April 2015 but the parties were unable to settle the matter. The case is currently in the discovery phase of litigation. SAFCA believes a more realistic amount for Nordic's claim is \$2,000,000 and SAFCA has budgeted that amount.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	\$100,000 SIR applies to General Liability, Public Officials Liability and Automobile Liability	(1) CSAC Excess Insurance Authority (2) Various Insurers	7/1/16 - 7/1/17	(1) EIA-PE 14 EL 62
	(2) \$25,000,000 OEL			7/1/16 - 7/1/17	(2) PK1019616
	Total \$50,000,000				
Workers' Compensation and Employer's Liability (As Applicable)	WC - Statutory Employers' Liability \$5,000,000	\$3,000,000 SIR	CSAC Excess Insurance Authority	7/1/16 - 7/1/17	EIA 16EWC - 30
Property All Risk	\$7,893,899	\$1,000	Lexington Insurance	7/1/16 - 7/1/17	017471589/03
Boiler and Machinery (Included in Property Policy)	Included	\$2,500	Included	Included	017471589/03

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 – RISK MANAGEMENT, (Continued)

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 \$1,238,152 since June 30, 2016, going from \$15,312,270 to \$16,550,442.

NOTE 13 - 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>

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, 2017, are summarized as follows:

Hire Date	Miscellaneous	
	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%

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - DEFINED BENEFIT PENSION PLAN, (Continued)

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, 2017, employer contributions were \$213,806.

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

As of June 30, 2017, SAFCA reported net pension liabilities for its proportionate shares of the net pension liability of \$656,080.

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, 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, 2016 was .00758 percent, an increase of .007 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, SAFCA recognized pension expense of (\$10,772). At June 30, 2017, 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
Differences between actual and expected experience	\$ 7,160	\$ 1,641
Changes in assumptions	-	67,742
Net difference between projected and actual investment earnings on pension plan investments	352,579	-
Differences between employer's contributions and proportionate share of contributions	66,796	-
Change in proportion	435,866	-
Agency pension contributions made subsequent to measurement date	213,806	-
Total	<u>\$ 1,076,207</u>	<u>\$ 69,383</u>

The amount of \$213,806 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLAN, (Continued)

<u>Year ended June 30</u>	
2018	\$ 203,111
2019	209,842
2020	288,742
2021	91,323
	<u>\$ 793,018</u>

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations was determined using the following assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
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

(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, 2015 valuation were based on the results of an 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, 2016 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - DEFINED BENEFIT PENSION PLAN, (Continued)

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, 2015.

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	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	1%	-0.55%	-1.05%
Total	100%		

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:

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 13 - DEFINED BENEFIT PENSION PLAN, (Continued)

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 998,196
Current Discount Rate	7.65%
Net Pension Liability	\$ 656,080
1% Increase	8.65%
Net Pension Liability	\$ 374,421

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 14 – SUBSEQUENT EVENTS

On November 1, 2017, SAFCA optionally called the 1996 Operations and Maintenance Assessment District No. 1 bonds in the amount of \$2,769,355.

NOTE 15 – FUTURE GASB PRONOUNCEMENTS

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning after June 15, 2017, or the 2017-2018 fiscal year. SAFCA has not determined the effect of the statement.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year. SAFCA has not determined the effect of the statement.

GASB Statement No. 83 – In November 2016, GASB issued 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.

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 15 – FUTURE GASB PRONOUNCEMENTS, (Continued)

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-2019 fiscal year. Earlier application is encouraged. SAFCA has not determined the effect of the statement.

GASB Statement No. 84 - In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-2020 fiscal year. SAFCA has not determined the effect of the statement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. SAFCA has not determined the effect of the statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. SAFCA has not determined the effect of the statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. SAFCA has not determined the effect of the statement.

**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, 2017**

	Budgeted amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Special benefit assessments	\$ 6,300,000	\$ 6,300,000	\$ 6,213,190	\$ (86,810)
Intergovernmental			-	-
Aid from other governments	1,000,000	1,000,000	2,481,906	1,481,906
Interest and Other Income	20,000	20,000	81,418	61,418
Total revenues	7,320,000	7,320,000	8,776,514	1,456,514
EXPENDITURES				
Current:				
Public protection	7,533,676	7,533,676	7,372,694	160,982
Total expenditures	7,533,676	7,533,676	7,372,694	160,982
Excess (deficiency) of revenues over (under) expenditures	(213,676)	(213,676)	1,403,820	1,617,496
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	900,000	900,000
Transfers Out	(7,800,000)	(7,800,000)	(6,314,024)	1,485,976
Total other financing sources (uses)	(7,800,000)	(7,800,000)	(5,414,024)	2,385,976
NET CHANGE IN FUND BALANCE	\$ (8,013,676)	\$ (8,013,676)	\$ (4,010,204)	\$ 4,003,472

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***

	<u>2017</u>	<u>2016</u>
SAFCA's proportion of the net pension liability	0.0189%	0.0016%
SAFCA's proportionate share of the net pension liability	\$ 656,080	\$ 42,852
SAFCA's covered payroll	\$ 1,498,016	\$ 124,835
SAFCA's proportionate Share of the net pension liability as a percentage of its covered payroll	43.80%	34.33%
Plan fiduciary net position as a percentage of the total pension liability	75.87%	78.40%
Measurement date	June 30, 2016	June 30, 2015

*Fiscal year 2016 was the first year of implementation, therefore, only two years are shown.

See note to the required supplementary information

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

	<u>2017</u>	<u>2016</u>
Actuarially determined contributions	\$ 213,806	\$ 179,319
Contributions in relation to the actuarially determined contribution	<u>213,806</u>	<u>179,319</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 1,732,171	 \$ 1,498,016
 Contribution as a percentage of covered payroll	 12.34%	 11.97%

*Fiscal year 2016 was the first year of implementation, therefore, only two years are shown.

See note to the required supplementary information

**SACRAMENTO AREA FLOOD CONTROL AGENCY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 – BUDGET

SAFCA'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.

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**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 (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Agency's basic financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 13, 2017



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**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 (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Agency's basic financial statements and have issued our report thereon dated December 13, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that Agency 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, the Series 2015 Capital Assessment District Bonds, Resolution No. 2015-096, Article VII, Sections 7.01 to 7.12, and the Series 2016 Consolidated Capital Assessment No. 2 Bonds, Resolution No. 2016-108, 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 Agency'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 Agency and its Board of Directors and it not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 13, 2017

