

**SACRAMENTO AREA FLOOD CONTROL AGENCY**

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

For the Fiscal Year Ended June 30, 2010

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**For the Fiscal Year Ended June 30, 2010**

*Table of Contents*

|  | <i>Page(s)</i> |
|--|----------------|
| <b>Independent Auditor's Report .....</b>  | <b>1-2</b>     |
| <b>Management's Discussion and Analysis (Required Supplementary Information).....</b>        | <b>3-10</b>    |
| <b>Basic Financial Statements:</b>   |                |
| Government-wide Financial Statements:  |                |
| Statement of Net Assets (Deficit) – Governmental Activities.....                             | 11             |
| Statement of Activities – Governmental Activities .....                                      | 12             |
| Fund Financial Statements:   |                |
| Governmental Funds:  |                |
| Balance Sheet .....  | 13             |
| Statement of Revenues, Expenditures and Changes in Fund Balances .....                       | 14             |
| Notes to the Basic Financial Statements .....  | 15-30          |
| <b>Required Supplementary Information:</b>   |                |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund               |                |
| Budget and Actual .....  | 31             |
| Notes to the Required Supplementary Information .....  | 32             |
| <b>Supplemental Information:</b>   |                |
| Nonmajor Governmental Funds:   |                |
| Combining Balance Sheet.....   | 33             |
| Combining Statement of Revenues, Expenditures  |                |
| and Changes in Fund Balances .....   | 34             |
| <b>Other Reports:</b>  |                |
| Independent Auditor's Report on Internal Control Over Financial                              |                |
| Reporting and on Compliance and Other Matters Based on an Audit of                           |                |
| Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 35-36          |
| Independent Auditor's Report on Compliance with Bond Covenants .....                         | 37             |

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sacramento Area Flood Control Agency  
Sacramento, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2010, which collectively comprise SAFCA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SAFCA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010, on our consideration of SAFCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and General Fund budgetary comparison information on pages 3 through 10 and 31 through 32, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Vavrinick, Trine, Day & Co. LLP*

Sacramento, California

November 30, 2010

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010. Please read it in conjunction with SAFCA's basic financial statements following this section.

**Financial Highlights**

- The liabilities of SAFCA exceeded its assets at the 2009-2010 fiscal year by \$(31,486,199) (*deficit net assets*). The unrestricted net assets for the current fiscal year amount to \$(75,800,812) due to the fact that SAFCA issued bonds to improve existing levees, but the levees are owned by other entities. Restricted net assets totaled \$44,314,613 and are invested in capital assets.
- SAFCA's total net assets increased by \$16,889,774 during fiscal year 2009-2010. This increase was attributable to reimbursements received from the State of California, Department of Water Resources related to the Consolidated Capital Assessment District Project (CCAD).
- As of the 2009-2010 fiscal year, SAFCA's governmental funds reported ending fund balances of \$93,228,340 a decrease of \$(1,398,096) in comparison with the prior year due to the expenditures of the Consolidated Capital Assessment District Project (CCAD). Approximately 18% of this total amount, \$17,067,443 is *available for spending* at the Agency's discretion (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$3,230,982.
- SAFCA's total debt decreased by \$3,180,881 during the current fiscal year. This decrease is due to the principal payment of the O&M Bond and Consolidated Capital Assessment District Bond, Series 2007 and 2008.

**Overview of the Financial Statements**

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

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

The *statement of net assets* presents information on all of SAFCA's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SAFCA is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The statement of activities distinguish functions of SAFCA that are principally supported by charges for services and capital grants and contributions (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs. The governmental activities of SAFCA include public protection, and public ways and facilities.

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

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

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

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

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of SAFCA, liabilities exceeded assets by \$31,486,199 at the end of the 2009-2010 fiscal year.

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

|                                   | <u>2010</u>            | <u>2009</u>            |
|-----------------------------------|------------------------|------------------------|
| Assets:                           |                        |                        |
| Current and other assets          | \$ 113,403,985         | \$ 116,432,825         |
| Capital assets, net               | <u>44,314,613</u>      | <u>29,077,157</u>      |
| Total assets                      | <u>157,718,598</u>     | <u>145,509,982</u>     |
| Liabilities:                      |                        |                        |
| Long-term liabilities outstanding | 171,444,030            | 174,624,911            |
| Other liabilities                 | <u>17,760,767</u>      | <u>19,261,044</u>      |
| Total liabilities                 | <u>189,204,797</u>     | <u>193,885,955</u>     |
| Net assets (deficit):             |                        |                        |
| Invested in capital assets        | 44,314,613             | 29,077,157             |
| Unrestricted                      | <u>(75,800,812)</u>    | <u>(77,453,130)</u>    |
| Total net assets (deficit)        | <u>\$ (31,486,199)</u> | <u>\$ (48,375,973)</u> |

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

SAFCA issued bonds to acquire land and to improve existing levees, with the majority of the land and levees owned by other entities. Therefore, negative net assets are recorded. The current and other assets decreased \$3,028,840 mainly due to the expenditure and operation of the CCAD. Total liabilities decreased \$4,681,158 due to the principal payment of O&M bond, CCAD Bond, Series 2007 & 2008, and Hansen Ranch loan. Total invested in capital assets, net of related debt increased \$15,237,456 due to new acquisition of land related to the CCAD Project.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Governmental activities.** Governmental activities increased SAFCA's net assets by \$16,889,774 during the year.

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

|   | <u>2010</u>            | <u>2009</u>            |
|---|------------------------|------------------------|
| Program revenues:                                     |                        |                        |
| Charges for services                                  | \$ 25,084,625          | \$ 24,404,787          |
| Capital grants and contributions                      | 84,235,153             | 48,637,208             |
| Total program revenues                                | <u>109,319,778</u>     | <u>73,041,995</u>      |
| General revenues:                                     |                        |                        |
| Intergovernmental not restricted to specific programs | -                      | 153,935                |
| Interest and other income                             | 1,101,825              | 8,798,341              |
| Total general revenues                                | <u>1,101,825</u>       | <u>8,952,276</u>       |
| Total revenues  | <u>110,421,603</u>     | <u>81,994,271</u>      |
| Expenses:   |                        |                        |
| Public protection                                     | 4,173,845              | 4,143,386              |
| Public ways and facilities                            | 80,515,200             | 67,845,764             |
| Interest  | 8,842,784              | 7,689,751              |
| Total expenses  | <u>93,531,829</u>      | <u>79,678,901</u>      |
| Change in net assets                                  | 16,889,774             | 2,315,370              |
| Net assets (deficit), beginning of year               | (48,375,973)           | (50,691,343)           |
| Net assets (deficit), end of year                     | <u>\$ (31,486,199)</u> | <u>\$ (48,375,973)</u> |

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

- Capital grants and contributions increased by \$35,597,945 (73%) during the year. This increase was due to the State of California Department of Water Resource's contributions for the Natomas Cross Canal South Levee Early implementation Project.
- Intergovernmental revenue not restricted to specific programs decreased by \$153,935 (100%) during the year. There was no aid from other local governments during the year.
- Interest and other income decreased by \$7,696,516 (87%) during the year primarily due to premium on debt issuance, spending of debt proceeds, and low investment interest earnings.
- Public ways and facilities expenditures increased by \$12,669,436 (19%) during the year due to an increase in capital asset acquisitions and construction contracts services related to the CCAD project.

**Financial Analysis of the Government's Funds**

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

**Governmental funds.** The focus of SAFCA's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing SAFCA's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

At June 30, 2010, SAFCA's governmental funds reported combined fund balances of \$93,228,340 a decrease of \$(1,398,096) in comparison with the prior year. Approximately 18% of this total amount, \$17,067,443 is *available for spending* at the Agency's discretion (*unreserved fund balance*), which is available to meet SAFCA's current and future needs. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has been committed: 1) to reserve for encumbrances (\$63,729,310) 2) to pay debt service (\$12,165,710) and 3) Hansen Ranch (\$265,877).

The **General Fund** is the chief operating fund of SAFCA. As of June 30, 2010, unreserved, designated, fund balance of the General Fund, was \$3,230,982, while total fund balance was \$7,331,115. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, designated, fund balance and total fund balance to total fund expenditures. Unreserved, designated, fund balance represents 73% of total General Fund expenditures, while total fund balance represents 166% of that same amount. The fund balance of SAFCA's General Fund increased by \$1,651,899 during fiscal year 2010 was mainly due to decreased usage of water resource services, legal services and environmental services.

The **North Area Local Project Fund** is one the major capital project fund of SAFCA. As of June 30, 2010, unreserved, designated, fund balance of the North Area Local Project, was \$1,641,908, while total fund balance was \$5,122,230. As a measure of the North Area Local Fund's liquidity, it may be useful to compare both unreserved, designated, fund balance and total fund balance to total fund expenditures. Unreserved, designated, fund balance represents 182% of total North Area Local Fund expenditures, while total fund balance represents 569% of that same amount. The fund balance of the North Area Local Project Fund decreased by \$897,819 during fiscal year 2010 was mainly due to land acquisitions related to the North Area Local Project.

The **Consolidated Capital Assessment District Fund** is the largest capital projects fund of SAFCA. As of June 30, 2010, unreserved, designated, fund balance of the CCAD Fund, was \$11,849,178, while total fund balance was \$68,263,910. The CCAD is the consolidation of two capital assessment districts in order to fairly apportion among benefiting property owners. The purpose of this project is improve levees and ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-year or greater) for the Sacramento area. The fund balance of the CCAD Fund decreased by \$(3,070,036) during fiscal year 2010 was mainly due to land acquisitions and construction contracts related to the CCAD project.

The **Consolidated Capital Assessment Debt Service funds** have a total fund balance of \$11,383,759 all of which is reserved for the payment of debt service. The fund balance increased by \$758,870 during fiscal year 2010 was due to an increase of direct levy tax collections.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Total Governmental Funds:**

|                                 | FY 2010               |                  | FY 2009           |                  | Increase/Decrease    |                  |
|---------------------------------|-----------------------|------------------|-------------------|------------------|----------------------|------------------|
|                                 | Amount                | Percent of Total | Amount            | Percent of Total | Amount               | Percent of Total |
| <b>Revenues by Source</b>       |                       |                  |                   |                  |                      |                  |
| Special benefit assessments     | \$ 6,260,466          | 5.7%             | 6,217,148         | 7.6%             | \$ 43,318            | 0.7%             |
| Special capital assessments     | 18,824,159            | 17.1%            | 18,187,639        | 22.2%            | 636,520              | 3.5%             |
| Capital Grants & Contributions  | 84,235,153            | 76.3%            | 48,637,208        | 59.3%            | 35,597,945           | 73.2%            |
| Intergovernmental               | -                     | 0.0%             | 153,935           | 0.2%             | (153,935)            | -100.0%          |
| Interest and other income       | 1,101,825             | 1.0%             | 8,798,341         | 10.7%            | (7,696,516)          | -87.5%           |
| Total revenues                  | <u>\$ 110,421,603</u> | <u>100.0%</u>    | <u>81,994,271</u> | <u>100.0%</u>    | <u>\$ 28,427,332</u> | <u>35.0%</u>     |
| <b>Expenditures by Function</b> |                       |                  |                   |                  |                      |                  |
| Public protection               | \$ 4,173,845          | 3.7%             | 4,143,386         | 4.4%             | \$ 30,459            | 0.7%             |
| Public ways and facilities      | 95,494,859            | 85.4%            | 78,183,191        | 82.9%            | 17,311,668           | 22.1%            |
| Miscellaneous                   | 92,458                | 0.1%             | -                 | 0.0%             | 92,458               | 100.0%           |
| Bond issuance cost              | -                     | 0.0%             | 3,504,025         | 3.7%             | (3,504,025)          | -100.0%          |
| Principal on long-term debt     | 3,180,668             | 2.8%             | 1,872,985         | 2.0%             | 1,307,683            | 69.8%            |
| Interest on long-term debt      | 8,877,869             | 7.9%             | 6,627,453         | 7.0%             | 2,250,416            | 34.0%            |
| Total expenditures              | <u>\$ 111,819,699</u> | <u>100.0%</u>    | <u>94,331,040</u> | <u>100.0%</u>    | <u>\$ 17,488,659</u> | <u>19.0%</u>     |

Bond issuance cost decreased by \$3,504,025 due to no bond issuance this year. Principal and interest on long-term debt increased by \$1,307,683 and \$2,250,416, respectively due to principal payment made for the 2007 & 2008 bonds and the Hansen Ranch loan. The Capital grants and contribution revenue had an increase of \$35,597,945 primarily due to contributions from the State of California Department of Water Resources related to the CCAD project. Interest and other income revenue had a decrease of \$7,696,516 due to premium on debt issuance, spending of debt proceeds, and low investment interest earnings of the 2007 and 2008 bonds. Public ways and facilities expenditure increases by \$17,311,668 were due to increase capital asset acquisitions, construction contracts, and engineering services related to the CCAD project.

**General Fund Budgetary Highlights**

During the year, actual revenues were higher than final budgeted amount by \$66,438. Actual expenditures were more than budgetary estimates by \$1,576,768. The increase in public protection expenditures of \$1,576,768 during the year was primarily due to the increase in usage of public work services and O&M activities.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Capital Asset and Debt Administration**

**Capital Assets** - SAFCA's investments in capital assets for its governmental activities as of June 30, 2010 amount to \$44,314,613 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, and equipment. The total increase in the SAFCA's investment in capital assets for the current fiscal year was 52%, or \$15,237,456. This increase was due to land acquisitions related to the CCAD project. SAFCA keeps records of all assets for governmental activities.

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

|                     | <u>2010</u>          | <u>2009</u>          |
|---------------------|----------------------|----------------------|
| Land                | \$ 44,258,213        | \$ 29,073,535        |
| Permanent Easements | 55,675               | -                    |
| Equipment           | 725                  | 3,622                |
| Total               | <u>\$ 44,314,613</u> | <u>\$ 29,077,157</u> |

Additional information on SAFCA's capital assets can be found in **Note 5** on page 23 of the Notes to the Basic Financial Statements.

**Long-term debt** - At the end of the current fiscal year, SAFCA had revenue bonds and loans outstanding of \$172,055,000. The majority amount of SAFCA's debt represents bonds secured by the Consolidated Capital Assessment District and Operations & Maintenance Assessment Districts. Additional information on long-term debt can be found in **Note 6** on pages 24-26 of the Notes to the Basic Financial Statements.

**Summary of Outstanding Long Term Obligations**

|                     | <u>Fiscal Years Ended June 30,</u><br><u>2010</u> | <u>2009</u>           |
|---------------------|---|-----------------------|
| Revenue Bonds       | \$ 172,055,000                                    | \$ 174,995,000        |
| Loans               |   | 240,668               |
| Add: Premium on     |   |                       |
| Bonds Payable       | 2,024,829   | 2,159,817             |
| Less: Discount on   |   |                       |
| Bonds Payable       | (1,322,832)                                       | (1,370,076)           |
| Less: Deferred      |   |                       |
| Amount on Refunding | (1,312,967)                                       | (1,400,498)           |
| Totals              | <u>\$ 171,444,030</u>                             | <u>\$ 174,624,911</u> |

**Economic Factors and Next Year's Budgets and Rates**

The fiscal year 2010-11 Final Budget was adopted by SAFCA's Board of Directors on June 17, 2010. The budget supports SAFCA's continuing efforts to address the region's flood control needs during the coming year and is consistent with the objectives of SAFCA's current Strategic Plan. SAFCA's Strategic Plan identifies the efforts which SAFCA will undertake to ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-year or greater) for the Sacramento area.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The proposed means of financing some of the \$159.24 million in budgeted expenditures for fiscal year 2010-11 includes:

- Actual prior year fund balances:
  - Operations & Maintenance Assessment District Fund: \$3,327,253
  - North Area Local Project Capital Fund: \$1,641,908
  - Consolidated Capital Assessment District Fund: \$11,932,935
  - Develop Impact Fee Fund: \$351,409
- Actual interest earnings:
  - Operations & Maintenance Assessment District Fund: \$20,000
  - North Area Local Project Capital Fund: \$45,000
  - Consolidated Capital Assessment District Fund: \$300,000
- Assessments:
  - Operations & Maintenance Assessment District Fund: \$6,300,000
  - Consolidated Capital Assessment District Fund: \$6,600,000
- State Aid: \$127,772,524
- Development Impact Fees: \$200,000
- Miscellaneous: \$741,800
- Contributions: \$6,500

The following assumptions were made in preparing the 2010-11 Budget:

- The Operations & Maintenance assessment rates will remain at current (2009-10) levels.
- Consolidated Capital Assessment District rates will be levied at the maximum rate specified on the formula set forth in the Final Engineer's Report.
- Although NALP Assessment District No.2 assessment collections have been terminated, we are required to maintain funds in this account to discharge remaining NALP obligations, total estimated expenditure of \$1,400,000, and an estimated reserve provision of \$2,400,000.
- SAFCA will receive the full amount of the \$245,000,000 in State funding that has been appropriated by the Legislature for the State share of the cost of the NLIP, and is being provided to SAFCA on a reimbursement basis.
- SAFCA is currently pursuing Federal authorization of the NLIP, if this authorization is secured and NLIP construction proceeds as anticipated in the budget, SAFCA could receive up to \$79,000,000 in Federal credits that could be used to offset the Agency's required contributions to future phases of the NLIP.

#### **Administrative**

On July 3, 2010, SAFCA hired a new Deputy Director. The Deputy Director has 18+ years working directly on projects devoted to improving flood safety in and around the Sacramento Area. He brings a dedication to public service, as well as a wealth of experience and insight in dealing with major flood control projects, flood emergencies, reservoir operations, inter-agency cooperation, public hearings, and federal legislation. SAFCA's Executive Director resigned effective October 29, 2010 and the new Deputy Director serves as the Interim Executive Director while the Board decides on how to proceed with the filling this position.

#### **Requests for Information**

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**STATEMENT OF NET ASSETS (DEFICIT) – GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2010**

**ASSETS**

|  |                    |
|--|--------------------|
| Cash and investments                       | \$ 90,997,976      |
| Interest receivable                        | 270,204            |
| Due from other governments                 | 10,684,542         |
| Deposit with others                        | 6,864,548          |
| Deferred charge                            | 4,586,715          |
| Capital assets:                            |                    |
| Land                                       | 44,258,213         |
| Permanent easement                         | 55,675             |
| Equipment, net of accumulated depreciation | 725                |
| Total Capital Assets                       | <u>44,314,613</u>  |
| Total Assets                               | <u>157,718,598</u> |

**LIABILITIES**

|                           |                    |
|---------------------------|--------------------|
| Warrants payable          | 12,004,065         |
| Accounts payable          | 3,551,758          |
| Due to other governments  | 33,107             |
| Accrued interest payable  | 2,171,837          |
| Long-term liabilities:    |                    |
| Due within one year       | 3,080,214          |
| Due in more than one year | <u>168,363,816</u> |
| Total Liabilities         | <u>189,204,797</u> |

**NET ASSETS (DEFICIT)**

|                            |                        |
|----------------------------|------------------------|
| Invested in capital assets | 44,314,613             |
| Unrestricted               | <u>(75,800,812)</u>    |
| Total Net Assets (Deficit) | <u>\$ (31,486,199)</u> |

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

|                               | Program Revenues     |                         |  | Net (Expense)<br>Revenue and<br>Change in Net<br>Assets |
|-------------------------------|----------------------|-------------------------|--|---|
|                               | Expenses             | Charges for<br>Services | Capital Grants<br>and<br>Contributions |   |
| Functions/Programs            |                      |                         |  |   |
| Public protection             | \$ 4,173,845         | \$ 6,260,466            | \$ -                                   | \$ 2,086,621  |
| Public ways and facilities    | 80,515,200           | 18,824,159              | 84,235,153                             | 22,544,112  |
| Interest                      | 8,842,784            | -                       | -                                      | (8,842,784)   |
| Total governmental activities | <u>\$ 93,531,829</u> | <u>\$ 25,084,625</u>    | <u>\$ 84,235,153</u>                   | <u>15,787,949</u>                                       |
| General Revenues:             |                      |                         |  |   |
| Interest and other income     |                      |                         |  | <u>1,101,825</u>  |
| Total general revenues        |                      |                         |  | <u>1,101,825</u>  |
| Change in net assets          |                      |                         |  | 16,889,774  |
| Net assets (deficit) - July 1 |                      |                         |  | <u>(48,375,973)</u>                                     |
| Net assets (deficit), June 30 |                      |                         |  | <u><u>\$(31,486,199)</u></u>                            |

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

|  |                     | Capital Projects Funds      |  | Debt Service                            |                                   |                             |
|--|---------------------|-----------------------------|--|---|-----------------------------------|-----------------------------|
|  | General Fund        | North Area<br>Local Project | Consolidated<br>Capital<br>Assessment Fund | Consolidated Capital<br>Assessment Fund | Nonmajor<br>Governmental<br>Funds | Total Governmental<br>Funds |
| <b>ASSETS</b>  |                     |                             |  |   |                                   |                             |
| Cash and investments   | \$ 7,822,625        | \$ 5,122,429                | \$ 65,627,205                              | \$ 11,291,035                           | \$ 1,134,682                      | \$ 90,997,976               |
| Interest receivable  | 44,136              | -                           | 200,187                                    | 24,600                                  | 1,281                             | 270,204                     |
| Deposits with others   | -                   | -                           | 6,864,548                                  | -                                       | -                                 | 6,864,548                   |
| Due from other governments   | 20,206              | -                           | 10,596,212                                 | 68,124                                  | -                                 | 10,684,542                  |
| <b>Total Assets</b>  | <b>\$ 7,886,967</b> | <b>\$ 5,122,429</b>         | <b>\$ 83,288,152</b>                       | <b>\$ 11,383,759</b>                    | <b>\$ 1,135,963</b>               | <b>\$ 108,817,270</b>       |
| <b>LIABILITIES AND FUND BALANCES</b>   |                     |                             |  |   |                                   |                             |
| <b>Liabilities:</b>  |                     |                             |  |   |                                   |                             |
| Warrants payable   | \$ 538,201          | \$ 199                      | \$ 11,457,063                              | \$ -                                    | \$ 8,602                          | \$ 12,004,065               |
| Accounts payable   | -                   | -                           | 3,551,758                                  | -                                       | -                                 | 3,551,758                   |
| Due to other governments   | 17,651              | -                           | 15,421                                     | -                                       | 35                                | 33,107                      |
| <b>Total Liabilities</b>   | <b>555,852</b>      | <b>199</b>                  | <b>15,024,242</b>                          | <b>-</b>                                | <b>8,637</b>                      | <b>15,588,930</b>           |
| <b>Fund balances:</b>  |                     |                             |  |   |                                   |                             |
| <b>Reserved for:</b>   |                     |                             |  |   |                                   |                             |
| Encumbrances   | 3,834,256           | 3,480,322                   | 56,414,732                                 | -                                       | -                                 | 63,729,310                  |
| Debt Service   | -                   | -                           | -  | 11,383,759                              | 781,951                           | 12,165,710                  |
| Hanson Ranch   | 265,877             | -                           | -  | -                                       | -                                 | 265,877                     |
| <b>Unreserved, undesignated reported in:</b>   |                     |                             |  |   |                                   |                             |
| General Fund   | 3,230,982           | -                           | -  | -                                       | -                                 | 3,230,982                   |
| Capital project fund   | -                   | 1,641,908                   | 11,849,178                                 | -                                       | 345,375                           | 13,836,461                  |
| <b>Total Fund Balances</b>   | <b>7,331,115</b>    | <b>5,122,230</b>            | <b>68,263,910</b>                          | <b>11,383,759</b>                       | <b>1,127,326</b>                  | <b>93,228,340</b>           |
| <b>Total Liabilities and Fund Balances</b>   | <b>\$ 7,886,967</b> | <b>\$ 5,122,429</b>         | <b>\$ 83,288,152</b>                       | <b>\$ 11,383,759</b>                    | <b>\$ 1,135,963</b>               |                             |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                     |                             |  |   |                                   |                             |
| Costs of issuance are deferred in the statement of net assets and reported as expenditures in the fund financial statements                |                     |                             |  |   |                                   | 4,586,715                   |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds                     |                     |                             |  |   |                                   | 44,314,613                  |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds                           |                     |                             |  |   |                                   | (2,171,837)                 |
| Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: |                     |                             |  |   |                                   | (171,444,030)               |
| Net assets (deficit) of governmental activities  |                     |                             |  |   |                                   | <u>\$ (31,486,199)</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, 2010**

|   |                  | Capital Project Fund     |                                      | Debt Service Fund                    |                | Nonmajor Governmental Funds | Total Governmental Funds |
|---|------------------|--------------------------|--------------------------------------|--------------------------------------|----------------|-----------------------------|--------------------------|
|   | General Fund     | North Area Local Project | Consolidated Capital Assessment Fund | Consolidated Capital Assessment Fund |                |                             |                          |
| <b>REVENUES</b>   |                  |                          |                                      |                                      |                |                             |                          |
| Special benefit assessments                               | \$ 6,260,466     | \$ -                     | \$ -                                 | \$ -                                 | \$ -           | \$ -                        | \$ 6,260,466             |
| Special capital assessments                               | -                | -                        | 511,646                              | 18,312,513                           | -              | -                           | 18,824,159               |
| Intergovernmental   | -                | -                        | 84,235,153                           | -                                    | -              | -                           | 84,235,153               |
| Interest and other income                                 | 130,772          | 2,209                    | 597,424                              | 61,109                               | 310,311        |                             | 1,101,825                |
| <b>Total Revenues</b>                                     | <b>6,391,238</b> | <b>2,209</b>             | <b>85,344,223</b>                    | <b>18,373,622</b>                    | <b>310,311</b> |                             | <b>110,421,603</b>       |
| <b>EXPENDITURES</b>                                       |                  |                          |                                      |                                      |                |                             |                          |
| Current:  |                  |                          |                                      |                                      |                |                             |                          |
| Public protection   | 4,173,845        | -                        | -                                    | -                                    | -              | -                           | 4,173,845                |
| Public ways and facilities                                | -                | 900,028                  | 94,520,627                           | -                                    | 74,204         | -                           | 95,494,859               |
| Miscellaneous   | -                | -                        | -                                    | 92,458                               | -              | -                           | 92,458                   |
| Debt service:   |                  |                          |                                      |                                      |                |                             |                          |
| Principal   | 240,668          | -                        | -                                    | 2,790,000                            | 150,000        | -                           | 3,180,668                |
| Interest  | 12,033           | -                        | -                                    | 8,625,926                            | 239,910        | -                           | 8,877,869                |
| <b>Total Expenditures</b>                                 | <b>4,426,546</b> | <b>900,028</b>           | <b>94,520,627</b>                    | <b>11,508,384</b>                    | <b>464,114</b> |                             | <b>111,819,699</b>       |
| Excess (deficiency) of revenues over (under) expenditures | 1,964,692        | (897,819)                | (9,176,404)                          | 6,865,238                            | (153,803)      |                             | (1,398,096)              |
| <b>OTHER FINANCING SOURCES (USES)</b>                     |                  |                          |                                      |                                      |                |                             |                          |
| Transfers in  | -                | -                        | 6,150,023                            | 43,655                               | 702,634        | -                           | 6,896,312                |
| Transfers out   | (312,793)        | -                        | (43,655)                             | (6,150,023)                          | (389,841)      | -                           | (6,896,312)              |
| <b>Total Other Financing Sources (Uses)</b>               | <b>(312,793)</b> | <b>-</b>                 | <b>6,106,368</b>                     | <b>(6,106,368)</b>                   | <b>312,793</b> |                             | <b>-</b>                 |
| <b>NET CHANGE IN FUND BALANCES</b>                        | <b>1,651,899</b> | <b>(897,819)</b>         | <b>(3,070,036)</b>                   | <b>758,870</b>                       | <b>158,990</b> |                             | <b>(1,398,096)</b>       |
| Fund balances - July 1                                    | 5,679,216        | 6,020,049                | 71,333,946                           | 10,624,889                           | 968,336        |                             |                          |
| Fund balances - June 30                                   | \$ 7,331,115     | \$ 5,122,230             | \$ 68,263,910                        | \$ 11,383,759                        | \$ 1,127,326   |                             |                          |

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays, less retirements (\$15,240,353) exceeded depreciation (\$2,897) in the current period.

15,237,456

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

|                           |           |           |
|---------------------------|-----------|-----------|
| Repay of Loan (principal) | 240,668   |           |
| Repay of debt (principal) | 2,940,000 | 3,180,668 |

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 premium            | 134,989   |           |
| Current year amortization of discount           | (47,244)  |           |
| Current year amortization of loss of refunding  | (87,531)  |           |
| Current year amortization of Bond issuance cost | (165,553) |           |
| Change in accrued interest payable              | 35,085    | (130,254) |

Change in net assets of governmental activities

\$ 16,889,774

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, 2010**

**NOTE 1 – REPORTING ENTITY**

**Authorized Legislation and Organization**

The Sacramento Area Flood Control Agency (SAFCA), which was created effective January 1, 1990 pursuant to Section 6500 of the California State Government Code and the provisions of a Joint Exercise of Powers Agreement, is a political subdivision of the State of California. SAFCA is a jointly governed organization under GASB Statement No. 14, *The Financial Reporting Entity*. Parties to this agreement are the City of Sacramento, County of Sacramento, Reclamation District No. 1000, American River Flood Control District, and County of Sutter. SAFCA was formed to plan, coordinate and finance regional flood protection improvements in the Sacramento area. SAFCA is governed by a Board of Directors, which is composed of five members from the Sacramento County Board of Supervisors, three members from the Sacramento City Council, two trustees from the American River Flood Control District, two trustees from Reclamation District No. 1000, and one member from the Sutter County Board of Supervisors. In addition, SAFCA contracts with Sacramento County and the City of Sacramento for its employees.

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

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

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

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

*Government-wide Financial Statements*

The statement of net assets and statement of activities display information about the primary government (SAFCA). These statements include the financial activities of the overall government. The statement of activities presents direct expenses and program revenues for each function of SAFCA's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including interest, other income and intergovernmental, are presented instead as general revenues.

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

*Fund Financial Statements*

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

SAFCA reports the following major governmental funds:

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

The *North Area Local Project Fund* (NALP) is a capital projects fund used to account for the bond proceeds and the accumulation of other resources for, and expenditures relating to the Sacramento Urban Area Levee Restoration Project and the NALP.

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

The *Consolidated Capital Assessment* (CCAP AD) is a debt service fund used to account for all proceeds received from the annual levy and collection of assessments account when received. The monies in the Consolidated Capital Assessment are used to punctually pay interest, principal and redemption premiums on the Consolidated Capital Assessment Fund, Series 2007 and 2008. Through June 30, 2010, the CCAP AD funded all principal and interest payments as scheduled.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which SAFCA gives (or receives) value without directly receiving (or giving) equal value in exchange, include special assessments, grants, entitlements and donations. On an accrual basis, revenue from special assessments is recognized in the fiscal year for which the assessments are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Special assessments, interest and certain state and federal grants are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital assets acquisitions are reported expenditures in governmental funds. Proceeds of general long-term debt and the sale of capital assets are reported as other financing sources.

**Cash and Investments**

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

Cash and investments in SAFCA's investment pools are presented at fair value. Investment policies and related credit, custodial credit, concentration of credit, and interest rate risk applicable to the Agency's pooled funds are those of the County and are disclosed in the County's basic financial statements. The County Treasurer's investment pool is subject to oversight by the Treasury Oversight Committee.

**Capital Assets**

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

Maintenance and repair costs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

The intangible asset class includes permanent easements.

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

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

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

**Special Benefit Assessments**

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

**Special Capital Assessments**

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

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

**Development Impact Fee**

The Counties of Sacramento and Sutter collect the Development Impact Fee (DIF) 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 County, the collections are deposited into SAFCA's separate Development Impact Fee Fund.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**Receivables**

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

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

**Deposits with others**

Deposits with others consist of deposits with the State of California's Condemnation Fund. The disposition of these funds is determined by judicial order. Typically, the funds are applied to the purchase of condemned land or returned to SAFCA. As of June 30, 2010, deposits with the State of California's Condemnation Fund are \$6,864,548.

**Budget Policies**

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

**Encumbrances**

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

**Deferred Charges**

Deferred charges of \$4,586,715 as of June 30, 2010, net of accumulated amortization, consist of cost incurred for the issuance of the 2007 and 2008 revenue bonds. Amortization of issuance cost is computed using the straight-line method, over the useful life of the related asset.

**New Accounting Pronouncements**

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009, requires that intangible assets be classified as capital assets. The Agency implemented the new requirements for the fiscal year 2009-2010 financial statements. There was no significant impact to the financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Agency intends to implement the new requirements for the fiscal year 2010-11 financial statements.

GASB Statement No. 59, *Financial Instruments Omnibus*, effective for periods beginning after June 15, 2010, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Agency intends to implement the new requirements for the fiscal year 2010-11 financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

SAFCA's cash and investments are held in the County Treasurer's pool. The County Treasurer, acting in a fiduciary capacity, invests bond proceeds and special tax assessments in accordance with long-term obligation covenants.

Cash and Investments as of June 30, 2010, consist of the following:

| <b>Statement of net assets:</b>  | <b>2010</b>          |
|----------------------------------|----------------------|
| Pooled with the County Treasurer | \$ 77,283,898        |
| Money market mutual funds        | 2,003,385            |
| U.S. Treasury Notes and Bills    | 2,978,512            |
| U.S. Government Agencies         | 8,732,181            |
| Total cash and investments       | <u>\$ 90,997,976</u> |

SAFCA maintains cash deposits and investments with the County and involuntarily participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2010 the carrying amount of SAFCA's investments held by the County as part of the Treasurer's pool was \$77,283,898. The weighted average maturity of the Treasurer's pool was 170 days at June 30, 2010.

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

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

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Investments Authorized by Debt Agreements**

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

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

**Interest Rate Risk**

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

| <u>Investment Type</u>        | <u>Fair Value at June 30, 2010</u> | <u>Weighted Average Maturity (in years)</u> |
|-------------------------------|------------------------------------|---|
| Money Market Mutual Funds     | \$ 2,003,385                       | daily                                       |
| U.S. Treasury Notes and Bills | 2,978,512                          | 0.25  |
| U.S. Government Agencies      | 8,732,181                          | 0.25  |
| Total                         | <u>\$ 13,714,078</u>               |   |

**Credit Risk**

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



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

| <u>Investment Type</u>        | <u>Fair Value at June<br/>30, 2010</u> | <u>Ratings as of<br/>June 30, 2010</u> |
|-------------------------------|--|--|
| U.S. Government Agencies      | \$ 8,732,181                           | P-1/A-1+                               |
| U.S. Treasury Notes and Bills | 2,978,512                              | Aaa/AAA                                |
| Money Market Mutual Funds     | 2,003,385                              | AAAm                                   |
| Total                         | <u>\$ 13,714,078</u>                   |  |

**Concentration of Credit Risk**

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of SAFCA's total investments are shown below as of June 30, 2010.

| <u>Issuer</u>                                       | <u>Investment Type</u> | <u>Fair Value at<br/>June 30, 2010</u> |
|---|------------------------|--|
| Federal National Mortgage Association Discount Note | Government Securities  | \$ 8,732,181                           |

**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, 2010, one hundred percent of SAFCA's investments are held in SAFCA's name and not exposed to custodial credit risk. SAFCA does not have a policy for custodial credit risk.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 4 – INTERFUND TRANSACTIONS**

**Interfund transfers**

Interfund transfers during the year ended June 30, 2010 are summarized as follows:

|   | <b>Transfers In</b>                            |  |  | <b>Total</b>        |
|---|--|--|--|---------------------|
|   | <b>Consolidated<br/>Capital<br/>Assessment</b> | <b>Consolidated<br/>Capital<br/>Assessment<br/>Debt Fund</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> |                     |
| <b>Transfer Out:</b>                      |  |  |  |                     |
| General Fund                              | \$ -   | \$ -   | \$ 312,793                                 | \$ 312,793          |
| Consolidated Capital Assessment Fund      | -  | 43,655   | -  | 43,655              |
| Consolidated Capital Assessment Debt Fund | 6,150,023                                      | -  | -  | 6,150,023           |
| Nonmajor Funds                            | -  | -  | 389,841                                    | 389,841             |
| <b>Total</b>                              | <b>\$ 6,150,023</b>                            | <b>\$ 43,655</b>   | <b>\$ 702,634</b>                          | <b>\$ 6,896,312</b> |

SAFCA's General Fund made a transfer of \$312,793 to Non-major Governmental Funds for Debt Service Payments. Non-major Governmental Funds made a transfer of \$389,841 to other Non-major Governmental Funds for Debt Service Payments. The Capital Assessment Debt Service fund transferred \$6,150,023 to the Consolidated Capital Assessment Capital Project fund for direct levy fees collected and to support fiscal year 2010 operation.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

|   | <b>Balance at July<br/>1, 2009</b> | <b>Additions</b>     | <b>Retirement</b> | <b>Balance at June<br/>30, 2010</b> |
|---|------------------------------------|----------------------|-------------------|-------------------------------------|
| <i>Capital assets, not being depreciated:</i>       |                                    |                      |                   |                                     |
| Land  | \$ 29,073,535                      | \$ 15,186,067        | \$ (1,389)        | \$ 44,258,213                       |
| Permanent easement                                  | -                                  | 55,675               | -                 | 55,675                              |
| <i>Total capital assets not being depreciated</i>   | <i>29,073,535</i>                  | <i>15,241,742</i>    | <i>(1,389)</i>    | <i>44,313,888</i>                   |
| <i>Capital assets, being depreciated:</i>           |                                    |                      |                   |                                     |
| Equipment   | 42,632                             | -                    | (6,700)           | 35,932                              |
| Less accumulated depreciation                       | (39,010)                           | (2,897)              | 6,700             | (35,207)                            |
| <i>Total capital assets, being depreciated, net</i> | <i>3,622</i>                       | <i>(2,897)</i>       | <i>-</i>          | <i>725</i>                          |
| <b>Capital assets, net</b>                          | <b>\$ 29,077,157</b>               | <b>\$ 15,238,845</b> | <b>\$ (1,389)</b> | <b>\$ 44,314,613</b>                |

Depreciation expense for the year ended June 30, 2010 was \$2,897 and was charged to the public protection and public ways and facilities functions.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 6 – LONG-TERM OBLIGATIONS**

Long-term obligations consist of the following at June 30, 2010:

|   |              |
|---|--------------|
| Series 1996 Operating and Maintenance term series bonds due on November 1, 2009 through 2016 with interest at 5.800%, optional redemption effective for bonds maturing on or after November 1, 2007, at a premium rate of 0% to 2%. | \$ 1,325,000 |
|---|--------------|

|   |           |
|---|-----------|
| Series 1996 Operating and Maintenance term series bonds due on November 1, 2017 through 2025 with interest at 5.900%, optional redemption effective for bonds maturing on or after November 1 2007 at a premium rate of 0% to 2%. | 2,690,000 |
|---|-----------|

|   |            |
|---|------------|
| Series 2007A Consolidated Capital Assessment bonds due on October 1, 2008 through 2037 with interest at 5.000%, optional redemption effective for bonds maturing on or after October 1, 2017. | 54,535,000 |
|---|------------|

|   |            |
|---|------------|
| Series 2007A Consolidated Capital Assessment bonds due on October 1, 2008 through 2025 with interest at 5.000%, optional redemption effective for bonds maturing on or after October 1, 2017. | 28,455,000 |
|---|------------|

|  |           |
|--|-----------|
| Series 2007B Consolidated Capital Assessment bonds due on October 1, 2008 through 2010 with interest at 5.572%. The Series 2007B bonds are not subject to optional redemption prior to maturity. | 1,475,000 |
|--|-----------|

|  |           |
|--|-----------|
| Series 2008 Consolidated Capital Assessment bonds due on October 1, 2009 through 2014 with interest at 4.000%, optional redemption effective for bonds maturing on or after October 1, 2014. | 7,840,000 |
|--|-----------|

|  |            |
|--|------------|
| Series 2008 Consolidated Capital Assessment bonds due on October 1, 2015 through 2023 with interest at 4.125% to 5.375%, optional redemption effective for bonds maturing on or after October 1, 2019. | 19,265,000 |
|--|------------|

|  |            |
|--|------------|
| Series 2008 Consolidated Capital Assessment bonds due on October 1, 2024 through 2028 with interest at 5.500%, mandatory redemption effective for bonds maturing on or after October 1 of each year. | 15,340,000 |
|--|------------|

|  |                   |
|--|-------------------|
| Series 2008 Consolidated Capital Assessment bonds due on October 1, 2029 through 2037 with interest at 5.625%, mandatory redemption effective for bonds maturing on or after October 1 of each year. | <u>41,130,000</u> |
|--|-------------------|

|                             |                      |
|-----------------------------|----------------------|
| Total long-term obligations | <u>\$172,055,000</u> |
|-----------------------------|----------------------|

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 6 – LONG-TERM OBLIGATIONS (Continued)**

The aggregate amount of debt service on long-term debt outstanding at June 30, 2010 is as follows:

| Year Ending June 30, | Principal             | Interest              |
|----------------------|-----------------------|-----------------------|
| 2011                 | \$ 3,080,000          | \$ 8,719,926          |
| 2012                 | 3,220,000             | 8,579,156             |
| 2013                 | 3,350,000             | 8,444,651             |
| 2014                 | 3,495,000             | 8,304,466             |
| 2015                 | 3,640,000             | 8,158,256             |
| 2016-2020            | 20,935,000            | 38,040,913            |
| 2021-2025            | 26,830,000            | 32,136,689            |
| 2026-2030            | 33,150,000            | 24,273,771            |
| 2031-2035            | 42,710,000            | 15,746,500            |
| 2036-2039            | 31,645,000            | 1,166,969             |
| Total                | <u>\$ 172,055,000</u> | <u>\$ 153,571,298</u> |

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

The bonds are secured by special capital assessments and operations and maintenance assessments levied by SAFCA on property in the Operation and Maintenance Assessment District No. 1 and by certain other funds and accounts. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy in each fiscal year the Operation and Maintenance Assessments in an amount to provide sufficient funds to make the deposits required by the Resolution to be made in the Operation and Maintenance Assessment Obligation Fund in such fiscal year and to pay all budgeted Operation and Maintenance Expenses in such fiscal year. Total principal and interest remaining on the bonds is \$6,184,965, payable through November 2026. As of June 30, 2010, principal and interest paid and total revenues were \$389,910 and \$6,260,466, respectively.

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 6 – LONG-TERM OBLIGATIONS (Continued)**

On October 9, 2008, in connection with the Series 2007 Bonds, the Series 2008 Bonds were issued in the amount of \$84,965,000 with interest rates ranging from 4.00% to 5.62%. Proceeds from this issue were used to (i) finance, or reimburse SAFCA for the cost of flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed in and for the District, (ii) pay the cost of the Policy and two debt service reserve fund financial guaranty insurance policies for the credit of the Reserve Account and, (iii) pay the costs of issuance of the Series 2008 Bonds. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2007 and 2008 is \$319,441,333, payable through June 2038. As of June 30, 2010, principal and interest paid and total revenues were \$11,415,926 and \$18,373,622, respectively.

On August 14, 2001, SAFCA signed a Memorandum of Understanding with the City of Sacramento to grant SAFCA a flood control easement for the Hansen Ranch Property. The Payment Agreement was for \$1,200,000 with interest of 5% annually. Principal payments began in 2004. This amount was to be paid over a 10 year period. Total principal and interest remaining on the loan is zero through June 30, 2010. As of June 30, 2010, principal and interest paid were \$252,701.

As a result of the Consolidated Capital Assessment District bonds issued, the 2005 North Area Local Project Series are considered to be defeased and the liabilities for those bonds were removed from the Sacramento Area Flood Control Agency financial statements in 2008. As of June 30, 2010, the outstanding balance defeased for the 2005 North Area Local Project Series is \$29,120,000.

Changes in long-term obligations for the fiscal year ended June 30, 2010 were as follows:

|                        | July 1, 2009<br>Balance | Increase    | Decrease              | June 30, 2010<br>Balance | Due within<br>one year |
|------------------------|-------------------------|-------------|-----------------------|--------------------------|------------------------|
| Revenue Bonds          | \$ 174,995,000          | \$ -        | \$ (2,940,000)        | \$ 172,055,000           | \$ 3,080,000           |
| Hansen Ranch           | 240,668                 | -           | (240,668)             | -                        | -                      |
| Deferred Amounts:      |                         |             |                       |                          |                        |
| 2008 Issuance discount | (1,370,076)             | -           | 47,244                | (1,322,832)              | (47,244)               |
| 2007 Issuance premium  | 2,159,817               | -           | (134,988)             | 2,024,829                | 134,989                |
| 2007 Loss on refunding | (1,400,498)             | -           | 87,531                | (1,312,967)              | (87,531)               |
| Total                  | <u>\$ 174,624,911</u>   | <u>\$ -</u> | <u>\$ (3,180,881)</u> | <u>\$ 171,444,030</u>    | <u>\$ 3,080,214</u>    |

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. The potential liability, if any, to be paid November 2010 will fluctuate based upon the stream of construction draw downs and changing investment yields. As of June 30, 2010, SAFCA has no arbitrage liability.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 7 – OPERATING LEASES**

SAFCA entered into a lease agreement on June 1, 2007 for office space. The lease term is for six years and is cancellable after four years by giving at least 180 days written notice. On April 22, 2010, an amendment was made to the lease agreement. The amendment allows for expansion through addition and deletion of space within the Lease Premises. Rental expenditures for the year ended June 30, 2010 were \$176,203. Future minimum rental payments required under the operating lease as of June 30, 2010 are as follows:

| <u>June 30,</u> |                   |
|-----------------|-------------------|
| 2011            | \$ 201,871        |
| 2012            | 207,927           |
| 2013            | <u>195,827</u>    |
| Total           | <u>\$ 605,625</u> |

**NOTE 8 – RELATED PARTY TRANSACTIONS**

For the year ended June 30, 2010, the County of Sacramento, a related party, owed SAFCA \$270,204 for interest earned on Treasury deposits and \$20,206 for special assessments payments received by the County, but not transferred to SAFCA prior to year-end. In addition, some of SAFCA's employees are employees of the County and SAFCA uses other County departments for other services, such as risk management, engineering, accounting, etc. Expenditures paid to the County during the year for Public Protection and Public Ways and Facilities were \$929,009.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

As of June 30, 2010, SAFCA has three major construction contracts, A. Teichert & Son Inc, Independent Construction Company, and Nordic Industries, Inc. These construction contracts are for the Consolidated Capital Assessment Project, expected completion dates, August 1, 2010, November 15, 2010 and December 15, 2011, respectively. The aggregate contractual commitment totaled \$78,879,494 through the end of the contracts. These contracts are cancelable at anytime, with cause, upon 5-days written notice by the Board.

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 10 – RISK MANAGEMENT**

SAFCA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAFCA reports all of its risk management activities in its General Fund. SAFCA purchases commercial insurance for property damage and liability through an insurance agent, who obtains the appropriate insurance coverage needed by SAFCA from insurance companies. In addition, SAFCA participates in the County's self-insurance program for workers' compensation and employer's liability. Annual premiums are based primarily on claims experience. Current premiums are charged to expense when paid.

SAFCA deductibles and maximum coverage follows:

| Coverage   | Limits  | Deductibles/SIR   | Carrier                             | Effective Date   | Policy Number or Memorandum Number |
|--|---|---|-------------------------------------|------------------|------------------------------------|
| General Liability, Public Officials Liability and Automobile Liability | (1) \$15,000,000 Occurrence and Aggregate         | \$100,000 SIR applies to General Liability, Public Officials Liability and Automobile Liability | (1) CSAC Excess Insurance Authority | 7/1/09 – 7/1/10  | (1) EIA-PE 09 EL 62                |
|  | (2) \$20,000,000 Optional Excess                  |   | (2) Lexington                       | 7/1/09 – 7/1/10  | (2) 024502009                      |
|  | (3) \$15,000,000 CLIP                             |   | (3) Lexington                       | 7/1/09 – 7/1/10  | (3) 2213949                        |
|  | Total \$50,000,000                                |   |                                     |                  |                                    |
| Workers' Compensation and Employer's Liability                         | WC - Statutory Employers' Liability - \$5,000,000 | \$2,000,000 SIR   | CSAC Excess Insurance Authority     | 7/1/09 to 7/1/10 | EIA-PE 09 EWC-30                   |
| Property All Risk  | \$7,059,383                                       | \$1,000   | Lexington Insurance                 | 7/1/09 – 7/1/10  | PPROP0910                          |
| Boiler and Machinery (Included in Property Policy)                     | Included  | \$2,500   | Included                            | Included         | PBOILER0910                        |

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 11 – DEBT AND BOND COVENANTS**

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

- So long as any Bonds are outstanding, SAFCA will annually levy in each fiscal year, through fiscal year 2038, the Consolidated Capital Assessments against all assessable land in the District not to exceed the maximum rates specified in the Final Engineer's Report and make provision for the collection of the Consolidated Capital Assessments in amounts which SAFCA estimates will be sufficient, after making reasonable allowances for contingencies and errors in the estimates, to yield Consolidated Capital Assessments available for debt service equal to at least one hundred ten percent of the annual debt service for such fiscal year.
- SAFCA will annually on or before September 1 of each year review the public records of the County of Sacramento and the County of Sutter relating to collection of the Consolidated Capital Assessments in order to determine the amount of the Consolidated Capital Assessments collected in the prior fiscal year in respect of privately-owned assessable land, and if privately-owned assessable land owned by any single property owner in the District is delinquent by more than ten thousand dollars with respect to the Consolidated Capital Assessments due and payable by such property owner by such delinquency date, SAFCA will by December 31 institute, prosecute and pursue foreclosure proceedings and authorized by the Act in order to enforce the lien of such delinquent installments.
- SAFCA will annually on or before September 1 of each year review the public records of the County of Sacramento and the County of Sutter relating to collection of the Consolidated Capital Assessments in order to determine the amount of the Consolidated Capital Assessments collected in the prior fiscal year in respect of governmentally-owned assessable land, and if property owned by any single governmental entity in the District is delinquent by more than ten thousand dollars with respect to the Consolidated Capital Assessments due and payable by such governmental entity by that date, then SAFCA will by December 31, unless prohibited by an order of a court of competent jurisdiction institute and then prosecute and pursue judicial proceedings to seek enforcement and collection of such delinquent Consolidated Capital Assessments.

For the year ended June 30, 2010, SAFCA has complied with the preceding provisions.

**NOTE 12 – CREDITS EARNED TOWARDS LOCAL SHARE OF FEDERAL FLOOD CONTROL PROJECTS**

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



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 12 – CREDITS EARNED TOWARDS LOCAL SHARE OF FEDERAL FLOOD CONTROL  
PROJECTS (Continued)**

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (BUDGETARY BASIS)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

|  | Budgeted amounts |              |              | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|------------------|--------------|--------------|---|
|  | Original         | Final        | Actual       |   |
| REVENUES   |                  |              |              |   |
| Special benefit assessments                                  | \$ 6,300,000     | \$ 6,300,000 | \$ 6,260,466 | \$ (39,534)   |
| Intergovernmental  | 18,000           | 18,000       | -            | (18,000)  |
| Interest and other income                                    | 6,800            | 6,800        | 130,772      | 123,972   |
| Total Revenues   | 6,324,800        | 6,324,800    | 6,391,238    | 66,438  |
| EXPENDITURES   |                  |              |              |   |
| Current:   |                  |              |              |   |
| Public protection  | 6,431,333        | 6,431,333    | 8,008,101    | (1,576,768)   |
| Debt Service:  |                  |              |              |   |
| Principal  | 240,668          | 240,668      | 240,668      | -   |
| Interest   | 12,033           | 12,033       | 12,033       | -   |
| Total Expenditures   | 6,684,034        | 6,684,034    | 8,260,802    | (1,576,768)   |
| Excess (deficiency) of revenues<br>over (under) expenditures | (359,234)        | (359,234)    | (1,869,564)  | (1,510,330)   |
| OTHER FINANCING SOURCES (USES)                               |                  |              |              |   |
| Transfers In   | -                | -            | -            | -   |
| Transfers Out  | (378,000)        | (378,000)    | (312,793)    | 65,207  |
| Total Other Financing Sources (Uses)                         | (378,000)        | (378,000)    | (312,793)    | 65,207  |
| NET CHANGE IN FUND BALANCE<br>(BUDGETARY BASIS)              | \$ (737,234)     | \$ (737,234) | (2,182,357)  | \$ (1,445,123)  |
| Basis adjustment:  |                  |              |              |   |
| Encumbrances   |                  |              | 3,834,256    |   |
| NET CHANGE IN FUND BALANCE<br>(GAAP BASIS)                   |                  |              | \$ 1,651,899 |   |

See notes to the required supplementary information.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 1 – BUDGET**

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

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device for the general fund. All annual appropriations lapse at fiscal year end. The Director of Administration prepares and submits a proposed budget to the Board of Directors in May for review. After reviewing the proposed budget and making such revisions as it may deem advisable, a final budget is prepared and adopted no later than the June board meeting. Revisions to the adopted budget must be presented to the Board of Directors by the Director of Administration and approved by resolution.

**Expenditures in Excess of Appropriations**

Expenditures for the year ended June 30, 2010, exceeded the appropriations in the following fund:

|              | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------|---------------|---------------|-----------------|
| General Fund | \$ 6,431,333  | \$ 8,008,101  | \$ (1,576,768)  |

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

## **SUPPLEMENTAL INFORMATION**

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010**

|  | Capital<br>Project Funds       |                    | Debt Service Fund        |                   | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------------|--------------------|--------------------------|-------------------|--|
|  | Development<br>Impact Fee Fund | 1996<br>Redemption | Assessment<br>Obligation | 1996<br>Reserve   |  |
| <b>ASSETS</b>                              |                                |                    |                          |                   |  |
| Cash and investments                       | \$ 353,147                     | \$ -               | \$ 384,561               | \$ 396,974        | \$ 1,134,682                               |
| Interest receivable                        | 865                            | 15                 | 209                      | 192               | 1,281                                      |
| <b>Total Assets</b>                        | <u>\$ 354,012</u>              | <u>\$ 15</u>       | <u>\$ 384,770</u>        | <u>\$ 397,166</u> | <u>\$ 1,135,963</u>                        |
| <b>LIABILITIES AND FUND BALANCES</b>       |                                |                    |                          |                   |  |
| <b>Liabilities:</b>                        |                                |                    |                          |                   |  |
| Warrants payable                           | \$ 8,602                       | \$ -               | \$ -                     | \$ -              | \$ 8,602                                   |
| Due to other governments                   | 35                             | -                  | -                        | -                 | 35   |
| <b>Total Liabilities</b>                   | <u>8,637</u>                   | <u>-</u>           | <u>-</u>                 | <u>-</u>          | <u>8,637</u>                               |
| <b>Fund balances:</b>                      |                                |                    |                          |                   |  |
| Reserved for:                              |                                |                    |                          |                   |  |
| Debt service                               | -                              | 15                 | 384,770                  | 397,166           | 781,951                                    |
| Unreserved, undesignated:                  |                                |                    |                          |                   |  |
| Capital projects                           | 345,375                        | -                  | -                        | -                 | 345,375                                    |
| <b>Total Fund Balances</b>                 | <u>345,375</u>                 | <u>15</u>          | <u>384,770</u>           | <u>397,166</u>    | <u>1,127,326</u>                           |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 354,012</u>              | <u>\$ 15</u>       | <u>\$ 384,770</u>        | <u>\$ 397,166</u> | <u>\$ 1,135,963</u>                        |

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

|  | Capital<br>Project Funds       |                    | Debt Service Funds       |                 | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|--------------------------------|--------------------|--------------------------|-----------------|--|
|  | Development<br>Impact Fee Fund | 1996<br>Redemption | Assessment<br>Obligation | 1996<br>Reserve |  |
| <b>REVENUES</b>  |                                |                    |                          |                 |  |
| Interest & other income                                      | \$ 307,867                     | \$ 83              | \$ 1,408                 | \$ 953          | \$ 310,311                                 |
| Total Revenues   | 307,867                        | 83                 | 1,408                    | 953             | 310,311                                    |
| <b>EXPENDITURES</b>  |                                |                    |                          |                 |  |
| Current:   |                                |                    |                          |                 |  |
| Public ways and facilities                                   | 74,204                         | -                  | -                        | -               | 74,204                                     |
| Debt service:  |                                |                    |                          |                 |  |
| Principal  | -                              | 150,000            | -                        | -               | 150,000                                    |
| Interest   | -                              | 239,910            | -                        | -               | 239,910                                    |
| Total Expenditures   | 74,204                         | 389,910            | -                        | -               | 464,114                                    |
| Excess (deficiency) of revenues<br>over (under) expenditures | 233,663                        | (389,827)          | 1,408                    | 953             | (153,803)                                  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                                |                    |                          |                 |  |
| Transfers in   | -                              | 389,841            | 312,793                  | -               | 702,634                                    |
| Transfers out  | -                              | -                  | (383,449)                | (6,392)         | (389,841)                                  |
| Total Other Financing Sources (Uses)                         | -                              | 389,841            | (70,656)                 | (6,392)         | 312,793                                    |
| NET CHANGE IN FUND BALANCES                                  | 233,663                        | 14                 | (69,248)                 | (5,439)         | 158,990                                    |
| Fund balances - July 1                                       | 111,712                        | 1                  | 454,018                  | 402,605         | 968,336                                    |
| Fund balances - June 30                                      | \$ 345,375                     | \$ 15              | \$ 384,770               | \$ 397,166      | \$ 1,127,326                               |

## **OTHER REPORTS**





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

Board of Directors  
Sacramento Area Flood Control Agency  
Sacramento, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2010, which collectively comprise the SAFCA's basic financial statements and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the SAFCA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SAFCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SAFCA's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the Board of Directors, SAFCA management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California

November 30, 2010



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

Honorable Board of Directors  
Sacramento Area Flood Control Agency  
Sacramento, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Area Flood Control Agency (SAFCA), as of and for the year ended June 30, 2010, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

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

*Vavrinek, Trine, Day & Co. LLP*

Sacramento, California  
November 30, 2010