

**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, 2013**

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**For the Fiscal Year Ended June 30, 2013**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sacramento Area Flood Control Agency  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the SAFCA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of SAFCA, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### ***Implementation of New Accounting Standards***

As discussed in Note 2 to the financial statements, SAFCA adopted Governmental Accounting Standards Board (GASB) Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SAFCA's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of SAFCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAFCA's internal control over financial reporting and compliance.

*Varrinik, Trine, Day & Co. LLP*

Sacramento, California  
November 22, 2013

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013.

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

**Financial Highlights**

- The liabilities of SAFCA exceeded its assets and deferred outflows of resources at June 30, 2013 by \$(78,030,021) (*net position*). Of this amount, \$68,057,958 was invested in capital assets, \$46,962,535 is restricted for specific purposes, and \$269,065 is restricted for the Hansen Ranch Project. The unrestricted net position for the current fiscal year amounted to \$(193,319,579) and is due to the fact that SAFCA issued bonds to improve existing levees, but the levees are owned by other entities.
- SAFCA's total net position decreased by \$(17,249,979) during fiscal year 2012-2013. This decrease was due to lower reimbursements received from the State of California, Department of Water Resources (DWR) offset by decreased operations and expenditures of the Consolidated Capital Assessment District Project (CCAD).
- As of the 2012-2013 fiscal year, SAFCA's governmental funds reported ending fund balances of \$62,042,333 a decrease of \$25,509,454 in comparison with the prior year. The decrease is primarily due to one-time bond proceeds that were received in the prior fiscal year resulting in lower revenues this year and offset by lower expenditures this year compared to last year. Approximately 20 percent of this total amount, \$12,354,196 is *available for expenditure* at the Agency's discretion (*unassigned fund balance*).
- SAFCA's total debt decreased by a net amount of \$3,871,199 during the current fiscal year due to principal payments on outstanding bonds, other long-term debts, and amortization of bond discounts and premiums.

**Overview of the Financial Statements**

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

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

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

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

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

The governmental fund financial statements can be found on pages 14-15 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to provide a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 16-37 of this report.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Government-wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of SAFCA, liabilities exceeded assets and deferred outflows of resources by \$78,030,021 at the end of the 2012-2013 fiscal year. The deficit in net position is caused by the financing of long-term capital improvement projects with funds received from the issuance of revenue bonds. In the long-term, property assessments will provide the revenues to pay the long-term debt financing.

**Statement of Net Position  
June 30,**

	<b>2013</b>	<b>2012</b>
		<b>as Restated</b>
<b>Assets:</b>		
Current and other assets	\$ 78,623,691	\$ 109,922,322
Capital assets, net	68,057,958	63,496,522
Total assets	<u>146,681,649</u>	<u>173,418,844</u>
 Deferred outflows of resources	 <u>1,050,372</u>	 <u>1,137,904</u>
<b>Liabilities:</b>		
Long-term liabilities	208,906,138	212,777,337
Other liabilities	16,855,904	22,559,453
Total liabilities	<u>225,762,042</u>	<u>235,336,790</u>
<b>Net position:</b>		
Net investment in capital assets	68,057,958	63,496,522
Restricted for:		
Endowment - expendable	90,343	90,343
Endowment - nonexpendable	178,722	177,139
Debt service	26,357,612	21,405,791
Capital projects	20,604,923	53,767,252
Unrestricted	(193,319,579)	(199,717,089)
Total net position	<u>\$ (78,030,021)</u>	<u>\$ (60,780,042)</u>

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

The current and other assets decreased by \$31,298,631. The decrease is mainly due to one-time receipts in fiscal year 2011-2012 from the issuance of Consolidated Capital Assessment Bonds of \$38,000,000 that were expended in fiscal year 2012-2013. There were decreases in the expenditures and operations of the Consolidated Capital Assessment District, and fewer reimbursements and contributions from the State of California DWR. Total liabilities decreased \$9,574,748 mainly due to a reduction in levee construction as the CCAD project is nearing completion, as such accrued liabilities at June 30, 2013 were less than accrued liabilities at June 30, 2012. Total net investment in capital assets increased \$4,561,436 due to new acquisition of land and easements related to the CCAD Project.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Governmental activities**

Governmental activities decreased SAFCA's net position by \$17,249,979 during the year.

<b>Statement of Activities</b>		
<b>Fiscal Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>
		<b>as Restated</b>
<b>Program revenues:</b>		
Charges for services	24,354,456	24,384,381
Capital grants and contributions	23,615,749	38,380,328
Total program revenues	47,970,205	62,764,709
<b>General revenues:</b>		
Interest and other income	1,403,868	1,315,117
Total general revenues	1,403,868	1,315,117
Total revenues	49,374,073	64,079,826
<b>Expenses:</b>		
Public protection	4,786,507	4,446,173
Public ways and facilities	51,527,402	60,687,393
Interest on long-term debt	10,310,143	9,085,647
Total expenses	66,624,052	74,219,213
Change in net position	(17,249,979)	(10,139,387)
Net position, beginning of year	(60,780,042)	(50,640,655)
Net position, end of year	(78,030,021)	(60,780,042)

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

- Capital grants and contributions decreased by \$14,764,579 (38%) during the year. This decrease was due to fewer contributions and reimbursements from the State of California DWR.
- Interest and other income increased by \$88,751 (7%) during the year primarily due to interest earned on the bond proceeds received and held in the bank until used for expenditures.
- Public protection expenditures increased by \$340,334 (8%) during the year primarily due to an increase in accounting and finance services.
- Public ways and facilities expenditures decreased by \$9,159,991 (15%) during the year due to a reduction in operations and construction contract services related to the CCAD project.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

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

At June 30, 2013, SAFCA's governmental funds reported combined fund balances of \$62,042,333 a decrease of \$25,509,454 in comparison with the prior year. Approximately \$90,343 or less than 1 percent of the total fund balance is Nonspendable due to a trust agreement regarding Hansen Ranch. The remaining 99 percent or \$61,951,990 is available to meet the Agency's current and future needs.

The **General Fund** is the chief operating fund of SAFCA. As of June 30, 2013, the unassigned fund balance of the General Fund, was \$12,354,196, while the total fund balance was \$12,623,261. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 232 percent of total General Fund expenditures, while total fund balance represents 237 percent of that same amount. The fund balance of SAFCA's General Fund increased by \$1,234,730 during fiscal year 2013. The increase was mainly due to revenues exceeding expenditures and a transfer in from the CCAD to reimburse the general fund for the 2011 BAN payment.

The **Consolidated Capital Assessment District Fund** is the largest capital projects fund of SAFCA. As of June 30, 2013, total fund balance was \$14,870,825. The CCAD is the consolidation of two capital assessment districts. They were consolidated in order to fairly apportion assessments among benefiting property owners. The purpose of this project is improve levees and ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-year or greater) for the Sacramento area. The fund balance of the CCAD Fund decreased by \$28,900,640 during fiscal year 2013. The decrease was due to fewer contributions and reimbursements from the State of California Department of Water Resources and a reduction of other financing sources of transfers in and bond proceeds offset by a lesser reduction in the operations and construction expenditures related to the CCAD project.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The Consolidated Capital Assessment Debt Service fund has a total fund balance of \$25,566,524 all of which is restricted for the payment of debt service. The fund balance increased by \$4,940,612 during fiscal year 2013 due to special capital assessments exceeding debt service expenditures.

The following table compares the revenues and expenditures for fiscal years 2012 and 2013 along with the net change from 2012 to 2013.

	FY 2013		FY 2012		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
<b><u>Revenues by Source</u></b>						
Special benefit assessments	\$ 6,238,192	12.6%	\$ 6,263,447	9.6%	\$ (25,255)	-0.4%
Special capital assessments	18,116,264	36.7%	18,120,934	27.9%	(4,670)	0.0%
Aid from other governments	950,000	1.9%	1,296,000	2.0%	(346,000)	-26.7%
Intergovernmental	22,665,749	45.9%	37,979,719	58.5%	(15,313,970)	-40.3%
Interest and other Income	1,403,868	2.9%	1,315,117	2.0%	88,751	6.8%
Total revenues	<u>\$ 49,374,073</u>	<u>100.0%</u>	<u>\$ 64,975,217</u>	<u>100.0%</u>	<u>\$ (15,601,144)</u>	<u>-24.0%</u>
<b><u>Expenditures by Function</u></b>						
Public protection	\$ 4,786,507	6.4%	\$ 4,446,173	5.1%	\$ 340,334	7.7%
Public ways and facilities	55,997,294	74.8%	70,704,668	80.3%	(14,707,374)	-20.8%
Miscellaneous	105,302	0.1%	86,765	0.1%	18,537	21.4%
Bond issuance cost	-	0.0%	454,372	0.5%	(454,372)	-100.0%
Principal on long-term debt	3,680,000	4.9%	3,545,000	4.0%	135,000	3.8%
Interest on long-term debt	10,314,424	13.8%	8,791,334	10.0%	1,523,090	17.3%
Total expenditures	<u>\$ 74,883,527</u>	<u>100.0%</u>	<u>\$ 88,028,312</u>	<u>100.0%</u>	<u>\$ (13,144,785)</u>	<u>-14.9%</u>

The Intergovernmental revenue had a decrease of \$15,313,970 primarily due to fewer contributions and reimbursements from the State of California Department of Water Resources related to the CCAD project. Revenues from the Aid from other governments had a decrease of \$346,000 due to a reduction in payments from the Department of Water Resources for the North Area Local Project. Interest and other income revenue had an increase of \$88,751 due to interest earned on the 2012 bond proceeds. Public Protection expenditures increased by \$340,334 due to increases in expenditures for such costs as: land improvement services, accounting services, and insurance. Public ways and facilities expenditures decreased by \$14,707,374 during the fiscal year due to a decrease in construction and engineering services related to the CCAD project. The interest on long-term debt increased by \$1,523,090 due to a full year of interest payments for the 2012 Revenue Bonds which were issued in April 2012.

### **General Fund Budgetary Highlights**

During the year, actual revenues exceeded the final budgeted amount by \$95,222. Actual expenditures were less than budgetary estimates by \$1,316,122. This was primarily due to conservative budgeting for potential programs and cost increases. Due to the nature of the operations and maintenance fund it is not always possible to budget for uncertainties and its management's policy to maintain the budget based on potential program costs. Transfers in exceeded the budget by \$535,625 due to management's intent to have the CCAD reimburse the general fund for payments related to the bond anticipation note.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Capital Asset and Debt Administration**

**Capital Assets** - SAFCA's investments in capital assets for its governmental activities as of June 30, 2013 amount to \$68,057,958 (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 7 percent, or \$4,561,436. This increase was due to land and easement acquisitions related to the CCAD project. SAFCA keeps records of all assets for governmental activities.

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

	<u>2013</u>	<u>2012</u>
Land	\$67,974,334	\$63,421,348
Permanent Easements	83,624	75,174
Equipment	-	-
Total	<u>\$68,057,958</u>	<u>\$63,496,522</u>

Additional information on SAFCA's capital assets can be found in Note 6 on page 29 of the Notes to the Basic Financial Statements.

**Long-term debt** - At the end of the current fiscal year, SAFCA had revenue bonds and bond anticipation notes outstanding of \$205,950,000. The majority of SAFCA's debt represents bonds secured by the Consolidated Capital Assessment District and Operations & Maintenance Assessment Districts.

**Summary of Outstanding Long Term Obligations**

	<u>2013</u>	<u>2012</u>
		<u>as Restated</u>
Revenue Bonds	\$ 200,405,000	\$ 203,755,000
Bond Anticipation Notes	5,545,000	5,875,000
Add: Premium on		
Bonds Payable	4,137,238	4,375,680
Less: Discount on		
Bonds Payable	(1,181,100)	(1,228,343)
Totals	<u>\$ 208,906,138</u>	<u>\$ 212,777,337</u>

Additional information on long-term debt can be found in Note 7 on pages 30-33 of the Notes to the Basic Financial Statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The Fiscal Year 2013-14 Final Budget was adopted by SAFCA's Board of Directors on June 20, 2013. The budget supports SAFCA's continuing efforts to address the region's flood control needs during the coming year and is consistent with the objectives of SAFCA's current Strategic Plan. SAFCA's Strategic Plan identifies the efforts which SAFCA will undertake to ensure the integrity of the existing levee system; provide a minimum of 100-year flood protection for the region; and pursue SAFCA's long-term goal of achieving a high level of flood protection (200-year or greater) for the Sacramento area.

The proposed means, excluding fund balance reserves, of financing some of the \$85.28 million in budgeted expenditures for fiscal year 2013-14 includes:

- **Estimated interest earnings:**
  - Operations & Maintenance Assessment District Fund: \$ 20,000
  - North Area Local Project Capital Fund: 45,000
  - Consolidated Capital Assessment District Fund: 310,000
  - Development Impact Fee Fund: 5,000
  - Natomas Basin Local Assessment District Fund: 2,000
- **Assessments:**
  - Operations & Maintenance Assessment District Fund: 6,300,000
  - Consolidated Capital Assessment District Fund: 4,000,000
  - Natomas Basin Local Assessment District Fund: 2,700,000
- **Local Aid:** 300,000
- **State Aid:** 46,334,724
- **Development Impact Fees:** 200,000

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The following assumptions were made in preparing the 2013-14 Budget

- The Operations & Maintenance assessment rates will remain at current (2012-2013) levels.
- Consolidated Capital Assessment District rates will be levied at the rates specified on the formula set forth in the Final Engineer's Report. The average rates for the consolidated capital assessment district are provided in the table below.
- The Natomas Basin Local Assessment District rates will be levied at the rates specified on the formula set forth in the Final Engineer's Report. The average rates for the Natomas Basin Local Assessment District are provided in the table that follows.

**Average Assessment Rates by District**

	<u>Consolidated Capital Assessment District</u>	<u>Natomas Basin Local Assessment District</u>
Single Family Residence 1 (Per Parcel)	\$ 59	\$ 56
Single Family Residence 2 (Per Parcel)	79	60
Commerical (per 1,000 square feet)	93	41
Industrial (per 1,000 square feet)	53	26

- SAFCA anticipates that State of California DWR will provide approximately \$60 million through reimbursements to SAFCA for prior Natomas Local Improvement Project expenditures and direct contributions under California's Flood Safe Program.

**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, CA 95814 or phone (916) 874-7606.

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**SACRAMENTO AREA FLOOD CONTROL AGENCY  
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013**

**ASSETS**

Cash and cash equivalents	\$ 37,229,027
Interest receivable	96,884
Deposits with others	3,254,533
Due from other governments	14,698,471
Prepaid bond insurance	2,228,989
Restricted assets - investments	21,115,787
Capital assets:	
Land	67,974,334
Permanent easement	83,624
Total capital assets, net	<u>68,057,958</u>
Total assets	<u>146,681,649</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Loss on debt refunding	<u>1,050,372</u>
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**LIABILITIES**

Warrants payable	8,913,191
Accounts payable	4,368,897
Due to other governments	1,070,281
Accrued interest payable	2,503,535
Long-term liabilities:	
Due within one year	5,011,199
Due in more than one year	<u>203,894,939</u>
Total liabilities	<u>225,762,042</u>

**NET POSITION**

Net investment in capital assets	68,057,958
Restricted for:	
Debt service	26,357,612
Capital projects	20,604,923
Endowment:	
Expendable	178,722
Nonexpendable	90,343
Unrestricted	<u>(193,319,579)</u>
Total net position	<u>\$ (78,030,021)</u>

See accompanying notes to the basic financial statements.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Capital Grants and Contributions	
<b>Functions/Programs</b>				
Public protection	\$ 4,786,507	\$ 6,238,192	\$ -	\$ 1,451,685
Public ways and facilities	51,527,402	18,116,264	23,615,749	(9,795,389)
Interest on long-term debt	10,310,143	-	-	(10,310,143)
<b>Total governmental activities</b>	<b>\$ 66,624,052</b>	<b>\$ 24,354,456</b>	<b>\$ 23,615,749</b>	<b>(18,653,847)</b>
<b>General Revenues:</b>				
Interest and other income				1,403,868
Total general revenues				1,403,868
Change in net position				(17,249,979)
Net position, June 30, 2012, as restated				(60,780,042)
Net Position, June 30, 2013				<b>\$ (78,030,021)</b>

See accompanying notes to the basic financial statements.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

		<u>Capital Project Fund</u>	<u>Debt Service</u>		
	<u>General Fund</u>	<u>Consolidated Capital Assessment Fund</u>	<u>Consolidated Capital Assessment Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 12,792,983	\$ 11,418,335	\$ 4,985,264	\$ 8,032,445	\$ 37,229,027
Interest receivable	41,479	23,318	27,203	4,884	96,884
Deposits with others	-	3,254,533	-	-	3,254,533
Due from other funds	1,072,803	-	-	-	1,072,803
Due from other governments	70,637	14,237,999	128,101	261,734	14,698,471
Restricted assets:					
Investments	-	-	20,425,956	689,831	21,115,787
Total assets	<u>\$ 13,977,902</u>	<u>\$ 28,934,185</u>	<u>\$ 25,566,524</u>	<u>\$ 8,988,894</u>	<u>\$ 77,467,505</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants and claims payable	\$ 1,334,847	\$ 7,571,173	\$ -	\$ 7,171	\$ 8,913,191
Accounts payable	-	4,368,897	-	-	4,368,897
Due to other funds	-	1,072,803	-	-	1,072,803
Due to other governments	19,794	1,050,487	-	-	1,070,281
Total liabilities	<u>1,354,641</u>	<u>14,063,360</u>	<u>-</u>	<u>7,171</u>	<u>15,425,172</u>
Fund balances:					
Nonspendable					
Hansen Ranch	90,343	-	-	-	90,343
Restricted for:					
Hansen Ranch	178,722	-	-	-	178,722
Debt Service	-	-	25,566,524	791,088	26,357,612
Capital projects	-	14,870,825	-	5,734,098	20,604,923
Assigned	-	-	-	2,456,537	2,456,537
Unassigned	12,354,196	-	-	-	12,354,196
Total fund balances	<u>12,623,261</u>	<u>14,870,825</u>	<u>25,566,524</u>	<u>8,981,723</u>	<u>62,042,333</u>
Total liabilities and fund balances	<u>\$ 13,977,902</u>	<u>\$ 28,934,185</u>	<u>\$ 25,566,524</u>	<u>\$ 8,988,894</u>	

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

Prepaid Bond Insurance is not a current cost and therefore is not reported in the funds	2,228,989
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	68,057,958
Loss on debt refunding is not a current outflow and therefore is not reported in the funds	1,050,372
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds	(2,503,535)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	(208,906,138)
Net position of governmental activities	<u>\$ (78,030,021)</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, 2013**

	General Fund	Capital Project Fund Consolidated Capital Assessment Fund	Debt Service Fund Consolidated Capital Assessment Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Special benefit assessments	\$ 6,238,192	\$ -	\$ -	\$ -	\$ 6,238,192
Special capital assessments	-	63,049	18,053,215	-	18,116,264
Aid from other governments	-	950,000	-	-	950,000
Intergovernmental	-	22,665,749	-	-	22,665,749
Interest and other income	178,830	213,459	65,153	946,426	1,403,868
<b>Total revenues</b>	<b>6,417,022</b>	<b>23,892,257</b>	<b>18,118,368</b>	<b>946,426</b>	<b>49,374,073</b>
<b>EXPENDITURES</b>					
Current:					
Public protection	4,786,507	-	-	-	4,786,507
Public ways and facilities	-	55,968,972	-	28,322	55,997,294
Miscellaneous	-	-	105,302	-	105,302
Debt service:					
Principal	330,000	-	3,175,000	175,000	3,680,000
Interest	205,625	-	9,897,454	211,345	10,314,424
<b>Total expenditures</b>	<b>5,322,132</b>	<b>55,968,972</b>	<b>13,177,756</b>	<b>414,667</b>	<b>74,883,527</b>
Excess (deficiency) of revenues over (under) expenditures	1,094,890	(32,076,715)	4,940,612	531,759	(25,509,454)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	535,625	3,711,700	-	782,106	5,029,431
Transfers out	(395,785)	(535,625)	-	(4,098,021)	(5,029,431)
<b>Total other financing sources (uses)</b>	<b>139,840</b>	<b>3,176,075</b>	<b>-</b>	<b>(3,315,915)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,234,730</b>	<b>(28,900,640)</b>	<b>4,940,612</b>	<b>(2,784,156)</b>	<b>(25,509,454)</b>
Fund balances - Beginning of the year	11,388,531	43,771,465	20,625,912	11,765,879	
Fund balances - End of the year	\$ 12,623,261	\$ 14,870,825	\$ 25,566,524	\$ 8,981,723	

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 these assets are capitalized and, except for land and easements, depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation in the current period.

4,561,436

The issuance of long-term debt (e.g. bonds, loans) 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 position. 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 statement of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.

Repayment of Debt (Principal Reduction)

3,680,000

Current year amortization of insurance	(89,908)
Current year amortization of premium	238,442
Current year amortization of discount	(47,244)
Current year amortization of loss of refunding	(87,532)
Change in accrued interest payable	4,281
	<u>18,039</u>

Change in net position of governmental activities

\$ (17,249,979)

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, 2013**

**NOTE 1-REPORTING ENTITY**

**Definition of Reporting Entity and Governing Board**

The Sacramento Area Flood Control Agency (SAFCA) is a political subdivision of the State of California. It was created January 1, 1990 under the laws of the State of California and provisions of a Joint Exercise of Powers Agreement. Parties to this agreement are the County of Sacramento (County), County of Sutter, City of Sacramento, Reclamation District No. 1000, and the American River Flood Control District.

SAFCA was formed to plan, coordinate, and finance regional flood protection improvements in the Sacramento area.

SAFCA is governed by a Board of Directors composed of thirteen members appointed by the parties to the agreement. Five members are appointed by the Sacramento County Board of Supervisors, one from the Sutter County Board of Supervisors, three from the Sacramento City Council, two from Reclamation District No. 1000, and two from the American River Flood Control District.

Employees of SAFCA are contracted from the County of Sacramento and City of Sacramento.

**DISTRICTS AND PROGRAMS**

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

**Operations and Maintenance Assessment District No. 1**

The district which was established by Resolution 91-010 on June 20, 1991 resulting from the Sacramento Area Flood Control Agency Act augmented by the California State Legislature which granted SAFCA the ability to levy and collect assessments and to pay for administrative, operations and maintenance costs.

**SAFCA North Area Local Project Capital Assessment District No. 2**

The district was established by Resolution 95-112 on September 21, 1995. The SAFCA Board of Directors authorized the issuance of bonds in the principal amount of \$84,345,000; in fiscal year 2005 additional bonds were authorized and issued in the principal amount of \$34,595,000.

**SAFCA Consolidated Capital Assessment District**

The district was established by Resolution 07-052 on May 31, 2007. In 2007 and 2008 the SAFCA Board of Directors authorized the issuance of bonds in the principal amount of \$172,095,000; in fiscal year 2012 additional bonds were authorized and issued in the principal amount of \$38,000,000.

**SAFCA Development Impact Fee Program**

The program was established by Resolution 09-010 on May 15, 2008 becoming effective January 1, 2009. The purpose is to augment the existing Consolidated Capital Assessment District funding sources for achieving at least a 200-year level of flood protection for the Sacramento Area over the next 11 years thereby offsetting any increase in exposure to flood damages that might otherwise result as new development occurs in the protected floodplain during this period.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1-REPORTING ENTITY, (Continued)**

**SAFCA Natomas Basin Local Assessment District**

The district was established by Resolution 2001-052 on April 29, 2011. The board of SAFCA Board of Directors authorized on June 16, 2011, the issuance of bond anticipation notes in the amount of \$6,200,000.

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

**Basis of Presentation**

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

SAFCA reports the following major governmental funds:

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

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 Resolution.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

The *Consolidated Capital Assessment District* (CCAD) is a debt service fund used to account for all revenues received from the annual levy and collection of assessments when received. The monies in the Consolidated Capital Assessment are used to pay interest, principal and redemption premiums on the Consolidated Capital Assessment Fund, Series 2007, 2008, and 2012 revenue bonds. Through June 30, 2013, the CCAP AD funded all principal and interest payments as scheduled.

**Measurement Focus and Basis of Accounting**

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**Cash and Investments**

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

The value of SAFCA's shares in the pools is determined on an amortized cost basis, which may be different from fair value. The County's basic financial statements, containing all of the applicable provisions of GASB 31, can be obtained from the County Auditor-Controller's Office.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**Capital Assets**

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

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

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

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

The SAFCA's policy is to capitalize all capital assets with a cost greater than \$25,000 and a useful life of more than one year.

**Special Benefit Assessments**

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

**Special Capital Assessments**

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

**Development Impact Fee**

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**Receivables**

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

SAFCA does not accrue an allowance for doubtful accounts for special capital assessments as SAFCA participates in the County's Teeter plan where the County has historically purchased 100 percent of SAFCA's delinquent assessments. Under the Teeter Plan, the County purchases the annual delinquent secured property taxes from the local taxing entities and selected special assessment districts in Sacramento County.

**Deposits with others**

Deposits with others consist of deposits with the State of California's Condemnation Fund and Contract Retentions. The disposition of these funds is determined by judicial order and construction contracts. Typically, the funds are applied to the purchase of condemned land or returned to SAFCA for payment of construction contracts. As of June 30, 2013, deposits with the State of California's Condemnation Fund and contract retentions are \$922,242, and \$2,332,291 respectively.

**Budget Policies**

The Sacramento Area Flood Control Agency's budget for the general fund is prepared on the modified accrual basis of accounting.

**Deferred Outflows of Resources**

Deferred outflows of resources consist of the loss incurred in refunding a prior bond issuance. As of June 30, 2013 the loss on debt refunding totaled \$1,050,372, net of accumulated amortization. Amortization of issuance cost is computed using the straight-line method, over the remaining life of the related bond.

**Prepaid Bond Insurance**

Bond insurance is required by the issuance of the 2007 and 2008 revenue bonds in lieu of making a reserve fund deposit. As of June 30, 2013 prepaid bond insurance totaled \$2,228,989, net of accumulated amortization. Amortization of issuance cost is computed using the straight-line method, over the remaining life of the related bond.

**New Pronouncements**

*GASB Statement No. 60.*

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCAs)*. SCAs are a type of public-private or public-public partnership. SAFCA does not participate in such arrangements and GASB Statement No. 60 does not have a financial impact on the financial statements.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

*GASB Statement No. 61.*

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. This statement amended Statement No. 14, The Financial Reporting Entity, and the related Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.* This Statement clarifies the inclusion of component units in the financial statements of a primary government unit (SAFCA). SAFCA does not have any component units as described in the Statement and as such GASB Statement No. 61 does not have a financial impact on the financial statements.

*GASB Statement No. 62.*

Effective July 1, 2012, SAFCA implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement is a codification of accounting and financial reporting guidance in previous FASB and AICPA pronouncements. GASB Statement No. 62 affects the presentation of the restatements resulting from the implementation of GASB 65.

*GASB Statement No. 63.*

Effective July 1, 2012, SAFCA implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The statement has many changes in the reporting of items on the financial statements of governmental entities. First, the statement defines the consumption or acquisition of net position in one period that are applicable to future periods as Deferred Outflows of Resources and Deferred Inflows of Resources, respectfully, and distinguishes them from assets and liabilities. Second, the statement defines net position as the residual of all other elements presented in a statement of financial position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Third, the statement supercedes GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.*

*GASB Statement No. 65.*

Not effective until fiscal year 2014, SAFCA early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement reclassifies certain items previously reported as assets and liabilities as Deferred Outflows of Resources and Deferred Inflows of Resources defined in Statement No. 63. SAFCA implemented this standard as of July 1, 2012.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**Restatement of Beginning Net Position**

*Reclassification of Deferred Outflow of Resources*

As a result of the early implementation of GASB 65, the balance of the unamortized loss on refunding was reported as an offset to the 2007 Bond series balance in the Long-Term Liabilities section of the Statement of Net Assets, now the Statement of Net Position. In accordance with GASB 65, the unamortized balance is reclassified as a Deferred Outflows of Resources to be reported after the Assets section of the Statement of Net Position.

As of June 30, 2013 the unamortized balance was \$1,050,372. While the reclassification does not change the Net Position as reported on the Statement of Net Position as of June 30, 2013, it does increase both Long-Term Liabilities and Deferred Outflows of Resources by \$1,050,372.

*Expensing of Bond Issuance Costs*

As a result of the early implementation of GASB 65, the beginning balance of net position, as reported on the Statement of Activities, has been decreased by the retroactive application requiring the expensing of certain bond issuance costs that were previously reported as a current asset. Correspondingly, the beginning balance of current and other assets decreased by the same amount. The balance of the bond issuance costs at June 30, 2012 was \$2,388,116.

Net position, June 30, 2012 as previously reported	\$ (58,391,926)
Expensing of Bond Issuance Costs	<u>(2,388,116)</u>
Net position (Restated) July 1, 2012	<u>\$ (60,780,042)</u>
Current and other assets, June 30, 2012 as previously reported	\$ 112,310,438
Expensing of the Bond Issuance Costs	<u>(2,388,116)</u>
Current and other assets (Restated) July 1, 2012	<u>\$ 109,922,322</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

As a result of the early implementation of GASB 65, the beginning balance of long-term liabilities as reported on the Statement of Net Position, has been increased by the retroactive application requiring the reclassification of the loss on refunding of debt as a deferred outflows of resources. Correspondingly, the beginning balance of deferred outflows of resources has increased by the same amount. The balance of the net loss on refunding of debt reported at June 30, 2012 was \$1,137,904.

Long-term debt, June 30, 2012 as previously reported	\$ 211,639,433
Reclassification of net loss on refunding of debt	<u>1,137,904</u>
Long-term debt (Restated) July 1, 2012	<u>\$ 212,777,337</u>
Deferred outflows of resources, June 30, 2012 as previously reported	\$ -
Reclassification of net loss on refunding of debt	<u>1,137,904</u>
Deferred outflows of resources (Restated) July 1, 2012	<u>\$ 1,137,904</u>

**NOTE 3 – FUND BALANCES**

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

As of June 30, 2013, fund balances for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact such as an endowment. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: amounts held for perpetuity, prepaid amounts, and long-term receivables.
- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Agency’s highest level of decision-making authority, SAFCA’s Board of Directors. Commitments may be changed or lifted only by the Agency taking the same formal action that imposed the constraint originally. For SAFCA, the commitments would occur by a resolution approved by the Board of Directors.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 3 – FUND BALANCES, (Continued)**

- *Assigned Fund Balance* – comprises amounts intended to be used by the Agency for specific purposes that are neither restricted nor committed. Intent to assign fund balance is expressed by the SAFCA's Board of Directors.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

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

Fund balances for all the major and nonmajor governmental funds as of June 30, 2013, were reported as follows:

	<u>General Fund</u>	<u>Capital Project Fund Consolidated Capital Assessment Fund</u>	<u>Debt Service Fund Consolidated Capital Assessment Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Nonspendable:</b>					
Hansen Ranch	\$ 90,343	\$ -	\$ -	\$ -	\$ 90,343
<b>Restricted for:</b>					
Hansen Ranch	178,722	-	-	-	178,722
Debt service	-	-	25,566,524	791,088	26,357,612
Capital projects	-	14,870,825	-	5,734,098	20,604,923
	<u>178,722</u>	<u>14,870,825</u>	<u>25,566,524</u>	<u>6,525,186</u>	<u>47,141,257</u>
<b>Assigned</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,456,537</u>	<u>2,456,537</u>
<b>Unassigned</b>	<u>12,354,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,354,196</u>
<b>Total</b>	<u>\$ 12,623,261</u>	<u>\$ 14,870,825</u>	<u>\$ 25,566,524</u>	<u>\$ 8,981,723</u>	<u>\$ 62,042,333</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 4 – CASH AND INVESTMENTS**

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

Cash and investments as of June 30, 2013, consist of the following:

<b>Statement of Net Position:</b>	
Cash and cash equivalents:	
County Treasury Pool	\$ 37,229,027
Restricted assets:	
U.S. Government Agencies	21,115,787
Total cash and investments	<u>\$ 58,344,814</u>

SAFCA maintains cash deposits and investments with the County and participates in the investment pool of the County, which is not rated by credit rating agencies. At June 30, 2013 the carrying amount of SAFCA's investments held by the County as part of the Treasurer's pool was \$37,229,027. The weighted average maturity of the Treasurer's pool was 301 days at June 30, 2013. SAFCA does not have a separate investment policy.

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

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

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

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. Permitted investments include investments in the Sacramento County Pooled Investment Fund which is managed by the Sacramento County Treasurer.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 4 – CASH AND INVESTMENTS, (Continued)**

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rate.

<u>Investment Type</u>	<u>Fair Value at June 30, 2013</u>	<u>Weighted Average Maturity (in years)</u>
Held with the fiscal agent:		
Federal Home Loan Bank Discount Note	\$ 11,204,229	
Federal Home Loan Mortgage Corporation Discount Note	5,314,688	
Federal National Mortgage Association Discount Note	4,596,870	
Total	<u>\$ 21,115,787</u>	<u>0.23</u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 4 – CASH AND INVESTMENTS, (Continued)**

**Credit Risk**

This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. 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. NR represents securities that are not rated.

<u>Investment Type</u>	<u>Fair Value at June 30, 2013</u>	<u>Ratings as of June 30, 2013</u>
Held with fiscal agent:		
Federal Home Loan Bank Discount Note	\$ 11,204,229	NR
Federal Home Loan Mortgage Corporation Discount Note	5,314,688	NR
Federal National Mortgage Association Discount Note	4,596,870	NR
Total	<u>\$ 21,115,787</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, 2013.

<u>Investment Type</u>	<u>Description</u>	<u>Amount</u>	<u>Percentage of portfolio</u>
Federal Home Loan Bank Discount Note	Government Securities	\$ 11,204,229	53%
Federal Home Loan Mortgage Corporation Discount Note	Government Securities	5,314,688	25%
Federal National Mortgage Association Discount Note	Government Securities	4,596,870	22%

**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, 2013, 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 (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 5 – INTERFUND TRANSACTIONS**

**Due To/From Other Funds**

The outstanding balances between funds result from the time lag between the dates the 1) transactions are recorded in the accounting system, and 2) payments between funds are made. The composition of interfund balances at June 30, 2013, is as follows:

<u>Due from:</u>	<u>Due to:</u>	<u>Amount</u>
General Fund	Consolidated Capital Assessment Fund	<u>\$ 1,072,803</u>

The Interfund balances are a result of the payment of the bond anticipation note issued by SAFCA for the Natomas basin local assessment district. The principal and interest on the notes is paid by SAFCA's general fund and it is the intent of management to have the consolidated capital assessment district fund reimburse the general fund for these note payments.

**Interfund transfers**

Interfund transfers during the year ended June 30, 2013 are summarized as follows:

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Consolidated Capital Assessment District Fund</u>	<u>Consolidated Capital Assessment District Debt Fund</u>	<u>Nonmajor Governmental Funds</u>	
<b>Transfer Out:</b>					
General Fund	\$ -	\$ -	\$ -	\$ 395,785	\$ 395,785
Consolidated Capital Assessment District Fund	535,625	-	-	-	535,625
Consolidated Capital Assessment Debt Fund	-	-	-	-	-
Nonmajor Governmental Funds	-	3,711,700	-	386,321	4,098,021
<b>Total</b>	<u>\$ 535,625</u>	<u>\$ 3,711,700</u>	<u>\$ -</u>	<u>\$ 782,106</u>	<u>\$ 5,029,431</u>

SAFCA's General Fund made a transfer of \$395,785 to Non-major Governmental Funds for Debt Service Payment for the 1996 Operations and Maintenance Bonds. The Consolidated Capital Assessment District Fund made a transfer of \$535,625 to the General Fund for payment of the 2011 bond anticipation note. The Non-major Governmental Funds made a transfer of \$386,321 to other Non-major Governmental Funds for Debt Service Payments. The Non-Major Governmental Funds made a transfer of \$3,711,700 to the Consolidated Capital Assessment Fund for capital project construction.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance at June 30, 2013</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 63,421,348	\$ 4,552,986	\$ -	\$ 67,974,334
Permanent easement	75,174	8,450	-	83,624
<i>Capital assets not being depreciated</i>	<u>63,496,522</u>	<u>4,561,436</u>	<u>-</u>	<u>68,057,958</u>
<i>Capital assets, being depreciated:</i>				
Equipment	35,932	-	-	35,932
Less accumulated depreciation	<u>(35,932)</u>	<u>-</u>	<u>-</u>	<u>(35,932)</u>
<i>Total capital assets, being depreciated, net</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Capital assets, net</b>	<u><b>\$ 63,496,522</b></u>	<u><b>\$ 4,561,436</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 68,057,958</b></u>

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 7 – LONG-TERM OBLIGATIONS**

Long-term obligations consist of the following at June 30, 2013:

Series 1996 Operating and Maintenance term bonds due on November 1, 2014 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%.	\$ 820,000
Series 1996 Operating and Maintenance term bonds due on November 1, 2017 through 2025 with interest at 5.900%, optional redemption effective for bonds maturing on or after November 1 2007 at a premium rate of 0% to 2%.	2,690,000
Series 2007A Consolidated Capital Assessment Serial bonds due on October 1, 2013 through 2027 with interest at 4.000% to 5.570%, optional redemption effective for bonds maturing on or after October 1, 2018.	35,870,000
Series 2007A Consolidated Capital Assessment Term bonds due on October 1, 2032 through 2037 with interest at 5.570%, optional redemption effective for bonds maturing on or after October 1, 2018.	43,965,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2013 through 2023 with interest at 4.000% to 5.375%, optional redemption effective for bonds maturing on or after October 1, 2019.	22,590,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2024 through 2028 with interest at 5.500%, mandatory redemption effective for bonds maturing on or after October 1, 2024 of each year.	15,340,000
Series 2008 Consolidated Capital Assessment bonds due on October 1, 2029 through 2037 with interest at 5.625%, mandatory redemption effective for bonds maturing on or after October 1, 2029 of each year.	41,130,000
Series 2011 Natomas Basin Local Assessment District Bond Anticipation Note due on June 15, 2016 with accrued interest at a fixed rate of 3.500%, optional redemption prior to the respective maturity date upon seven days notice.	5,545,000
Series 2012 Consolidated Capital Assessment District Serial Bonds due on October 1, 2013 through 2029 with interest varying from 3.000% to 5.000%, optional redemption effective for bonds maturing on or after October 1, 2021.	21,815,000

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)**

Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2030 through 2032 with interest at 5.250%, subject to mandatory sinking fund redemption. 5,420,000

Series 2012 Consolidated Capital Assessment District Bonds due on October 1, 2033 through October 1, 2037 with interest at 5.000%, subject to mandatory sinking fund redemption. 10,765,000

Total long-term obligations \$205,950,000

The aggregate amount of debt service on long-term debt outstanding at June 30, 2013 is as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,820,000	\$ 10,205,360
2015	5,000,000	10,017,675
2016	9,680,000	9,802,332
2017	5,050,000	9,409,778
2018	5,280,000	9,174,100
2019-2023	30,360,000	41,803,134
2024-2028	37,795,000	33,377,590
2029-2033	47,100,000	22,685,160
2034-2038	<u>60,865,000</u>	<u>8,603,016</u>
Total	<u>\$205,950,000</u>	<u>\$155,078,145</u>

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

The bonds are secured by special capital assessments and operations and maintenance assessments levied by SAFCA on property in the Operation and Maintenance Assessment District No. 1 and by certain other funds and accounts. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy in each fiscal year the Operation and Maintenance Assessments in an amount to provide sufficient funds to make the deposits required by the Resolution to be made in the Operation and Maintenance Assessment Obligation Fund in such fiscal year and to pay all budgeted Operation and Maintenance Expenses in such fiscal year. Total principal and interest remaining on the bonds is \$5,016,350, payable through November 2026. As of June 30, 2013, principal and interest paid and total revenues were \$175,000, \$211,345, and \$6,238,192, respectively.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)**

On June 1, 2007, the Sacramento Area Flood Control Agency issued \$87,130,000 of serial 2007 Consolidated Capital Assessment District Bonds with interest rates ranging from 4.000% to 5.570%. Proceeds from this issue were used to (i) establish irrevocable escrows to refund in full the \$33,920,000 of 2005 North Area Local Project Capital Assessment District No. 2 Bonds; (ii) repay SAFCA's Bond Anticipation Notes, 2006 Series A and B; (iii) finance certain facilities of SAFCA; (iv) purchase a Reserve Surety Bond in the amount of the reserve fund requirement; and (v) pay the costs of issuance of the Series 2007 Bonds. The bonds are secured by special capital assessments to be levied by SAFCA on property in SAFCA's Consolidated Capital Assessment District. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy the maximum amount in each fiscal year, through fiscal year 2036-2038. The collection of the Consolidated Capital Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service.

On October 9, 2008, in connection with the Series 2007 Bonds, the Series 2008 Bonds were issued in the amount of \$84,965,000 with interest rates ranging from 4.000% to 5.625%. Proceeds from this issue were used to (i) finance, or reimburse SAFCA for the cost of flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed in and for the District, (ii) pay the cost of the Policy and two debt service reserve fund financial guaranty insurance policies for the credit of the Reserve Account and, (iii) pay the costs of issuance of the Series 2008 Bonds. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2007 and 2008 is \$285,216,214, payable through June 2038. For fiscal year 2013, principal and interest paid was \$3,175,000 and \$8,233,706 respectively.

On June 23, 2011, SAFCA issued Bond Anticipation Notes, series 2011 in the amount of \$6,200,000 with a fixed interest rate of 3.500% per annum, through June 15, 2016. The purpose for which the Notes are issued is to provide interim funds, prior to the issuance of the proposed NBLAD Bonds, to fund SAFCA's share of the cost of constructing levee improvements needed to provide the Natomas Basin with a 200-year level of flood protection and costs associated with the issuance of the BANs. Total principal and interest remaining on the BAN, series 2011 is \$6,090,651, payable through June 2016. For fiscal year 2013, principal and interest paid was \$330,000 and \$205,625 respectively.

On March 27, 2012, the Sacramento Area Flood Control Agency issued \$38,000,000 of 2012 Consolidated Capital Assessment District Bonds with interest rates ranging from 3.000% to 5.250%. Proceeds from this issue were used to (i) finance a portion of the cost of certain flood control facilities consisting of a series of levee and other flood control improvements to be acquired and constructed for the District (ii) make a deposit to the Reserve Account and (iii) pay the costs of issuance of the Series 2012 Bonds. The bonds are secured and payable from the Consolidated Capital Assessments on a parity with the Series 2007 and 2008 Bonds, subject to the satisfaction of the conditions specified in the Resolution. The Agency has covenanted that, so long as any Bonds are outstanding, it will annually levy the maximum amount in each fiscal year through 2037-2038 the Consolidated Capital Assessments against all Assessable Land in the District. The collection of the Consolidated Capital Assessments should be equal to at least one hundred ten percent (110%) of the annual debt service. The Series 2012 Bonds maturing on or after October 1, 2021, are subject to optional redemption by the Agency. The Series 2012 Bonds maturing on October 1, 2030, and October 1, 2037, are subject to mandatory sinking fund redemption by the Agency. Total principal and interest remaining on the Consolidated Capital Assessment District bonds, series 2012 is \$64,704,930, payable through October 2037. As of June 30, 2013, interest paid was \$1,663,748.

As of June 30, 2013 the total assessment revenues for the 2007, 2008, and 2012 Consolidated Capital Assessment District Bonds is \$18,053,215.

**SACRAMENTO AREA FLOOD CONTROL AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 7 – LONG-TERM OBLIGATIONS, (Continued)**

Changes in long-term obligations for the fiscal year ended June 30, 2013 were as follows:

	July 1, 2012 Balance	Decrease	June 30, 2013 Balance	Due within one year
1996 Revenue Bonds	\$ 3,685,000	\$ (175,000)	\$ 3,510,000	\$ 190,000
2007 Revenue Bonds	81,445,000	(1,610,000)	79,835,000	1,675,000
2008 Revenue Bonds	80,625,000	(1,565,000)	79,060,000	1,630,000
2012 Revenue Bonds	38,000,000	-	38,000,000	980,000
2011 Bond Anticipation Not	5,875,000	(330,000)	5,545,000	345,000
Deferred Amounts:				
2008 Issuance Discount	(1,228,344)	47,244	(1,181,100)	(47,244)
2007 Issuance Premium	1,754,853	(134,989)	1,619,864	134,989
2012 Issuance Premium	2,620,828	(103,454)	2,517,374	103,454
Total	<u>\$ 212,777,337</u>	<u>\$ (3,871,199)</u>	<u>\$ 208,906,138</u>	<u>\$ 5,011,199</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 2013 will fluctuate based upon the stream of construction draw downs and changing investment yields. As of June 30, 2013, SAFCA has no arbitrage liability.

**NOTE 8 – OPERATING LEASES**

SAFCA entered into a lease agreement on June 1, 2007 for office space. The lease term is for six years and is cancellable after four years by giving at least 180 days written notice. On April 22, 2010, an amendment was made to the lease. The amendment allowed for expansion through addition or deletion of space within the lease premises. Rental expenditures for the year ended June 30, 2013 were \$214,165.

SAFCA entered into a new lease agreement on August 15, 2013 for the existing office and storage space. The commencement of the lease begins 10 days after agreed improvements are accepted by SAFCA or upon mutual agreement between Lessor and Lessee. The expected commencement date is February 15, 2014. The lease is for 68 months beginning the first full month after the commencement date of the lease. The agreement does not have an early termination clause. The lease grants the lessee two (2) five year extensions with 360 day notice prior to the expiration of the lease. The lease provides for no rent for the first 8 months and then annual increases of 2.7 percent per year.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 8 – OPERATING LEASES, (Continued)**

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 149,685
2015	141,458
2016	216,197
2017	222,217
2018	228,244
2019-2020	313,040
Total	<u>\$ 1,270,841</u>

**NOTE 9 – RELATED PARTY TRANSACTIONS**

For the year ended June 30, 2013, the County of Sacramento, a related party, owed SAFCA \$96,884 for interest earned on Treasury deposits and \$389,575, for special assessments 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 City. SAFCA uses other County departments for other services, such as risk management, engineering, accounting, etc. Expenditures paid to the County and City during the year for Public Protection and Public Ways and Facilities were \$1,551,159 and \$1,847,429 respectively. As of June 30, 2013, SAFCA owed the City of Sacramento \$1,014,514 for payroll.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

As of June 30, 2013, SAFCA has eight open construction contracts. These construction contracts are for projects in the Consolidated Capital Assessment District that are expected to be completed by June 30, 2014. These contracts are cancelable at anytime, with cause, upon 5-days written notice by the Board. The total amount of construction commitments in the Consolidated Capital Assessment District Fund is approximately \$7,376,708.

**Claims**

SAFCA has received claims from contractors, of ongoing levee construction contracts, for unexpected costs resulting from an increased water table. Under contract law, claims cannot be filed until after the contract is completed. As such, management believes that there is a reasonable possibility that a potential loss contingency may exist with the estimate for the loss being approximately \$3 million which may be partially offset by reimbursement provisions in the early implementation program contract with the California Department of Water Resources.

**Litigation**

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

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES, (Continued)**

**Disposal of Land**

The Early Implementation Program (EIP) executed with the State of California Department of Water Resources is due to expire on June 30, 2014. As a result of this, several parcels of land and permanent easements acquired with funds from the EIP, for the construction of levee projects are to be conveyed to the State of California. SAFCA will retain portions of affected parcels. The transfer of property titles are expected to start occurring in the fiscal year ending June 30, 2014.

**NOTE 11 – RISK MANAGEMENT**

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

SAFCA deductibles and maximum coverage follows:

<b>Coverage</b>	<b>Limits</b>	<b>Deductibles/SIR</b>	<b>Carrier</b>	<b>Effective Date</b>	<b>Policy Number or Memorandum Number</b>
<b>General Liability, Public Officials and Automobile Liability</b>	(1) \$25,000,000 Occurrence and Aggregate	<b>\$100,000 SIR applies to General Liability, Public Officials Liability and Automobile Liability</b>	<b>(1) CSAC Excess Insurance Authority (2) Lexington Insurance</b>	7/1/12 – 7/1/13	(1) EIA-PE 11 EL 62
	(2) \$15,000,000 CLIP			7/1/12 – 7/1/13	(2) 62785165
	Total \$50,000,000				
<b>Workers' Compensation and Employer's Liability</b>	<b>WC - Statutory Employers' Liability \$5,000,000</b>	<b>\$3,000,000 SIR</b>	<b>CSAC Excess Insurance Authority</b>	7/1/12 – 7/1/13	EIA11 EWC-30
<b>Property All Risk</b>	<b>\$7,694,737</b>	<b>\$1,000</b>	<b>Lexington Insurance</b>	7/1/12 – 7/1/13	011660428
<b>Boiler and Machinery (Included in Property Policy)</b>	<b>Included</b>	<b>\$2,500</b>	<b>Lexington Insurance</b>	7/1/12 – 7/1/13	011660428

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 (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 12 – INTERAGENCY PAYROLL AGREEMENT**

SAFCA contracts for payroll services from the City of Sacramento and the County of Sacramento. SAFCA is responsible for the payment of all payroll costs including the gross wages, employee benefits, worker's compensation, administrative costs, and pension costs of the employee participation in either the City or County system.

The Interagency Payroll Agreement with the City of Sacramento holds SAFCA responsible for all costs associated with the termination of the agreement including the costs associated with payment for accrued vacation and other leave, plus the allowance of City overhead.

**NOTE 13 – FUTURE GASB PRONOUNCEMENTS**

**GASB Statement No. 66.**

*Technical Correction -2012 – an amendment of GASB Statements No. 10 and No. 62*

This GASB is effective with Fiscal Year End June 30, 2014. It amends GASB No. 10 by removing a provision regarding fund-based reporting. It also amends GASB No. 62 modifying specific guidance on a variety of accounting issues. SAFCA has not determined the effect of this Statement.

**GASB Statement No. 67.**

*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*

This GASB is effective with Fiscal Year End June 30, 2014. It amends GASB No. 25 and will provide new standards on the reporting for pension plans. SAFCA has not determined the effect of this Statement.

**GASB Statement No. 68.**

*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*

This GASB is effective with Fiscal Year Ending June 30, 2015. It will provide new standards on the accounting and financial reporting for pensions that are administered through trusts. SAFCA has not determined the effect of this Statement.

**GASB Statement No. 69.**

*Government Combinations and Disposals of Government Operations*

This GASB is effective with Fiscal Year Ending June 30, 2015. It establishes accounting and financial reporting standards related to government combinations and disposals of government operations. SAFCA has not determined the effect of this Statement.

**GASB Statement No. 70.**

*Accounting and Financial Reporting for Nonexchange Financial Guarantees*

This GASB is effective with Fiscal Year End June 30, 2014. It provides guidance on accounting and financial reporting that extend and receive nonexchange financial guarantees. SAFCA has not determined the effect of this Statement.



**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 14 – SUBSEQUENT EVENTS**

**Changes in Personnel Services**

The Board of Directors adopted Resolutions 2013-081 and 2013-082 on September 19, 2013 to authorize the Executive Director to amend and terminate the 1989 Interagency Agreement with the City of Sacramento, County of Sacramento, Sacramento County Water Agency and the City Housing Authority of the City of Sacramento as well as the 2009 Personnel Services Agreement with the City of Sacramento. Additionally, the Board of Directors adopted Resolution 2013-084 to authorize the Executive Director to apply to the Director of Industrial Relations, State of California, for a Certificate to Self-Insure for Worker's Compensation Liabilities. The intent of these actions is to allow SAFCA to self-administer the payroll function in an effort to reduce administrative costs and allow for better management oversight regarding personnel issues. The other agencies involved also adopted resolutions to terminate their respective agreements. The transition is expected to occur in early calendar year 2014.

**Changes in Interagency Agreement**

The Board of Directors adopted Resolution 2013-083 to authorize the Executive Director to execute a contract with the County of Sacramento for technical and financial support services. Since these services are contracted under the 1989 Interagency Agreement it was necessary to execute a new contract to provide for continuity of service.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted amounts</u>		<u>Budgetary Basis</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Special benefit assessments	\$ 6,300,000	\$ 6,300,000	\$ 6,238,192	\$ (61,808)
Interest and other income	21,800	21,800	178,830	157,030
<b>Total revenues</b>	<u>6,321,800</u>	<u>6,321,800</u>	<u>6,417,022</u>	<u>95,222</u>
<b>EXPENDITURES</b>				
Current:				
Public protection	6,045,594	6,045,594	4,729,472	1,316,122
Debt service:				
Principal	330,000	330,000	330,000	-
Interest	205,625	205,625	205,625	-
<b>Total expenditures</b>	<u>6,581,219</u>	<u>6,581,219</u>	<u>5,265,097</u>	<u>1,316,122</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(259,419)</u>	<u>(259,419)</u>	<u>1,151,925</u>	<u>1,411,344</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	535,625	535,625
Transfer Out	(403,000)	(403,000)	(395,785)	7,215
<b>Total other financing sources (uses)</b>	<u>(403,000)</u>	<u>(403,000)</u>	<u>139,840</u>	<u>542,840</u>
<b>NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)</b>	<u>\$ (662,419)</u>	<u>\$ (662,419)</u>	<u>1,291,765</u>	<u>\$ 1,954,184</u>
Basis adjustment:				
Encumbrances			57,035	
<b>NET CHANGE IN FUND BALANCE (GAAP BASIS)</b>			<u>\$ 1,234,730</u>	

See note to the required supplementary information.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 – BUDGET**

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

Encumbrances, which are commitments related to the future purchase of goods or services, are recorded in 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 budgetary basis and are used as a management control device for the general fund. All annual appropriations lapse at fiscal year end. The Director of Administration prepares and submits a proposed budget to the Board of Directors in May for review. After reviewing the proposed budget and making such revisions as it may deem advisable, a final budget is prepared and adopted no later than the June board meeting. Revisions to the adopted budget must be presented to the Board of Directors by the Director of Administration and approved by resolution.

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	Capital Project Funds			Debt Service Fund			Total Nonmajor Governmental Funds
	Development Impact Fee Fund	North Area Local Project	Natomas Basin Local Assessment District	1996 Redemption	1996 Assessment	1996 Reserve	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,195,450	\$ 5,524,043	\$ 212,088	\$ 11	\$ 99,464	\$ 1,389	\$ 8,032,445
Due from other governments	261,474	260	-	-	-	-	261,734
Interest receivable	4,038	-	453	-	241	152	4,884
Restricted assets:							
Investments	-	-	-	2	293,927	395,902	689,831
<b>Total assets</b>	<b>\$ 2,460,962</b>	<b>\$ 5,524,303</b>	<b>\$ 212,541</b>	<b>\$ 13</b>	<b>\$ 393,632</b>	<b>\$ 397,443</b>	<b>\$ 8,988,894</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Warrants and claims payable	\$ 4,425	\$ 2,746	\$ -	\$ -	\$ -	\$ -	\$ 7,171
<b>Total liabilities</b>	<b>4,425</b>	<b>2,746</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,171</b>
<b>Fund balances:</b>							
Restricted for:							
Debt service	-	-	-	13	393,632	397,443	791,088
Capital projects	-	5,521,557	212,541	-	-	-	5,734,098
Assigned	2,456,537	-	-	-	-	-	2,456,537
<b>Total fund balances</b>	<b>2,456,537</b>	<b>5,521,557</b>	<b>212,541</b>	<b>13</b>	<b>393,632</b>	<b>397,443</b>	<b>8,981,723</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,460,962</b>	<b>\$ 5,524,303</b>	<b>\$ 212,541</b>	<b>\$ 13</b>	<b>\$ 393,632</b>	<b>\$ 397,443</b>	<b>\$ 8,988,894</b>

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Capital Project Funds			Debt Service Funds			Total Nonmajor Governmental Funds
	Development Impact Fee Fund	North Area Local Project	Natomas Basin Local Assessment District	1996 Redemption	1996 Assessment	1996 Reserve	
<b>REVENUES</b>							
Interest	\$ 10,103	\$ 77	\$ 1,250	\$ 13	\$ 1,038	\$ 719	\$ 13,200
Other income	932,941	285					933,226
Total revenues	943,044	362	1,250	13	1,038	719	946,426
<b>EXPENDITURES</b>							
Current:							
Public ways and facilities	13,898	14,424	-	-	-	-	28,322
Debt service:							
Principal	-	-	-	175,000	-	-	175,000
Interest	-	-	-	211,345	-	-	211,345
Total expenditures	13,898	14,424	-	386,345	-	-	414,667
Excess (deficiency) of revenues over (under) expenditures	929,146	(14,062)	1,250	(386,332)	1,038	719	531,759
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	-	386,321	395,785	-	782,106
Transfers out	-	(3,711,700)	-	-	(386,055)	(266)	(4,098,021)
Total other financing sources (uses)	-	(3,711,700)	-	386,321	9,730	(266)	(3,315,915)
<b>NET CHANGE IN FUND BALANCES</b>	929,146	(3,725,762)	1,250	(11)	10,768	453	(2,784,156)
Fund balances - beginning of year	1,527,391	9,247,319	211,291	24	382,864	396,990	11,765,879
Fund balances - end of year	\$ 2,456,537	\$ 5,521,557	\$ 212,541	\$ 13	\$ 393,632	\$ 397,443	\$ 8,981,723



**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, in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated November 22, 2013. Our report included an emphasis of a matter paragraph regarding SAFCA's adoption of GASB 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and early implementation of GASB 65 – *Items Previously Reported as Assets and Liabilities*.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **Purpose of this Report**

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

*Varrinik, Trine, Day & Co. LLP*

Sacramento, California  
November 22, 2013

**SACRAMENTO AREA FLOOD CONTROL AGENCY  
STATUS OF PRIOR YEAR FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

Summarized below is the current status of all audit findings reported in the prior year audit's Schedule of Findings and Recommendations:

<b>Finding Number</b>	<b>Finding Name</b>	<b>Status of Corrective Action</b>
2012-01	Year-end Closing/Financial Reporting	Implemented



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

Board of Directors  
Sacramento Area Flood Control Agency  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise SAFCA's basic financial statements and have issued our report thereon dated November 22, 2013. Our report included an emphasis of a matter paragraph regarding SAFCA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012.

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

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

*Vavrinek, Trine, Day & Co. LLP*

Sacramento, California  
November 22, 2013