

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR YEAR ENDED JUNE 30, 2008**

**KEMPER CPA GROUP LLP**  
*Certified Public Accountants and Consultants*



## INDEPENDENT AUDITOR'S REPORT

San Joaquin Area Flood Control Agency  
Stockton, California

We have audited the accompanying financial statements of the governmental activities and each major fund of San Joaquin Area Flood Control Agency, as of and for the year ended June 30, 2008, which collectively comprise the San Joaquin Area Flood Control Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of San Joaquin Area Flood Control Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of San Joaquin Area Flood Control Agency, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2010, on our consideration of San Joaquin Area Flood Control Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis and budgetary comparison information on pages 2 through 7 and 21 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Kemper CPA Group LLP*

**Kemper CPA Group LLP**  
*Certified Public Accountants and Consultants*  
Stockton, California  
June 2, 2010

# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

---

This section of the San Joaquin Area Flood Control Agency's (SJAFCA) annual financial report represents a discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2008. It should be read in conjunction with the Agency's basic financial statements following this section.

### FINANCIAL HIGHLIGHTS

As a result of the Agency's refinancing (July 2002), SJAFCA reduced the average annual interest rate of the outstanding bonds to 3.8% and significantly reduced the bond debt. The outstanding bond debt (including current amount of bonds payable \$1,365,000) is \$9,118,880.

SJAFCA project was included in Federal legislation, which contains provisions for local agencies to plan, design and construct flood control projects and be reimbursed for the Federal share of the project upon project completion. A Memorandum of Agreement with the U.S. Army Corps of Engineers (COE) signed on March 2, 2002, allowed reimbursement for the Federal share of the SJAFCA project through the annual COE budgeting process. In addition, SJAFCA received the State's reimbursement share for the project in 1998. SJAFCA has received the following State and Federal reimbursements:

<u>Year</u>	<u>State Reimbursement</u>	<u>Federal Reimbursement</u>
FY98	\$ 12,625,000	
FY01		\$
FY02		\$ 10,000,000
FY03		\$ 3,000,000
FY04		\$ 1,380,000
FY05		\$ 2,212,020
FY06		\$ 4,875,000
FY07		\$ 950,000
FY08		\$ 101,000

Future federal reimbursements will be requested by the COE through annual appropriations for the SJAFCA project until the reimbursements total \$33,491,000. As of June 30, 2008, a total of \$22,518,020 has been reimbursed to SJAFCA by the federal government and \$12,625,000 by the State government. It is uncertain when the Federal reimbursement will be completed.

### OVERVIEW OF THE FINANCIAL STATEMENTS

SJAFCA's basic financial statements include: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to The Financial Statements. Required Supplementary Information is included in addition to the basic financial statements.

**Government-Wide Financial Statements** provide an overview of the Agency's financial position. Refer to Note 1 (Notes to Financial Statements) for further information on significant accounting policies. The Statement of Net Assets presents information on all SJAFCA assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

The Agency's assets are distributed among the different fund types. Most of the Agency's assets are capital assets acquired or constructed as part of the flood control improvements. The Agency's non-capital assets are mostly cash and equivalents. The County of San Joaquin maintains the major cash pools for the Agency. A small portion of the Agency's cash is held by the Agency's fiscal agent, Wells Fargo Bank.

## SAN JOAQUIN AREA FLOOD CONTROL AGENCY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

---

The Agency's assets are mostly derived from the original assessment and the proceeds of the bonds issued in 1996, and interest income on the balances from these assets. Another source of funds are the Flood Control Equalization Fees, which are collected for the Agency by San Joaquin County and the City of Stockton when building permits are issued to new development within the Agency's assessment district boundaries. The Agency also acquired right-of-way needed for the project from property owners and these are classified under assets as land. The acquired right-of-way will be transferred to the Sacramento - San Joaquin Drainage District upon acceptance by the Central Valley Flood Protection Board (formerly the State of California Reclamation Board).

Most of the Agency's liability is the outstanding bonds initially sold in 1996 and refinanced in July 2002. The outstanding bonds account for almost 88% of the Agency's liability (See Statement of Net Assets). As of June 30, 2008 the outstanding bonds total (including current amount of bonds payable \$1,365,000) is \$9,118,880. Future debt service payments will be approximately \$1,800,000 annually to cover principal and interest with an average interest rate of approximately 3.8%. The Reserve Fund requirement associated with the bonds is currently \$1,800,000. The annual debt service payment is raised through annual assessments included in the County property tax bill. The last bond payment is scheduled to occur in September 2014.

**Governmental Funds Financial Statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. SJAFCA, like other state and local government agencies, uses fund accounting; each fund having its own self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The Agency funds are divided into four categories: General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

*The General Fund* accounts for funds loaned to the Agency in 1995 by the City of Stockton and San Joaquin County for the initial funding of the project activities. City and County loans have been paid, and after the Bond money was received additional funds were created.

*The Special Revenue Fund* includes the following funds: 1) Operations and Maintenance Fund which is used to account for resources held for the operations and maintenance (O&M) of flood control structures. SJAFCA created a special assessment in 1996 for the continued maintenance of the flood structures. Collection of the assessment will continue until a terminating resolution is adopted by the Agency. Assessments are collected as a line item in property tax bills and are deposited in the O&M Fund. The use of O&M funds is legally restricted to the operation and maintenance activities identified in the Agency's annual O&M budget. 2) Flood Control Equalization Fee Fund was created in 1996 to ensure that all new development areas contribute their fair share to the cost of the construction of the Flood Protection Restoration Project. Monies collected through the Flood Control Equalization Fee can be used to pay for expenses of required flood control facilities not included in the bonded indebtedness for the Assessment District, and/or to retire the assessment bonds early. The fund balance in the Equalization Fee Fund is transferred annually to the Capital Projects Fund. 3) The Environmental Fund was created to pay the cost of mitigating environmental damage resulting from construction of flood control facilities. Upon completion and payment verification of all project environmental activities, the remaining funds were transferred to the Capital Projects Fund on February 27, 2004.

*The Capital Projects Fund* accounts for all resources in place for the acquisition of capital facilities by the Agency. The original assessments, flood control Equalization Fees, proceeds of the bond issue, interest income, and the transferred Environmental Fund balance, are the sources of funds for the Capital Projects Fund. The Federal and State reimbursements are also included in this Fund.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

---

*The Debt Service Fund* accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related bond costs. Required interest and principal payments are made according to the terms of the bond issue. Assessment district payments collected from property owners through the property tax system are deposited in the debt service fund. Debt service payments are paid out of the same fund.

**Notes to the Financial Statements** provides additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This information includes a budgetary comparison schedule for SJAFCA governmental funds.

The schedule of Agency cash on deposit with San Joaquin County and Wells Fargo Bank is presented immediately following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This fiscal year is the seventh accounting period in which SJAFCA has applied Governmental Accounting Standards Board (GASB) Statement No. 34. As noted earlier, net assets provide an overview of the Agency's financial position.

The following table shows that the Agency's assets exceeded liabilities by about \$65 million (\$75,927,827 - \$10,319,908) as of June 30, 2008, and the net assets increased by about \$1 million (65,605,911 - \$64,657,621) compared with the prior year:

**STATEMENTS OF NET ASSETS**

June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 26,354,730	24,951,634
Land and easements	9,678,245	9,678,245
Flood control infrastructure	37,774,904	38,676,022
Other assets	2,117,940	2,117,940
<b>TOTAL ASSETS</b>	<b>75,925,819</b>	<b>75,423,841</b>
<u>LIABILITIES</u>		
Current liabilities	2,566,028	547,120
Long term liabilities	7,753,880	10,219,100
<b>TOTAL LIABILITIES</b>	<b>10,319,908</b>	<b>10,766,220</b>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	38,516,518	38,354,973
Restricted for debt service	5,849,269	5,442,363
Unrestricted	21,240,124	20,860,285
<b>TOTAL NET ASSETS</b>	<b>\$ 65,605,911</b>	<b>\$ 64,657,621</b>

The Agency's capital net assets for the year ended June 30, 2008: Land and Easements (\$9,678,245) and Flood Control Infrastructure (\$37,774,904) totaling \$47,453,149 represent approximately 62% of the Agency's total assets. These capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

---

The following table identifies the changes in net assets for the fiscal year ended June 30, 2008:

**STATEMENT OF ACTIVITIES**

For the years ended June 30, 2008 and 2007

<u>REVENUES</u>	<u>2008</u>	<u>2007</u>
Assessments	\$ 2,930,975	\$ 3,391,288
Aid from other government agencies	101,000	950,071
Interest income	152,258	159,806
Miscellaneous revenue	946,661	1,098,682
Total revenue	4,130,894	5,599,847
 <u>EXPENDITURES</u>		
Operations and management	212,821	279,776
Agency management	2,645,813	1,999,664
Other expenses	323,970	249,898
Total expenditures	3,182,604	2,529,338
 <u>NET ASSETS</u>		
Change in net assets	948,290	3,070,509
Beginning net assets	64,657,621	61,587,112
Net assets, end of the year	\$ 65,605,911	\$ 64,657,621

The Agency receives or has received revenues from sources which include assessments, interest and investment income, and project reimbursements from the State and the Federal government. The Agency also collects Flood Control Equalization Fees from permits issued for new construction. Flood Control Equalization Fees revenues can be used to complete project improvements approved by the Board or for early retirement of bonds. In addition, the Agency collects operations and maintenance assessments that can only be used to maintain and operate the flood control structures.

Revenues decreased by approximately 26% from \$5,599,847 in fiscal year 2007, to \$4,130,894 in fiscal year 2008. The decrease was mainly due to the reduction in the Federal reimbursement.

Expenditures increased by approximately 26% (from \$2,529,338 in fiscal year 2007, to \$3,182,605 in fiscal year 2008). This increase is mainly related to the Agency's new technical studies or projects.

**FINANCIAL ANALYSIS OF SJAFCA FUNDS**

**The General Fund** accounts for those funds loaned to the Agency in 1995 by the City of Stockton and San Joaquin County for the initial funding of the project activities. As the City and County loans have been paid, the activities in this fund will remain basically the same every year.

**Special Revenue Fund** Appropriate operations and maintenance assessments are collected annually through property assessments and are deposited in the Maintenance and Operation Fund. These monies are limited to operations and maintenance of the flood control structures built by the Agency. The annual budget for operations and maintenance is prepared in coordination with the San Joaquin County Public Works Department and approved by the SJAFCA Board.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

---

A budget of \$627,750 was considered appropriate this year (FY07/08) for operations and maintenance. The Maintenance and Operations Fund had a balance of approximately \$3.7 million on June 30, 2008.

**The Capital Projects Funds** Capital Projects Funds reported a combined fund balance of \$16,905,492. These funds are available to meet the Agency's current and future needs.

**Debt Service Funds** consist of the Debt Service Fund, Prepayment Fund, Redemption Fund and Reserve Fund. Resources in these funds are for the payment of general long-term debt principal, interest and related costs. District assessments collected from property owners with property taxes will remain steady at approximately \$2,170,000 annually.

**INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Agency's capital assets net of related debt, as of June 30, 2008, amounted to \$38,516,518. These capital assets include land (right-of-way acquired for the project) and flood control infrastructures. The area protected by SJAFCA is about 38,700 assessable gross acres of land with approximately 74,000 parcels in the County of San Joaquin, State of California. SJAFCA completed the main construction of the flood control improvements project in November 1998, and since then, no major construction has been done. However, authorized project studies and investigation may lead to new projects. There were no changes in capital assets during fiscal year ended June 30, 2008, as noted in the following table.

	<u>Land</u>	<u>Structures</u>	<u>Totals</u>
Balance, June 30, 2008	\$9,678,245	\$45,058,604	\$54,736,849
Current year increases	-	-	-
	<u>\$9,678,245</u>	<u>\$45,058,604</u>	<u>\$54,736,849</u>

Total accumulated depreciation as of June 30, 2008, is \$7,283,700. <sup>p.11</sup> Therefore, the net infrastructure asset is \$47,453,149 (\$54,736,849 - \$7,283,700). The infrastructure assets are being depreciated over a life of 50 years.

As noted earlier, these capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency. Land acquired by the Agency for right-of-way purposes, will be turned over to the Central Valley Flood Protection Board (formerly State of California Reclamation Board). Although the Agency's capital assets net of related debt is \$38,516,518, it should be noted that the resources needed to repay the outstanding debt must be provided from other sources, namely property assessments. Since the capital assets themselves generate no revenue and have no market value, they cannot be used to liquidate these liabilities.

**Long Term Debt**

As of June 30, 2008, the Agency had an outstanding long-term debt of \$9,118,880. This consists of the remaining outstanding bonds initially sold in 1996 and refinanced in July of 2002. These bonds account for approximately 88% of the Agency's liabilities.

**SJAFCA OPERATIONS**

SJAFCA completed the main construction of its \$70 million flood control improvements project in November 1998. Due to the concern of having SJAFCA levees decertified by the Federal Emergency Management Agency (FEMA) and/or the State Department of Water Resources (DWR) the Board decided to hold in reserve the federal reimbursement and the project surplus funds. SJAFCA is currently studying other flood control projects to provide or restore the required level of protection for parcels within its assessment district area. Remaining Capital Project Funds will be used to pay for these new projects.

# **SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008**

---

Before undertaking any new projects, SJAFCA must determine whether the proposed project will meet the necessary criteria for which funds are available for expenditure. During this fiscal year (FY07/08) the Board approved the following contracts: Survey and Mapping Services for Bear Creek and Lower Calaveras River, ii) Smith Canal Closure Structure Conceptualization, iii) Lower San Joaquin Feasibility Study Startup Assistance and Implementation, iv) Geotechnical Investigation of required SJAFCA Levees.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of SJAFCA's finances for all those with interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the SJAFCA Executive Director, James B. Giottonini at 22 E. Weber Avenue, Room 301, Stockton, CA 95202.



**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	Governmental Activities	Totals
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 26,114,914	\$ 26,114,914
Assessments receivable	999	999
Interest income receivable	187,234	187,234
Bond issuance costs, net	51,583	51,583
Total current assets	<u>26,354,730</u>	<u>26,354,730</u>
<b>OTHER ASSETS</b>		
Long term investments	1,847,130	1,847,130
Bond issuance costs, net	270,810	270,810
Infrastructure assets, net	37,774,904	37,774,904
Land and easements	9,678,245	9,678,245
Total other assets	<u>49,571,089</u>	<u>49,571,089</u>
Total assets	<u>75,925,819</u>	<u>75,925,819</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	1,060,884	1,060,884
Interest payable	140,144	140,144
Bonds payable, current portion	1,365,000	1,365,000
Total current liabilities	<u>2,566,028</u>	<u>2,566,028</u>
<b>LONG TERM LIABILITIES</b>		
Bonds payable, net of bond premium and deferred loss	<u>7,753,880</u>	<u>7,753,880</u>
Total long term liabilities	<u>7,753,880</u>	<u>7,753,880</u>
Total liabilities	<u>10,319,908</u>	<u>10,319,908</u>
<b>NET ASSETS</b>		
Invested in land and infrastructure, net of related debt	38,516,518	38,516,518
Restricted for debt service	5,849,269	5,849,269
Unrestricted	21,240,124	21,240,124
Total net assets	<u>\$ 65,605,911</u>	<u>\$ 65,605,911</u>

See independent auditor's report and notes to the financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Program Revenues</u>			
	<u>Program Expenses</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Net (expense) revenue</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Operations and management	\$ 212,821	-	\$ -	\$ (212,821)
Agency management	<u>2,645,813</u>	<u>946,599</u>	<u>101,000</u>	<u>(1,598,214)</u>
Total governmental activities	<u>\$ 2,858,634</u>	<u>\$ 946,599</u>	<u>\$ 101,000</u>	<u>(1,811,035)</u>

**GENERAL REVENUES**

Assessments	2,930,975
Interest income	152,258
Miscellaneous income	62
Total general revenues	3,083,295
Change in market value	(74,072)
Loss on advance refunding of bonds	<u>(249,898)</u>
Change in net assets	<u>948,290</u>
Beginning net assets	<u>64,657,621</u>
Ending net assets	<u>\$ 65,605,911</u>

Interest income of \$946,599 is included under operating grants of agency management.

Direct interest expense of \$429,974 is included in the program expenses of agency management.

SAN JOAQUIN AREA FLOOD CONTROL AGENCY

FUND BALANCE SHEETS OF GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 608,106	\$ 3,695,747	\$ 17,832,002	\$ 3,979,059	\$ 26,114,914
Assessments receivable	-	3,436	395	(2,833)	998
Interest income receivable	4,399	27,761	127,262	27,813	187,235
Long term investments	-	-	-	1,847,130	1,847,130
Total assets	\$ 612,505	\$ 3,726,944	\$ 17,959,659	\$ 5,851,169	\$ 28,150,277
<b>LIABILITIES</b>					
Accounts payable	-	4,817	1,054,167	1,900	\$ 1,060,884
Total liabilities	-	4,817	1,054,167	1,900	1,060,884
<b>FUND BALANCES</b>					
Unrestricted:					
Unrestricted	612,505	-	-	-	612,505
Designated for maintenance and operations	-	3,722,127	-	-	3,722,127
Designated for capital improvements	-	-	16,905,492	-	16,905,492
Total unrestricted	612,505	3,722,127	16,905,492	-	21,240,124
Restricted for debt service	-	-	-	5,849,269	5,849,269
Total fund balances	612,505	3,722,127	16,905,492	5,849,269	27,089,393
Total liabilities and fund balances	\$ 612,505	\$ 3,726,944	\$ 17,959,659	\$ 5,851,169	\$ 28,150,277

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**RECONCILIATION OF THE FUND BALANCE SHEETS OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS**

**JUNE 30, 2008**

---

Fund balances - total government funds (from pages 12)	\$ 27,089,393
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets (page 8) are different because (See note 2 also):	
Infrastructure assets, land and easements	54,736,849
Accumulated depreciation	<u>(7,283,700)</u>
They are not financial resources and, therefore, are not reported in the funds. See Note 3 for additional detail.	<u>47,453,149</u>
Bonds payable	(10,680,000)
Unamortized bond premium	(742)
Bond interest payable	(140,144)
Unamortized deferred loss on refunding	1,561,862
Bond issuance costs	631,891
Accumulated amortization, bond issuance costs	<u>(309,498)</u>
Long-term liabilities are not due and payable in the current period and are not reported in the funds. See Note 3 for detail.	<u>(8,936,631)</u>
Net assets of governmental activities (from page 9)	<u>\$ 65,605,911</u>

See independent auditor's report and notes to the financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>					
Assessments	\$ -	\$ 757,528	\$ 395	\$ 2,173,052	\$ 2,930,975
Interest	25,527	152,258	744,512	176,560	1,098,857
Other government agency aid	-	-	101,000	-	101,000
Miscellaneous	-	-	62	-	62
Total revenues	25,527	909,786	845,969	2,349,612	4,130,894
<b>EXPENDITURES</b>					
Current operating:					
Operations and maintenance	-	212,821	-	21,886	234,707
Agency management	-	-	1,241,252	-	1,241,252
Debt service:					
Interest and other charges	-	-	-	444,118	444,118
Total expenditures	-	212,821	1,241,252	466,004	1,920,077
<b>OTHER FINANCING SOURCES (USES)</b>					
Principal payments on bonds	-	-	-	(1,350,000)	(1,350,000)
Net change in market value	(2,125)	(12,919)	(62,331)	3,303	(74,072)
Transfers in/ Transfers out	-	(432,131)	562,136	(130,005)	-
Total other financing sources	(2,125)	(445,050)	499,805	(1,476,702)	(1,424,072)
Net change in fund balance	23,402	251,915	104,522	406,906	786,745
Fund balances, beginning	589,103	3,470,212	16,800,970	5,442,363	26,302,648
Fund balances, ending	\$ 612,505	\$ 3,722,127	\$ 16,905,492	\$ 5,849,269	\$ 27,089,393

See independent auditor's report and notes to the financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

---

Net change in fund balances - total government funds (from page 12)	\$ 786,745
 Amounts reported for <i>governmental activities</i> in the Statement of Activities (page 9) are different because (See note 2 also):	
Governmental funds report capital outlays as expenditures while governmental activities record depreciation expense to allocate those expenditures over the estimated useful life of the assets.	(901,118)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,350,000
Governmental funds do not report unamortized bond issuance costs while governmental activities record the amortization expense to allocate those discounts over the life of the bonds. This is the amount of the amortization for the year.	(51,583)
Governmental funds do not report unamortized loss on refunding of bonds while governmental activities allocate that loss over the life of the new bond issuance. This is the amount of the loss recognized in the current year.	(249,898)
Governmental funds report interest expense as the amount of financial resources used in the current year, while governmental activities report the amount of interest expense incurred in the current year. This is the amount by which interest paid exceeded interest incurred.	14,144
	<hr/>
Change in net assets of governmental activities (page 9)	<u>\$ 948,290</u>

# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

---

### 1. DEFINITION OF THE AGENCY

The San Joaquin Area Flood Control Agency (the "Agency") is the result of a joint powers agreement (JPA) between the City of Stockton ("City"), the County of San Joaquin ("County") and the San Joaquin County Flood Control and Water Conservation District ("District"). The Agency was formed May 25, 1995 for the purposes of undertaking the acquisition, construction and/or installation of improvements to flood control channels in the City and the portion of unincorporated areas of the County adjacent thereto (the "Project"), in order to provide a 100-year flood protection to these areas. The Agency is a public entity pursuant to the provisions of Articles 1-4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. The basic operations of the Agency are financed as a part of the Project operations and costs. An annual special assessment based on total costs of the Project was assessed during the year ended June 30, 1996. This assessment will pay for Project costs and bond repayment. During the year ended June 30, 1997, an additional annual special assessment was approved for the continued maintenance of the flood project structures. Collections of the June 30, 1996 assessments will continue for the duration of the Project as well as to repay a bond issue for a period of approximately eighteen years. This bond issue matures in 2014. Collections of the June 30, 1997 assessment will continue until adoption of terminating resolution in order to finance the maintenance of the flood project structures.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect for fiscal year ending June 30, 2008) as well as the following pronouncements issued on or before November 30, 1999, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Financial Agency*

The Agency's basic financial statements include the accounts of all Agency operations. The Agency's basic financial statements do not include operations of the associated governmental agencies involved in the joint power agency, namely, the City, the County, and the District.

#### *Basis of Presentation – Government-Wide Accounting*

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Agency as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Other items not properly included are reported instead as general revenues and expenses.

#### *Basis of Presentation - Fund Accounting*

Fund financial statements are provided for governmental funds. The Agency does not have any proprietary or fiduciary funds.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

---

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized in the year for which they are levied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

The major sources of revenues susceptible to accrual are: assessments of property owners and investment income.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as needed.

### *Allocation of Indirect Expenses*

The Agency allocates indirect expenses primarily comprised of administrative services to Agency Management functions. Administrative services include accounting, financial reporting, payroll reimbursement, investing and cash management, personnel services, and other administrative services.

### *Fund Types and Major Funds*

The Agency considers all funds to be major and all are shown in the governmental fund financial statements:

*General Fund* – Accounts for project expenses, including, but not limited to, construction, consultants, and salaries reimbursement.

*Capital Projects Fund* - Accounts for all resources for the acquisition of capital facilities by the Agency. The Project of the Agency is to construct these facilities. The original assessment and proceeds of the bond issue are the sources of funds. Recorded income sources include assessment fees collected by the San Joaquin County Tax Collector and reimbursement from the Federal government.

*Special Revenue Fund* – Accounts for the collection of a fee that is assessed when building permits for new improvements are issued within the assessment district. The resources are used for capital improvements, retirement of bond debt, and environment costs of the Project. Proceeds of specific revenue sources, the expenditures for which are legally restricted, are recorded in the Special Revenue Fund.

*Debt Services Fund* – Accounts for the accumulation of financial resources for the payment of principal and interest on the Agency's general obligation debt. Required interest and principal payments are made according to the terms of the bond issue.

### *Cash and Cash Equivalents*

The Agency maintains a large portion of its cash in the San Joaquin County Treasury. The County pools these funds with those of other Agencies in the county and invests the cash.



# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

---

### *Infrastructure Assets, Depreciation and Amortization*

The Agency's infrastructure assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Agency generally capitalizes all assets as construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Infrastructure assets are depreciated using the straight-line method over a useful life of 50 years.

### *Long-Term Debt, Deferred Debt Expense, and Bond Discount/Premiums*

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

### *Reservation of Fund Balance*

The Agency records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore, are not available for appropriations or expenditure in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity which is available for appropriations in future periods. If restricted and unrestricted net assets are available for the same purpose, then restricted net assets will be used before unrestricted net assets.

### *Restriction of Net Assets*

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or that are legally restricted for specified purposes. The Maintenance and Operations Fund reserve for restricted purposes includes net assets resulting from assessments exclusively restricted for maintenance of the Project after completion. The Debt Service Fund reserve for restricted purposes includes investments for the repayments of the long term bonds payable under a sinking fund requirement.

### *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

## 3. DETAILED NOTES ON FUNDS

### ASSETS

#### *Cash in County Treasury*

The Agency maintains a large portion of its cash in the San Joaquin County Treasury as part of the common investment pool (the "Pool"), which had a carrying value of \$26,114,914 as of June 30, 2008. The fair value of the Agency's portion of the Pool as of June 30, 2008, was \$26,114,914.

The Agency is considered to be an involuntary participant in the external investment pool. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool.

# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances.

The value of the Agency shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the Pool. The Agency's investment in the Pool is unrated, stated at amortized cost which approximates fair value, available on demand and considered cash equivalents.

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 fair value to changes in market interest rate. As of the year end, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately one year.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The County of San Joaquin issues a financial report that includes custodial credit risk disclosures for the Cash in County Treasury. The report may be obtained by writing to the San Joaquin County Treasurer, 44 North San Joaquin Street, Stockton, California 95202.

### *Investments*

At year end, the Agency had the following investments and maturities:

Investment Type	Carrying Value	Fair Value	Maturity
Wells Fargo Advantage			
100% Treasury Money Market	\$ 57,105	\$ 57,105	N/A
MBIA Inc. Maturity 9/2/2014	<u>1,790,025</u>	<u>1,790,025</u>	9/2/2014
Total investment	<u>\$ 1,847,130</u>	<u>\$ 1,847,130</u>	

These investments are designated for the repayment of the Bonds per the requirement for sinking funds as discussed below.

Cash balances held in investment accounts are not insured by the Federal Depository Insurance Corporation. At June 30, 2008 the Agency had \$1,847,130 in marketable securities which are not insured.

### *Assessments Receivable*

Assessments are collected and remitted to the County Tax Collector. The Tax Collector's office transfers the assessment amount to the Agency's fund held by the San Joaquin County Treasury.

In the governmental fund financial statements, assessments receivable are recorded in the Special Revenues Funds, Capital Projects Funds and the Debt Service Fund.

In the government-wide financial statements, assessments receivable include all amounts due to the Agency regardless of when the cash is received.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2008**

*Change in Land and Infrastructure Assets*

The following tables provide a summary of changes in infrastructure assets:

	6/30/2007	Additions	6/30/2008
Land	\$ 9,678,245	\$ -	\$ 9,678,245
Infrastructure assets	45,058,604	-	45,058,604
Total infrastructure assets	54,736,849	-	54,736,849
Accumulated depreciation	6,382,582	901,118	7,283,700
Net infrastructure assets	\$ 48,354,267	\$ (901,118)	\$ 47,453,149

Depreciation expense for the year ended June 30, 2008, was charged to functions of the government as agency management.

**LIABILITIES**

*Accounts Payable*

Significant payables include amounts due to a related party. See Note 5 for information describing related parties. Other payable amounts are due to vendors for services rendered prior to the fiscal year-end.

*Long-Term Debt*

During the year ended June 30, 2003, the Agency was able to issue bonds for the remainder of the Project, with an interest rate of 2.5%. The bonds are secured by the assessments levied on parcels within the Agency. The Agency made principal payments of \$1,350,000 during the year ended June 30, 2008, none of which was an optional redemption. The indenture requires the maintenance of a principal (sinking fund) account.

Interest costs are incurred on the long-term bonds. In the year ended June 30, 2008, the Debt Service Fund incurred \$429,974 of interest costs.

*Outstanding Bonds, Maturity Dates, and Interest Rates*

	Amount of Original Issue	Range of Maturity Dates	Range of Interest Rates
Limited Obligation Bonds	\$ 22,975,000	2003-2014	2.50% - 4.30%

*Changes in Long-Term Debt*

The following is a summary of changes in long-term debt for the year ended June 30, 2008:

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

	6/30/2007	Reductions	6/30/2008	Due Within One Year
Bonds	\$ 12,030,000	\$ 1,350,000	\$ 10,680,000	\$ 1,365,000
Premium	860	118	742	118
Deferred loss	(1,811,760)	(249,898)	(1,561,862)	(249,898)
<b>Total</b>	<b>\$ 10,219,100</b>	<b>\$ 1,100,220</b>	<b>\$ 9,118,880</b>	<b>\$ 1,115,220</b>

The annual debt service requirements to maturity for bonded debt are as follows:

Year Ending June 30,	Principal {a}	Premium {b}	Deferred Loss {c}	Maturity, net {a}+{b}+{c}	Interest
2009	\$ 1,365,000	\$ 118	\$ (249,898)	\$ 1,115,220	\$ 397,221
2010	1,410,000	118	(249,898)	1,160,220	348,636
2011	1,465,000	118	(249,898)	1,215,220	295,421
2012	1,515,000	118	(249,898)	1,265,220	237,286
2013	1,575,000	118	(249,898)	1,325,220	174,698
Thereafter	3,350,000	152	(312,372)	3,037,780	144,735
<b>Total</b>	<b>\$ 10,680,000</b>	<b>\$ 742</b>	<b>\$ (1,561,862)</b>	<b>\$ 9,118,880</b>	<b>\$ 1,597,997</b>

*Information on Assessment Delinquency for Bond Repayment:*

Tax year	2007/2008
Percent deliquent	2.8%
Parcels deliquent	2,729
Dollars deliquent	\$ 61,025
For prior five and current years	
Percent deliquent	0.88%
Parcels deliquent	4,916
Dollars deliquent	\$ 126,937

**4. BALANCES AND TRANSFERS/PAYMENTS WITHIN THE AGENCY**

*Receivables and Payables*

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no receivables/payables between funds as of June 30, 2008.

# SAN JOAQUIN AREA FLOOD CONTROL AGENCY

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

---

### *Transfers and Payments*

Transfers and payments within the Agency are for the purpose of subsidizing operating functions. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental columns. Only transfers between the columns appear in this statement.

The following schedule reports transfers and payments within the Agency:

	<u>Transfers from</u>	<u>Transfers to</u>
Capital projects fund	\$ -	\$ 562,136
Debt service fund	130,005	-
Special revenue fund	<u>432,131</u>	<u>-</u>
Total	<u>\$ 562,136</u>	<u>\$ 562,136</u>

### **5. RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2008, the Agency has approved payments to members of the JPA for services and personnel costs of the Agency from inception to present. These payments were approved by Board resolutions at the initial setup of the Agency. These costs are accumulated in the Agency Administrative costs. Payments are made in the year following the year they are incurred. Amounts due to the related party during the fiscal year ended June 30, 2008 were \$618,437.

### **6. SUBSEQUENT EVENTS**

To address Federal (FEMA, US Army Corps of Engineers), State (Department of Water Resources, Senate Bill 5), and Local flood control issues, the Board of Director's took the following actions subsequent to year end: signing of two 3-year consultant contracts, each in the amount of \$1.5 million, with Peterson Brustad, Inc. and Wood Rodgers, Inc for technical support related to levee and other flood control activities. These contracts provided SJAFCA with the ability to address issues related to the disaccreditation and provisional accreditation of area levees by FEMA Map Modernization Program. In addition, the agency entered into a \$10 million cost-share agreement with the US Army Corps of Engineers and the Central Valley Flood Protection Board for a Feasibility Study for the San Joaquin River (Local responsibility \$2.5 million). Information from the study will be used to develop a plan to reach 200-year levee of flood protection for urban and urbanizing areas as required by State Senate Bill 5.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**BUDGET TO ACTUAL COMPARISON STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue		Capital Projects		Total		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	Budget	Actual	
<b>REVENUES</b>							
Assessment	\$ 950,000	\$ 757,528	\$ -	\$ 395	\$ 950,000	\$ 757,923	\$ (192,077)
Government agencies	-	-	-	101,000	-	101,000	101,000
Miscellaneous	-	(12,919)	-	(62,269)	-	(75,188)	(75,188)
Total revenues	950,000	744,609	-	39,126	950,000	783,735	(166,265)
<b>EXPENDITURES</b>							
Maintenance and operations	520,000	212,821	-	-	520,000	212,821	307,179
Administrative costs	4,000	-	945,000	1,241,252	949,000	1,241,252	(292,252)
Real property acquisition costs	-	-	15,000	-	15,000	-	15,000
Engineering & construction management costs	-	-	350,000	-	350,000	-	350,000
Reserves/emergencies	3,340,000	-	15,890,000	-	19,230,000	-	19,230,000
Total expenditures	3,864,000	212,821	17,200,000	1,241,252	21,064,000	1,454,073	19,609,927
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	305,000	562,136	305,000	562,136	257,136
Transfers out	(305,000)	(432,131)	-	-	(305,000)	(432,131)	(127,131)
Interest income	119,000	152,258	700,000	744,512	819,000	896,770	77,770
Total other financing sources (uses)	(186,000)	(279,873)	1,005,000	1,306,648	819,000	1,026,775	207,775
Excess (deficiency) of revenues and other sources over expenditures and other uses	(3,100,000)	251,915	(16,195,000)	104,522	(19,295,000)	356,437	19,651,437
Fund balances, beginning	3,100,000	3,470,212	16,195,000	16,800,970	19,295,000	20,271,182	976,182
Fund balances, ending	\$ -	\$ 3,722,127	\$ -	\$ 16,905,492	\$ -	\$ 20,627,619	\$ 20,627,619

**Adjustments to conform to GAAP:**

Fund balances where the fund is not budgeted	6,461,774
Infrastructure assets, net of depreciation	47,453,149
Bonds payable, net of bond premium, deferred loss o	(9,118,880)
Unamortized bond issuance costs	322,393
Interest payable on outstanding bonds	(140,144)
<b>GAAP ending net assets</b>	<b>\$ 65,605,911</b>

See independent auditor's report and notes to the required supplementary information.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2008**

---

**1. BUDGETARY INFORMATION**

***Budget Policy and Practice***

The Agency submits an annual budget to the Board of Directors. The Board of Directors formally approves the annual budget in accordance with the by-laws established by the joint power agency agreement. The Board of Directors are to prepare and adopt a budget within the first 90 days of the fiscal year.

***Basis of Budgeting***

The budget is prepared on a GAAP basis. Major Capital Asset funds and the Maintenance and Operations Fund budgets are prepared on a detail line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Construction/Improvements, Administration, Environmental Mitigation, Annual Maintenance/Administration, Reserves/Emergencies, Construction Costs, Real Property Acquisition Costs, Engineering/Construction Management Costs, and Undesignated Construction Contingencies. Expenditures may not exceed appropriations at this level.

**2. NEGATIVE VARIANCES FROM BUDGETARY AMOUNTS**

The Board of Directors is not required to revise the budget for amounts exceeding the original budgetary amounts. There were no revised budgets for the Agency in the year ended June 30, 2008.



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

To the Board of Directors  
San Joaquin Area Flood Control Agency  
Stockton, California

In planning and performing our audit of the financial statements of the governmental activities and each major fund of San Joaquin Area Flood Control Agency as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered San Joaquin Area Flood Control Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Joaquin Area Flood Control Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the San Joaquin Area Flood Control Agency's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a material weakness.

***Prior year finding and results***

The prior year's audit adjusting journal entry was incorrectly posted to the Government-wide financials instead of the fund financials and went unnoticed by the Agency. We recommend management review the fund financial statements, the Government-wide financial statements and journal entries prior to beginning the audit process. Management did perform those reviews; however, they did not compare the prior year audited ending balances of fund net assets and government-wide net assets to the prepared financial statements, therefore, the incorrect posting was not detected.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.



This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Kemper CPA Group LLP*

**Kemper CPA Group LLP**  
*Certified Public Accountants and Consultants*  
Stockton, California  
June 2, 2010

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES, MATERIAL WEAKNESSES AND  
RECOMMENDATIONS**

**JUNE 30, 2008**

---

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to the financial statements noted?	No

**Section II - Summary of Material Weaknesses**

*Prior year finding and results*

The prior year's audit adjusting journal entry was incorrectly posted to the Government-wide financials instead of the fund financials and went unnoticed by the Agency. We recommend management review the fund financial statements, the Government-wide financial statements and journal entries prior to beginning the audit process. Management did perform those reviews; however, they did not compare the prior year audited ending balances of fund net assets and government-wide net assets to the prepared financial statements, therefore, the incorrect posting was not detected.

*Managements Response:*

To curtail future oversights, SJAFCA staff, in addition to the normal financial review, will conduct a supplementary evaluation of the government-wide financial statements. This supplementary review will be completed before the statements are submitted to Kemper CPA Group LLP for the audit. The implementation of a supplementary evaluation will significantly reduce the possibility of a future oversight

**Section II - Summary of Significant Deficiencies**

None

**Section III - Review of Prior Year Material Weaknesses**

See Section II - Summary of Material Weaknesses

June 2, 2010

To the Board of Directors of  
San Joaquin Area Flood Control Agency

We have audited the financial statements of the governmental activities, and each major fund of San Joaquin Area Flood Control Agency for the year ended June 30, 2008. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2009. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by San Joaquin Area Flood Control Agency are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of subsequent events relating to contract commitments.

##### *Difficulties Encountered in Performing the Audit*

We encountered difficulties in obtaining the Management's Discussion and Analysis from the client, this caused significant delays in the audit report completion, review and delivery.

##### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

##### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

##### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 2, 2010.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of San Joaquin Area Flood Control Agency and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Kemper CPA Group LLP*

**Kemper CPA Group LLP**  
*Certified Public Accountants and Consultants*