SAN JOAQUIN AREA FLOOD CONTROL AGENCY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR YEAR ENDED JUNE 30, 2011

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE
SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

Member of PKF North America
An association of legally independent firms

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (Agency), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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.

As discussed in Note 2 in the financial statements, the Agency has adopted the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* in 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2011, 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 September 17, 2013, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 31 through 33 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 17, 2013

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

This section of the San Joaquin Area Flood Control Agency's (Agency) annual financial report represents a discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2011. 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), the Agency reduced the average annual interest rate of the outstanding bonds to 3.8% and significantly reduced the bond debt. The outstanding bond debt (including $970,000 current amount of bonds payable) is $3,298,220.

The Agency's 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 Agency project through the annual COE budgeting process. The Federal share is $33,491,000. The Agency received the State's share of the project in 1998. The following summarizes State and Federal reimbursements:

Year	State Reimbursement	Federal Reimbursement
FY98	$ 12,625,000	$ 0
FY99	$ 0	$ 0
FY00	$ 0	$ 0
FY01	$ 0	$ 0
FY02	$ 0	$ 10,000,000
FY03	$ 0	$ 3,000,000
FY04	$ 0	$ 1,380,000
FY05	$ 0	$ 2,212,020
FY06	$ 0	$ 4,875,000
FY07	$ 0	$ 950,000
FY08	$ 0	$ 101,000
FY09	$ 0	$ 0
FY10	$ 0	$ 350,000
FY11	$ 0	$ 0

In the past, Federal reimbursements were requested by the COE through an annual appropriations process for the Agency's project. As of June 30, 2011, a total of $22,868,020 has been reimbursed to the Agency by the Federal government and $12,625,000 by the State government. The balance of the remaining Federal cost share is $10.6 million. The Agency continues to pursue Federal reimbursement as credit towards current and future flood control projects or studies.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Agency's basic financial statements include: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. Required Supplementary Information and 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 2 (Notes to the Basic Financial Statements) for further information on significant accounting policies. The Statement of Net Assets presents information on all the Agency's 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 noncapital assets are mostly cash and cash equivalents. The County of San Joaquin (County) 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.

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 the County and the City of Stockton (City) when building permits are issued to new development within the Agency's assessment district boundaries. It should be noted that the collection of Flood Control Equalization fees will cease when the bonds are paid in full. The Agency also acquired the 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 89% of the Agency's liability (See Statement of Net Assets). As of June 30, 2011, the outstanding bonds total (including $970,000 in current amount of bonds payable) is $3,298,220. 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. However, due to significant debt reduction, the bond was called during the fiscal year 2011-12.

Governmental Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, 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 and County for the initial funding of the project activities. The City and County loans have been paid, and after the bond money was received, additional funds were created.

The Special Revenue Funds include the following funds: 1) Maintenance and Operations Fund which is used to account for resources held for the operations and maintenance (O&M) of flood control structures. The Agency 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 Maintenance and Operations Fund. The use of O&M funds is legally restricted to the operations 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 FEMA Grant Fund was created during fiscal year 2009-2010 to account for the disbursement of grant funds related to a Cooperative Technical Partner agreement between the Agency and FEMA. The grant money was used to pay for updated stage-frequency curves for the San Joaquin River Delta, various mapping activities to provide enhanced damage reduction for areas protected by levees, and administrative costs associated with managing the grant activities.

The Capital Projects Funds account 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.

The Debt Service Funds account 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 Basic Financial Statements provide 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 and supplementary information. This information includes a budgetary comparison schedule for the Agency's governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This fiscal year is the tenth accounting period in which the Agency has applied Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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 $64 million ($67,471,998 - $3,719,841) as of June 30, 2011, and the net assets decreased by $673,314 ($63,752,157 - $64,425,471) compared with the prior year:

STATEMENT OF NET ASSETS

	2011	2010
ASSETS		
Current assets	$ 20,686,925	$ 23,718,274
Capital assets	44,749,796	45,650,913
Other assets	2,035,277	2,124,528
TOTAL ASSETS	67,471,998	71,493,715
LIABILITIES		
Current liabilities	1,141,841	1,244,804
Long-term liabilities	2,578,000	5,823,440
TOTAL LIABILITIES	3,719,841	7,068,244
NET ASSETS		
Invested in capital assets, net of related debt	41,451,576	39,827,473
Restricted for debt service	4,635,014	5,616,141
Unrestricted	17,665,567	18,981,857
TOTAL NET ASSETS	$ 63,752,157	$ 64,425,471

The Agency's capital net assets for the year ended June 30, 2011: Land and Easements $9,678,245 and Flood Control Infrastructure net of depreciation $35,071,551 totaling $44,749,796 represent approximately 66% of the Agency's total assets (see Capital Assets table on page 7). These capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency.

The following table identifies the changes in net assets for the fiscal years ended June 30, 2011 and 2010:

STATEMENT OF ACTIVITIES

	2011	2010
REVENUES		
Assessments	$ 2,946,313	$ 2,994,017
Aid from other government agencies	471,894	790,869
Investment earnings	127,730	173,599
Miscellaneous	1,532	352,411
Total revenues	3,547,469	4,310,896
EXPENSES		
Operation and management	1,884,271	2,482,545
Agency management	1,799,019	2,109,233
Other expenses	537,493	631,745
Total expenses	4,220,783	5,223,523
Change in net assets	(673,314)	(912,627)
NET ASSETS		
Beginning net assets, as restated	64,425,471	65,338,098
Net assets, end of the year	$ 63,752,157	$ 64,425,471

The Agency receives revenues from sources which include assessments, interest and investment income, and project reimbursements from the State and the Federal government. Other sources of revenue are received through partnership agreements with other local and/or government agencies to help fund flood studies or related flood control activities approved by the Board of Directors. 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 of Directors 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 17% (from $4,256,724 in fiscal year 2010 to $3,547,469 in fiscal year 2011). The decrease was due to a lack of Federal reimbursement and a reduction in activity with local partners which affects funding participation.

Expenses decreased by approximately 19% (from $5,223,523 in fiscal year 2010 to $4,220,783 in fiscal year 2011). This decrease reflects reduced activity in the Agency's technical studies and projects.

FINANCIAL ANALYSIS OF AGENCY FUNDS

The General Fund accounts for those funds loaned to the Agency in 1995 by the City and 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 Funds Appropriate operations and maintenance assessments are collected annually through property assessments and are deposited in the Maintenance and Operations 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 Agency's Board of Directors.

A budget of $870,478 was considered appropriate this year (2010-11) for operations and maintenance. The Maintenance and Operations Fund had a balance of approximately $3.7 million on June 30, 2011.

The Capital Projects Funds Capital Projects Funds reported a combined fund balance of $12,400,263. 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 have been approximately $2.2 million annually.

INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's capital assets net of related debt as of June 30, 2011, amounted to $41,451,576. These capital assets include land (right-of-way acquired for the project) and flood control infrastructures. The area protected by the Agency is about 38,700 assessable gross acres of land with approximately 74,000 parcels in San Joaquin County, State of California. The Agency completed the main construction of the flood control improvements project in November 1998, and since then, no major construction has been undertaken. However, authorized project studies and investigation may lead to new projects. Apart from normal depreciation, there were no changes in capital assets during fiscal year ended June 30, 2011.

Capital Assets
(net of accumulated depreciation)

	2011	2010
Land and easements	$ 9,678,245	$ 9,678,245
Infrastructure assets, net	35,071,551	35,972,668
Total	$ 44,749,796	$ 45,650,913

Total accumulated depreciation as of June 30, 2011, is $9,987,053. Therefore, the net infrastructure asset is $35,071,551 ($45,058,604 - $9,987,053). 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 $41,451,576, 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, 2011, the Agency had an outstanding long-term debt of $3,298,220. This consists of the remaining outstanding bonds initially sold in 1996 and refinanced in July of 2002. These bonds account for approximately 89% of the Agency's liabilities.

AGENCY OPERATIONS

The Agency completed the main construction of its $70 million flood control improvements project in November 1998. In past years, due to the ongoing concern of levee decertification by FEMA, the State Department of Water Resources and the COE, the Board of Directors held some Capital Project funds in reserve to remedy levee decertification. During fiscal year 2009-10, the Board of Directors authorized technical studies and investigations using these funds. These technical studies and investigations may lead to future projects. Currently, the Agency is participating in flood control studies and investigations which will provide or restore the required level of protection for parcels within the Agency's assessment district area.

Before undertaking any new projects, the Agency must determine whether the proposed project will meet the necessary criteria for which funds are available for expenditure. During this fiscal year (2010-11), the Board of Directors approved the following: i) a $60,000 appropriation for technical support for the Agency's current projects; ii) a $27,800 contract to prepare a preliminary range of assessment rates for benefiting properties of the proposed Smith Canal Gate Structure; iii) a $90,000 contract for project management support for the Lower San Joaquin River Feasibility Study; iv) a $362,300 contract for the formation of the Capital and Operation and Maintenance assessment district to finance the planning, design and construction of the Smith Canal Gate Structure project (to be cost-shared with Reclamation Districts 828 and 1614), and the Capital assessment district for the reconstruction of the Wisconsin Pump Station project (a "pass through" expense to be funded by Reclamation District 1614).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency'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 Agency's 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, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 20,622,957
Assessments receivable	34,122
Interest income receivable	29,846
Total current assets	20,686,925
Restricted assets:	
Cash and investments	1,861,483
Interest income receivable	6,150
Unamortized debt issuance cost	167,644
Total restricted assets	2,035,277
Capital assets:	
Land and easements	9,678,245
Infrastructure assets, net	35,071,551
Total capital assets	44,749,796
Total assets	$ 67,471,998
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 364,699
Interest payable	56,922
Long-term debt:	
Due within one year	720,220
Due in more than one year	2,578,000
Total liabilities	3,719,841
Net assets:	
Invested in capital assets, net of related debt	41,451,576
Restricted for debt service	4,635,014
Unrestricted	17,665,567
Total net assets	$ 63,752,157

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues		
Functions / Programs	Program Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities:				
Operations and management	$ 1,884,271	$ 49,959	$ -	$ (1,834,312)
Agency management	1,799,019	421,935	-	(1,377,084)
Interest and other charges	537,493	-	-	(537,493)
Total governmental activities	$ 4,220,783	$ 471,894	$ -	(3,748,889)
	General revenues:			
	Assessments fees			2,946,313
	Investment earnings			127,730
	Miscellaneous income			1,532
	Total general revenues			3,075,575
	Change in net assets			(673,314)
	Net assets, beginning of year, as restated			64,425,471
	Net assets, end of year			$ 63,752,157

Interest income of $421,935 is included under operating grants of Agency management.

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET
JUNE 30, 2011

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Construction #1 Fund
ASSETS				
Cash and cash equivalents	$ 632,913	$ 3,815,844	$ 19,440	$ 7,068,916
Assessment receivable	-	-	-	25,746
Interest income receivable	902	5,547	32	10,273
Restricted cash and investments	-	-	-	-
TOTAL ASSETS	$ 633,815	$ 3,821,391	$ 19,472	$ 7,104,935
LIABILITIES				
Accounts payable	$ -	$ 119,031	$ -	$ 185,641
Total liabilities	-	119,031	-	185,641
FUND BALANCES				
Restricted	-	3,702,360	19,472	-
Assigned	-	-	-	6,919,294
Unassigned	633,815	-	-	-
Total fund balances	633,815	3,702,360	19,472	6,919,294
TOTAL LIABILITIES AND FUND BALANCES	$ 633,815	$ 3,821,391	$ 19,472	$ 7,104,935

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET (Continued)
JUNE 30, 2011

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 5,532,906	$ 2,763,494	$ 789,444	$ 20,622,957
Assessment receivable	-	-	8,376	34,122
Interest income receivable	8,090	10,037	1,115	35,996
Restricted cash and investments	-	1,861,483	-	1,861,483
TOTAL ASSETS	$ 5,540,996	$ 4,635,014	$ 798,935	$ 22,554,558
LIABILITIES				
Accounts payable	$ 60,027	$ -	$ -	$ 364,699
Total liabilities	60,027	-	-	364,699
FUND BALANCES				
Restricted	-	4,635,014	-	8,356,846
Assigned	5,480,969	-	798,935	13,199,198
Unassigned	-	-	-	633,815
Total fund balances	5,480,969	4,635,014	798,935	22,189,859
TOTAL LIABILITIES AND FUND BALANCES	$ 5,540,996	$ 4,635,014	$ 798,935	$ 22,554,558

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		$ 22,189,859
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:		
Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.		
Infrastructure assets, land and easements	$ 54,736,849	
Less: accumulated depreciation	(9,987,053)	
		44,749,796
The assets and liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.		
Bonds payable	(4,110,000)	
Unamortized bond premium	(388)	
Bond interest payable	(56,922)	
Unamortized deferred loss on refunding	812,168	
Bond issuance costs	631,891	
Accumulated amortization, bond issuance costs	(464,247)	
		(3,187,498)
Net Assets of Governmental Activities		$ 63,752,157

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Construction #1 Fund
Revenues:				
Assessments	$ -	$ 776,221	$ -	$ -
Investment earnings	2,789	17,030	156	32,795
Federal	-	-	49,959	-
Other government agency aid	-	-	-	137,680
Miscellaneous	-	-	-	1,424
Total revenues	2,789	793,251	50,115	171,899
Expenditures:				
Current operating:				
Maintenance and operations	-	766,058	19,988	691,930
Agency management	-	-	24,563	606,147
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	-	766,058	44,551	1,298,077
Other financing sources (uses):				
Transfers in	-	-	-	133,513
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	133,513
Net change in fund balances	2,789	27,193	5,564	(992,665)
Fund balances, beginning	631,026	3,675,167	13,908	7,857,787
Prior period adjustment	-	-	-	54,172
Fund balances, beginning, as restated	631,026	3,675,167	13,908	7,911,959
Fund balances, ending	$ 633,815	$ 3,702,360	$ 19,472	$ 6,919,294

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
FOR THE YEAR ENDED JUNE 30, 2011

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Assessments	$ -	$ 2,144,054	$ 26,038	$ 2,946,313
Investment earnings	25,467	46,414	3,079	127,730
Federal	-	-	-	49,959
Other government agency aid	-	-	284,255	421,935
Miscellaneous	-	108	-	1,532
Total revenues	25,467	2,190,576	313,372	3,547,469
Expenditures:				
Current operating:				
Maintenance and operations	372,411	21,427	12,457	1,884,271
Agency management	267,192	-	-	897,902
Debt service:				
Principal	-	2,775,000	-	2,775,000
Interest and other charges	-	273,058	-	273,058
Total expenditures	639,603	3,069,485	12,457	5,830,231
Other financing sources (uses):				
Transfers in	-	-	-	133,513
Transfers out	-	(102,218)	(31,295)	(133,513)
Total other financing sources (uses)	-	(102,218)	(31,295)	-
Net change in fund balances	(614,136)	(981,127)	269,620	(2,282,762)
Fund balances, beginning	6,095,105	5,616,141	529,315	24,418,449
Prior period adjustment	-	-	-	54,172
Fund balances, beginning, as restated	6,095,105	5,616,141	529,315	24,472,621
Fund balances, ending	$ 5,480,969	$ 4,635,014	$ 798,935	$ 22,189,859

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances - Governmental Funds		$ (2,282,762)
Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:		
When capital assets that are to be used in Governmental Activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the Governmental Funds. This is the amount of capital assets additions and depreciation recorded in current year.		
Depreciation expense	$ (901,117)	
		(901,117)
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the Governmental Funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Activities.		
Repayment of bond principal	2,775,000	
Amortization of bond issuance cost	(51,583)	
Amortization of deferred loss	(249,898)	
Amortization of bond premium	118	
		2,473,637
The amounts below included in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds. The amounts shown below represent the net change.		
Interest payable		36,928
Changes in Net Assets of Governmental Activities		$ (673,314)

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

NOTE 1 – DESCRIPTION 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 on 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 a terminating resolution in order to finance the maintenance of the flood project structures.

The Agency's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and local governments through its pronouncements (Standards and Interpretations).

The Agency applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) statements and interpretations currently in effect for fiscal year ending June 30, 2011) 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. Basis of Presentation – Government-Wide Accounting

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities and report financial information on the Agency as a whole. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for functions of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 2) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Other items not properly included are reported instead as general revenues and expenses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Fund Accounting

Fund financial statements provide information about the Agency's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency does not have any proprietary or fiduciary funds.

D. 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. 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.

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 60 days after year-end. Expenditures are recorded when the related 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.

E. 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.

F. Fund Types and Major Funds

The Agency reported the following major governmental funds in the accompanying financial statements:

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

Construction #1 and #3 Funds – 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 County Tax Collector and reimbursement from the Federal government.

Maintenance and Operations Fund – Accounts for the collection of special assessments from property owners within the Agency's assessment district for the maintenance of the flood structures. Proceeds are restricted to the operations and maintenance (O&M) activities identified in the O&M budget.

FEMA Grant Fund – Accounts for resources used to pay for specific projects related to a Cooperative Technical Partner agreement between the Agency and FEMA. The resources are used to pay for updated stage-frequency curves for the San Joaquin River Delta, various mapping activities to provide enhanced damage reduction for areas protected by levees, and reimbursement for administrative costs associated with managing the grant activities.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Types and Major Funds (Continued)

Debt Service 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.

G. Cash and Cash Equivalents

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

H. Infrastructure Assets and Depreciation

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.

I. 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.

J. Reservation of Fund Balances

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 funds Balance Sheet. If restricted and unrestricted net assets are available for the same purpose, then restricted net assets will be used before unrestricted net assets.

K. Restriction of Net Assets

Net assets are the excess of all the Agency's assets over all its liabilities, regardless of fund. Net assets are divided into three captions under GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. These captions apply only to net assets, which are determined only at the government-wide level, and are described below:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation, less the outstanding balance of any debt issued to finance these assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, and constitutional provisions.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Assessment Tax

The County collects the Agency's assessment tax revenue as part of the County's property taxes. The County's secured property tax payments are levied in two equal installments: the first is generally due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property with unpaid taxes incurs a lien on January 1 preceding the fiscal year for which taxes are levied. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31.

M. 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.

N. New Accounting Pronouncement – Fund Balance

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described below:

1. Nonspendable Fund Balance – amounts that are inherently nonspendable such as inventory or long-term receivables.

2. Restricted Fund Balance – amounts that have externally enforceable limitations on use that are either imposed by law or constrained by grantors, contributors, or laws and regulations of other governments.

3. Committed Fund Balance – amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority, the Board of Directors. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment. The formal action must occur prior to the end of the reporting period; however, the amount can be determined subsequently.

4. Assigned Fund Balance – amounts that are constrained by the Agency's ***intent*** to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The intent can be expressed by the Board of Directors itself or by an official to which the governing body has delegated the authority.

5. Unassigned Fund Balance – the residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories. This amount is reported only in the General Fund except in cases of negative fund balance. Negative fund balances in other governmental funds are reported as Unassigned Fund Balance.

The accounting policies of the Agency consider restricted fund balance to have been spent first when an expenditure is incurred if both restricted and unrestricted fund balance are available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

Most non-general funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of a fund will be allocated to the applicable fund balance classifications in the order of the spending policy above.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. New Accounting Pronouncements – Future Years

Governmental Accounting Standards Board Statement No. 60

In November of 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of the statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which is a type of public-private or a public-public partnership. As used in this statement, a SCA is an arrangement between a transferor (a government) and an operator (a governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this statement generally are required to be applied retroactively for all periods presented. GASB Statement No. 60 will not have an effect on the Agency.

Governmental Accounting Standards Board Statement No. 61

In November of 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34.* The objective of this statement is to improve guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012. GASB Statement No. 61 will not have an effect on the Agency.

Governmental Accounting Standards Board Statement No. 62

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* was released in December 2010. The codification incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

1. FASB Statements and Interpretations
2. APB Opinions
3. ARBs of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

No new accounting principles generally accepted in the United States of America were released in this statement. GASB Statement No. 62 is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the Agency's accounting or financial reporting upon the statement's implementation.

NOTE 2 – <u>SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

O. <u>New Accounting Pronouncements – Future Years</u> (Continued)

<u>Governmental Accounting Standards Board Statement No. 63</u>

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* was released in June 2011. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previously, GASB Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 63 is effective for periods beginning after December 15, 2011. The Agency has elected not to early implement this statement.

<u>Governmental Accounting Standards Board Statement No. 64</u>

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, An Amendment of GASB Statement No. 53,* was released in June 2011. GASB Statement No. 64 provides guidance for accounting and reporting when interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. GASB Statement No. 64 clarifies the accounting treatment when this occurs. GASB Statement No. 64 is effective for periods beginning after June 15, 2011. Because the Agency does not enter into hedge agreements with swap providers for the purpose of managing risk beyond investment return, GASB Statement No. 64 will not apply.

<u>Governmental Accounting Standards Board Statement No. 65</u>

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* was released in March 2012. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Agency has not elected to early implement this statement.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. New Accounting Pronouncements – Future Years (Continued)

Governmental Accounting Standards Board Statement No. 66

GASB Statement No. 66, *Technical Corrections - An Amendment of GASB Statements No. 10 and No. 62,* was also released in March 2012. GASB Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 ,*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. GASB Statement No. 66 also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Agency has not elected to early implement this statement.

Governmental Accounting Standards Board Statement No. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* released in June 2012, will not apply to the Agency as the Agency is not a defined benefit pension plan.

Governmental Accounting Standards Board Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was released in June 2012. GASB Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. In addition, GASB Statement No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB Statement No. 68 also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. Various new note disclosures and required supplementary information will be presented. GASB Statement No. 68 is effective for fiscal years beginning after June 15, 2014. GASB Statement No. 68 does not apply to the Agency.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reclassification

Certain reclassifications have been made to the prior year financial statements to be in conformity with the fiscal year 2011 presentation.

Q. Expenditures in Excess of Appropriations

The expenditures of the funds below exceeded their appropriated expenditures as follows. However, sufficient additional resources were available to fund these expenditures.

Fund/Department	**Final Budget**	**Actual Amount**	**Exceeded Budget**
FEMA Grant Fund *			
Maintenance and Operations	$ -	$ 19,988	$ (19,988)
Agency Management	-	24,563	(24,563)

* The Agency did not create a budget for the FEMA Grant Fund for the fiscal year 2010/11. The Agency was reimbursed for expenditures by FEMA as the expenditures were passed through. The Agency did not incur any financial burden.

NOTE 3 – DETAILED NOTES ON FUNDS

ASSETS

A. Cash in County Treasury

The Agency maintains a large portion of its cash in the County Treasury as part of the common investment pool (the Pool), which had a carrying value of $20,622,957 as of June 30, 2011. The fair value of the Agency's portion of the Pool as of June 30, 2010, was $23,453,871.

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.

Participants' equity in the Pool is determined by the dollar amount of the participant's 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's 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 year-end, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately one year.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. California statutes and the County's investment policy limit the County investments to obligations of the U.S. Treasury, certain Federal agencies, bankers' acceptances, "prime" commercial paper, certificates of deposit, swaps and trades, State Treasurer's Local Agency Investment Fund, and repurchase agreements. Credit ratings as of June 30, 2011, of the pool investments are presented below.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

ASSETS (Continued)

A. Cash in County Treasury (Continued)

Concentration of Credit Risk – Concentration of credit risk is the loss risk attributed to the magnitude of a government's investment in a single issuer. The County's investment policy places certain maximum percentage limitations of investments by investment type and the Treasurer has adhered to this policy with no exception. As of June 30, 2011, the County's investments by investment type as the percentage of the Pool investments are shown below.

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

B. Investments

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

Investment Type	Fair Value	Weighted Average Maturities (in days)	Fair Value as % of the Pool Investments	Credit Rating S&P/MIS*
Wells Fargo Advantage Heritage Money Market Select	$ 32,478	-	1.74%	A-1+/P-1
Federal Home Loan Mortgage Corp. Maturity 4/15/2013	1,829,005	403	98.26%	AAA/aaa
Total investment	$ 1,861,483	403	100.00%	

* Standard and Poor's (S&P); Moody's Investors Service (MIS)

These investments are designated for the repayment of the bonds per the requirement for the sinking funds.

Cash balances held in investment accounts are not insured by the Federal Depository Insurance Corporation. At June 30, 2011, the Agency had $1,861,483 in marketable securities which are not insured.

C. Assessments Receivable

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

In the governmental fund financial statements, assessments receivable are recorded in the Special Revenue 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.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

ASSETS (Continued)

D. Capital Assets

The following table provides a summary of changes in capital assets:

	June 30, 2010	Additions	Deletions	June 30, 2011
Nondepreciable capital assets:				
Land and easements	$ 9,678,245	$ -	$ -	$ 9,678,245
Total nondepreciable capital assets	9,678,245	-	-	9,678,245
Depreciable capital assets:				
Infrastructure assets	45,058,604	-	-	45,058,604
Total depreciable capital assets	45,058,604	-	-	45,058,604
Less accumulated depreciation	(9,085,936)	(901,117)	-	(9,987,053)
Net depreciable capital assets	35,972,668	(901,117)	-	35,071,551
Net capital assets	$ 45,650,913	$ (901,117)	$ -	$ 44,749,796

Depreciation expense of $901,117 was charged to functions of the government as Agency management.

LIABILITIES

E. 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.

F. 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 ranging 2.50% – 4.30%. The bonds are secured by the assessments levied on parcels within the Agency. The Agency made principal payments of $2,775,000 during the year ended June 30, 2011, 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, 2011, the Debt Service Fund incurred $273,058 of interest costs.

G. 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%

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

LIABILITIES (Continued)

H. Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	June 30, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Bonds	$ 6,885,000	$ -	$ 2,775,000	$ 4,110,000	$ 970,000
Premium	506	-	118	388	118
Deferred loss	(1,062,066)	-	(249,898)	(812,168)	(249,898)
Total	$ 5,823,440	$ -	$ 2,525,220	$ 3,298,220	$ 720,220

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
2012	$ 970,000	$ 118	$ (249,898)	$ 720,220	$ 151,366
2013	1,005,000	118	(249,898)	755,220	111,363
2014	1,045,000	118	(249,898)	795,220	68,815
2015	1,090,000	34	(62,474)	1,027,560	23,435
Total	$ 4,110,000	$ 388	$ (812,168)	$ 3,298,220	$ 354,979

I. Information on Assessment Delinquency for Bond Repayment:

Tax year	2010-11
Percent delinquent	2.28%
Parcels delinquent	965
Dollars delinquent	$ 48,786
For prior five and current years	
Percent delinquent	1.05%
Parcels delinquent	2,576
Dollars delinquent	$ 136,247

NOTE 4 – INTERFUND TRANSFERS

A. 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.

NOTE 4 – INTERFUND TRANSFERS (Continued)

A. Transfers and Payments (Continued)

The following schedule reports transfers and payments within the Agency:

	Transfers out	Transfers in
Construction #1 Fund	$ -	$ 133,513
Debt Service Fund	102,218	-
Other Governmental Funds	31,295	-
Total	$ 133,513	$ 133,513

These transfers occurred for the purpose of funding operating cash needed by certain funds.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, the Agency has approved payments to members of the JPA for services and personnel costs of the Agency from inception to present date. These payments were approved by the Board of Directors 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, 2011, were $302,252.

NOTE 6 – COMMITMENTS

To address Federal (FEMA, U.S. Army Corps of Engineers), State (Department of Water Resources, Senate Bill 5), and local flood control issues, the Board of Directors took the following actions during 2008-09: 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 the Agency with the ability to address issues related to the disaccreditation and provisional accreditation of area levees by the FEMA Map Modernization Program. In addition, the Agency entered into a $10 million cost-share agreement with the U.S. Army Corps of Engineers and the Central Valley Flood Protection Board for a Feasability 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 level of flood protection for urban and urbanizing areas as required by State Senate Bill 5.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

A. Restatement of Net Assets

	Governmental Activities
Beginning balance, as previously reported	$ 64,371,299
Additions:	
Properly accrue revenue	54,172
Net assets, June 30, 2010, as restated	$ 64,425,471

Revenue was not accrued for services rendered during 2009/10. The beginning net asset balance was understated by $54,172.

NOTE 7 – PRIOR PERIOD ADJUSTMENT (Continued)

B. Restatement of Fund Balance

	Fund Financial Statements
	Construction #1 Fund
Beginning balance, as previously reported	$ 7,857,787
Additions:	
Properly accrue revenue	54,172
Fund balance, June 30, 2010, as restated	$ 7,911,959

The beginning fund balance was restated to reflect the accrual of revenue earned during 2009/10 that was not accrued.

NOTE 8 – SUBSEQUENT EVENTS

On July 13, 2011, the Board of Directors authorized Resolution No. 11-13 approving the retirement of the Limited Obligation Bond. In September 2011, the Agency paid off the bonds in the amount of $4,110,000.

Subsequent events have been evaluated through September 17, 2013, which is the date the financial statements were issued.

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Assessments	$ -	$ -	$ -	$ -
Investment earnings	-	-	2,789	2,789
Total revenues	-	-	2,789	2,789
Expenditures:				
Maintenance and operations	-	-	-	-
Reserves/emergencies	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues and other sources over expenditures and other uses	$ -	$ -	2,789	$ 2,789
Fund balances, beginning			631,026	
Fund balances, end			$ 633,815	

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)
FOR THE YEAR ENDED JUNE 30, 2011

	Maintenance and Operations Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Assessments	$ 770,478	$ 770,478	$ 776,221	$ 5,743
Investment earnings	-	-	17,030	17,030
Total revenues	770,478	770,478	793,251	22,773
Expenditures:				
Maintenance and operations	770,478	770,478	766,058	4,420
Reserves/emergencies	100,000	100,000	-	100,000
Total expenditures	870,478	870,478	766,058	104,420
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	$ (100,000)	$ (100,000)	27,193	$ 127,193
Fund balances, beginning			3,675,167	
Fund balances, end			$ 3,702,360	

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

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)
FOR THE YEAR ENDED JUNE 30, 2011

	FEMA Grant Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Investment earnings	$ -	$ -	$ 156	$ 156
Federal	-	-	49,959	49,959
Total revenues	-	-	50,115	50,115
Expenditures:				
Maintenance and operations	-	-	19,988	(19,988)
Agency management		-	24,563	(24,563)
Total expenditures	-	-	44,551	(44,551)
Excess of revenues and other sources over expenditures and other uses	$ -	$ -	$ 5,564	$ 5,564

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

NOTE 1 – BUDGETARY INFORMATION

A. 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 is to prepare and adopt a budget within the first 90 days of the fiscal year.

B. Basis of Budgeting

The budget is prepared on a GAAP basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: maintenance and operations, administrative costs, and real property acquisition costs. Expenditures may not exceed appropriations at this level.

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

	SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUND	
	Lower San Joaquin River Feasibility Study Fund	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 789,444	$ -	$ -	$ 789,444
Assessment receivable	-	8,376	-	8,376
Interest income receivable	1,077	29	9	1,115
Total assets	$ 790,521	$ 8,405	$ 9	$ 798,935
FUND BALANCES				
Assigned	790,521	8,405	9	798,935
Total unreserved, designated	790,521	8,405	9	798,935
Total fund balances	790,521	8,405	9	798,935
TOTAL LIABILITIES AND FUND BALANCES	$ 790,521	$ 8,405	$ 9	$ 798,935

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUND	
	Lower San Joaquin River Feasibility Study Fund	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
Revenues:				
Assessments	$ -	$ 26,038	$ -	$ 26,038
Investment earnings	2,953	69	57	3,079
Other government agency aid	284,255	-	-	284,255
Total revenues	287,208	26,107	57	313,372
Expenditures:				
Current operating:				
Maintenance and operations	-	-	12,457	12,457
Total expenditures	-	-	12,457	12,457
Other financing sources (uses):				
Transfers out	-	(24,591)	(6,704)	(31,295)
Total other financing sources (uses)	-	(24,591)	(6,704)	(31,295)
Net change in fund balances	287,208	1,516	(19,104)	269,620
Fund balances, beginning	503,313	6,889	19,113	529,315
Fund balances, ending	$ 790,521	$ 8,405	$ 9	$ 798,935

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

MAIN OFFICE
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com
560 CENTRAL AVENUE
SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218
8050 N. PALM AVENUE
SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593
790 E. COLORADO BLVD.
SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922
5250 CLAREMENT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (Agency), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Agency, in a separate letter dated September 17, 2013.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 17, 2013

SAN JOAQUIN AREA FLOOD CONTROL AGENCY
SCHEDULE OF SIGNIFICANT DEFICIENCIES,
MATERIAL WEAKNESSES, AND RECOMMENDATIONS
JUNE 30, 2011

Section I – Summary of Auditor's Results

Financial Statements

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

Section II – Summary of Material Weaknesses

None.

Section III – Summary of Significant Deficiencies

None.

Section IV – Review of Prior Year Material Weaknesses and Significant Deficiencies

None.