

SAN JOAQUIN AREA FLOOD CONTROL AGENCY

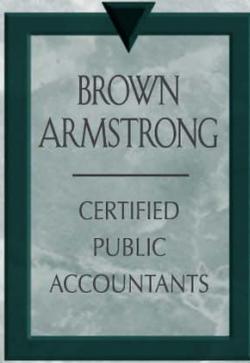
**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR YEAR ENDED JUNE 30, 2013

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
YEAR ENDED JUNE 30, 2013**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (the Agency), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

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

Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*; and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 8 and 27 - 29 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 an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2014, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
April 22, 2014

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2013**

This section of the San Joaquin Area Flood Control Agency's (the Agency) annual financial report represents a discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2013. 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 and significantly reduced the bond debt which allowed the Agency to retire the bonds three years ahead of scheduled maturity on September 2, 2011. Due to the early retirement of the bonds, there have been no assessment district and no Flood Control Equalization Fee collections since fiscal year 2011-12. Only the Operations and Maintenance assessments for the Flood Protection Restoration Project (FPRP) continue as these improvements need to be maintained.

The Agency's FPRP 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 (USACE) signed on March 2, 2002, allowed reimbursement for the Federal share of the Agency project through the annual USACE budgeting process. The Federal share is \$33,491,000. As of June 30, 2013, a total of \$22,868,020 has been reimbursed to the Agency by the Federal government. The balance of the remaining Federal cost share is \$10.6 million.

The Agency does not anticipate receiving cash reimbursements for the remaining Federal share; however, the Agency continues to pursue Federal reimbursement as credit towards future flood control projects and studies.

The State's share of the project was received in 1998 and totaled \$12,625,000.

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 Position presents information on all the Agency's assets and liabilities, with the difference between the two reported as net position. The Statement of Activities presents information showing how net position 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 (the County) maintains the cash pools for the Agency.

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. Other sources of funds include Flood Control Equalization Fees, which were collected for the Agency by the County and the City of Stockton (the City) when building permits were issued to new development within the Agency's assessment district boundaries.

As part of the Stockton Metropolitan Watershed, the Agency also acquired the right-of-way needed for the project from property owners and these are classified under assets as land. In 2003, the Agency transferred to the State of California all real property associated with the project. However, the Central Valley Flood Protection Board (formerly the State of California Reclamation Board) has not accepted the federally authorized project alluding i) the project was not authorized by the State legislature, and ii) the need for more formal indemnification assurance. When the Central Valley Flood Protection Board agrees to designate the project as part of the State Plan of Flood Control, the Agency will no longer carry these assets.

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 governmental 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 this special assessment in 1996 for the continued maintenance of the flood structures. Collection of this 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 O&M activities identified in the Agency's annual O&M budget. 2) The Federal Emergency Management Agency (FEMA) Grant Fund was created during fiscal year 2009-10 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 issuance. 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 STATEMENTS ANALYSIS

This fiscal year is the twelfth 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 position provide an overview of the Agency's financial position.

The following table shows that the Agency's assets exceeded liabilities by about \$58 million (\$58,921,171 - \$723,823) as of June 30, 2014, and the net position decreased by \$2,131,153 (\$58,197,348 - \$60,328,501) compared with the prior year:

STATEMENT OF NET POSITION

	2013	2012
ASSETS		
Current assets	\$ 15,973,611	\$ 17,021,276
Capital assets	42,947,560	43,848,678
TOTAL ASSETS	58,921,171	60,869,954
LIABILITIES		
Current liabilities	723,823	541,453
TOTAL LIABILITIES	723,823	541,453
NET POSITION		
Net investment in capital assets	42,947,560	43,848,678
Unrestricted	15,249,788	16,479,823
TOTAL NET POSITION	\$ 58,197,348	\$ 60,328,501

The Agency's capital net position for the year ended June 30, 2013: Land and Easements \$9,678,245 and Flood Control Infrastructure net of depreciation \$33,269,315 totaling \$42,947,560 represent approximately 73% of the Agency's total assets (see Capital Assets table on page 8). 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 position for the fiscal years ended June 30, 2013 and 2012:

STATEMENT OF ACTIVITIES

	2013	2012
REVENUES		
Assessments	\$ 812,608	\$ 796,335
Aid from other government agencies	642,084	334,609
Investment earnings	27,575	56,662
Miscellaneous	44	3,062
	<u>1,482,311</u>	<u>1,190,668</u>
EXPENSES		
Operation and management	1,940,976	1,773,175
Agency management	1,672,488	1,737,267
Other expenses	-	1,103,882
	<u>3,613,464</u>	<u>4,614,324</u>
Change in net position	<u>(2,131,153)</u>	<u>(3,423,656)</u>
NET POSITION		
Beginning net position	<u>60,328,501</u>	<u>63,752,157</u>
Net position, end of the year	<u>\$ 58,197,348</u>	<u>\$ 60,328,501</u>

The Agency receives revenues from sources which include O&M 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 government agencies to help fund flood studies or related flood control activities approved by the Board of Directors. The collection of O&M assessments can only be used to maintain and operate the flood control structures.

Revenues increased by approximately 24.5% (from \$1,190,668 in fiscal year 2012 to \$1,482,311 in fiscal year 2013). The increase was mainly due to local cost share of partners' contributions toward projects.

Expenses decreased by approximately 22% (from \$4,614,324 in fiscal year 2012 to \$3,613,464 in fiscal year 2013). This decrease is mainly due to the termination of bond debt.

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 (O&M) of the flood control structures built by the Agency. The annual budget for O&M is prepared in coordination with the San Joaquin County Public Works Department and approved by the Agency's Board of Directors.

A budget of \$1,031,500 was considered appropriate this year (2012-13) for O&M. This is the second year the budget exceeds assessment revenue as it was anticipated that an unprecedented maintenance effort would continue for a second year to address stringent levee standards from regulatory agencies. The Maintenance and Operations Fund had a balance of approximately \$4.0 million on June 30, 2013.

The Capital Projects Funds Capital Projects Funds reported a combined fund balance of \$10,627,212. 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. Any balance remaining in this fund will be transferred to the Agency's O&M Fund.

INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's capital assets net of related debt as of June 30, 2013, amounted to \$42,947,560. 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 gross acres of land with approximately 74,000 parcels in the County. 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, 2013.

Capital Assets
(net of accumulated depreciation)

	2013	2012
Land and easements	\$ 9,678,245	\$ 9,678,245
Infrastructure assets, net	33,269,315	34,170,433
Total	\$ 42,947,560	\$ 43,848,678

Total accumulated depreciation as of June 30, 2013, is \$11,789,289. Therefore, the net infrastructure asset is \$33,269,315 (\$45,058,604 - \$11,789,289). 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 was turned over to the Central Valley Flood Protection Board; however, the Central Valley Flood Protection Board has not accepted the federally authorized project. Therefore, when the Central Valley Flood Protection Board agrees to designate the project as part of the State Plan of Flood Control, the Agency will no longer carry these assets.

Long-Term Debt

As of June 30, 2013, the Agency does not have any long-term debt. The Agency retired the bonds initially sold in 1996 and refinanced in July of 2002. These bonds were retired three years ahead of scheduled maturity on September 2, 2011.

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 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 (2011-12), the Board of Directors approved the following: i) \$30,000 contract for geotechnical services; ii) 2-year extension of the Master Contract with Peterson Brustad, Inc. (PBI); iii) \$200,000 amendment to the Master Contract with PBI; iv) \$120,000 amendment to existing contract for project management for the Lower San Joaquin River Feasibility Study (LSJRFS); v) Resolution of intention to form a Special to support the LSJRFS; vii) \$1.7 million amendment to the Master Contract with PBI for Regional Flood Management Planning (RFMP); viii) a Directed Funding Agreement with the State Department of Water Resources for RFMP; ix) ballot tabulation for the formation of the proposed Smith Canal Gate Assessment District.

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, California 95202.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 15,689,100
Assessments receivable	133,632
Interest income receivable	10,461
Other receivable	<u>140,418</u>
Total current assets	<u>15,973,611</u>
Capital assets:	
Land and easements	9,678,245
Infrastructure assets, net	<u>33,269,315</u>
Total capital assets	<u>42,947,560</u>
Total assets	<u><u>\$ 58,921,171</u></u>
LIABILITIES AND NET POSITION	
Liabilities:	
Accounts payable	<u>\$ 723,823</u>
Total liabilities	<u>723,823</u>
Net position:	
Net investment in capital assets	42,947,560
Unrestricted	<u>15,249,788</u>
Total net position	<u><u>\$ 58,197,348</u></u>

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, 2013**

<u>Functions / Programs</u>	<u>Program Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:				
Operations and maintenance	\$ 1,940,976	\$ 61,344	\$ -	\$ (1,879,632)
Agency management	<u>1,672,488</u>	<u>580,740</u>	<u>-</u>	<u>(1,091,748)</u>
Total governmental activities	<u>\$ 3,613,464</u>	<u>\$ 642,084</u>	<u>\$ -</u>	<u>(2,971,380)</u>
General revenues:				
Assessments fees				812,608
Investment earnings				27,575
Miscellaneous income				<u>44</u>
Total general revenues				<u>840,227</u>
Change in net position				<u>(2,131,153)</u>
Net position, beginning of year				<u>60,328,501</u>
Net position, end of year				<u>\$ 58,197,348</u>

Interest income of \$580,740 is included under operating grants of Agency management.

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Maintenance and Operations Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
ASSETS				
Cash and cash equivalents	\$ 636,550	\$ 4,147,215	\$ 307,814	\$ 5,860,597
Assessment receivable	-	195	-	133,437
Interest income receivable	385	2,541	186	3,705
Receivable - State of California	-	-	-	140,418
TOTAL ASSETS	\$ 636,935	\$ 4,149,951	\$ 308,000	\$ 6,138,157
LIABILITIES				
Accounts payable	-	165,068	-	425,823
Total liabilities	-	165,068	-	425,823
FUND BALANCES				
Restricted	-	3,984,883	-	-
Assigned	-	-	308,000	5,712,334
Unassigned	636,935	-	-	-
Total fund balances	636,935	3,984,883	308,000	5,712,334
TOTAL LIABILITIES AND FUND BALANCES	\$ 636,935	\$ 4,149,951	\$ 308,000	\$ 6,138,157

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET (Continued)
JUNE 30, 2013**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,736,924	\$ -	\$ -	\$ 15,689,100
Assessment receivable	-	-	-	133,632
Interest income receivable	2,886	758	-	10,461
Receivable - State of California	-	-	-	140,418
TOTAL ASSETS	\$ 4,739,810	\$ 758	\$ -	\$ 15,973,611
LIABILITIES				
Accounts payable	\$ 132,932	\$ -	\$ -	\$ 723,823
Total liabilities	132,932	-	-	723,823
FUND BALANCES				
Restricted	-	758	-	3,985,641
Assigned	4,606,878	-	-	10,627,212
Unassigned	-	-	-	636,935
Total fund balances	4,606,878	758	-	15,249,788
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,739,810	\$ 758	\$ -	\$ 15,973,611

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, 2013**

Total Fund Balances - Governmental Funds	\$ 15,249,788
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Amounts reported for Governmental Activities in the Statement of Net Position 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	<u>(11,789,289)</u>	
		<u>42,947,560</u>

Net Position of Governmental Activities	<u>\$ 58,197,348</u>
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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, 2013**

	General Fund	Maintenance and Operations Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
Revenues:				
Assessments	\$ -	\$ 812,233	\$ -	\$ -
Investment earnings	1,070	6,879	552	10,619
Federal	-	-	-	-
Other government agency aid	-	-	306,885	273,855
Miscellaneous	-	-	-	44
Total revenues	1,070	819,112	307,437	284,518
Expenditures:				
Current operating:				
Maintenance and operations	-	752,394	-	877,591
Agency management	-	-	-	540,554
Total expenditures	-	752,394	-	1,418,145
Other financing sources (uses):				
Transfers in	-	344,091	-	9,263
Transfers out	-	(7,000)	-	(138)
Total other financing sources (uses)	-	337,091	-	9,125
Net change in fund balances	1,070	403,809	307,437	(1,124,502)
Fund balances, beginning	635,865	3,581,074	563	6,836,836
Fund balances, ending	\$ 636,935	\$ 3,984,883	\$ 308,000	\$ 5,712,334

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, 2013**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Assessments	\$ -	\$ 375	\$ -	\$ 812,608
Investment earnings	8,125	314	16	27,575
Federal	-	-	61,344	61,344
Other government agency aid	-	-	-	580,740
Miscellaneous	-	-	-	44
Total revenues	8,125	689	61,360	1,482,311
Expenditures:				
Current operating:				
Maintenance and operations	251,617	131	59,243	1,940,976
Agency management	230,808	-	8	771,370
Total expenditures	482,425	131	59,251	2,712,346
Other financing sources (uses):				
Transfers in	-	-	-	353,354
Transfers out	-	(344,089)	(2,127)	(353,354)
Total other financing sources (uses)	-	(344,089)	(2,127)	-
Net change in fund balances	(474,300)	(343,531)	(18)	(1,230,035)
Fund balances, beginning	5,081,178	344,289	18	16,479,823
Fund balances, ending	<u>\$ 4,606,878</u>	<u>\$ 758</u>	<u>\$ -</u>	<u>\$ 15,249,788</u>

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, 2013**

Net Change in Fund Balances - Governmental Funds \$ (1,230,035)

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	<u>\$ (901,118)</u>	(901,118)
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Changes in Net Position of Governmental Activities		<u>\$ (2,131,153)</u>
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See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 (the City), the County of San Joaquin (the County), and the San Joaquin County Flood Control and Water Conservation District (the 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. The assessment paid for Project costs and bond repayment. The Agency retired the bonds three years ahead of scheduled maturity on September 2, 2011. 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, 1997, assessment will continue, until adoption of a terminating resolution, 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).

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 Position 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.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded 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 they are 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.

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.

Lower San Joaquin River Feasibility Fund – This fund was established to account for a funding partnership between local cost share partners to help pay for the U.S. Army Corps of Engineers' (USACE) Lower San Joaquin River Feasibility Study. The Agency entered into a cost share agreement with the City of Lodi, the County of San Joaquin, and 11 reclamation districts to help pay for the local share of this study. The revenues collected in this fund are transferred annually at the end of the fiscal year to the Agency's Construction #1 Fund.

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.

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 position are available for the same purpose, then restricted net position will be used before unrestricted net position.

K. Restriction of Net Position

Net position is the excess of all the Agency’s assets over all its liabilities, regardless of fund. Net position is 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 position, which is determined only at the government-wide level, and is described below:

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

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

Unrestricted – This amount is all the net position that does not meet the definition of “net investment in capital assets” or “restricted.”

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. 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 GASB Pronouncements Implemented in the Financial Statements

The following GASB Statements have been implemented in the current financial statements.

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

However, as the statement codifies what is in current practice, there is no net effect on the Agency's accounting or financial reporting as a result of implementing this statement.

Governmental Accounting Standards Board Statement No. 63

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.

The Agency implemented this change for the fiscal year June 30, 2013.

P. New Accounting Pronouncements – Future Years

Governmental Accounting Standards Board Statement No. 65

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)

P. 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 employees 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. New Accounting Pronouncements – Future Years (Continued)

GASB Statement No. 69 – Government Combinations and Disposals of Government Operations.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Agency has elected not to early implement GASB Statement No. 69 and has not determined its effects of the financial statements.

GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (effective for fiscal years beginning after June 15, 2013). The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Agency has elected not to early implement GASB Statement No. 70 and has not determined its effect on the financial statements.

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 \$15,689,100 as of June 30, 2013.

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.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

ASSETS (Continued)

A. Cash in County Treasury (Continued)

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 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.

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.

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 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. 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, Capital Projects Fund 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.

C. Capital Assets

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

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
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	(10,888,171)	(901,118)		(11,789,289)
Net depreciable capital assets	34,170,433	(901,118)	-	33,269,315
Net capital assets	\$ 43,848,678	\$ (901,118)	\$ -	\$ 42,947,560

Depreciation expense of \$901,118 was charged to functions of the government as Agency management.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

LIABILITIES

D. 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.

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.

The following schedule reports transfers and payments within the Agency:

	<u>Transfers From</u>	<u>Transfers To</u>
Debt Service Fund	344,089	
Maintenance and Operations Fund	7,000	344,091
Construction #1 Fund	138	9,263
Other Governmental Funds	<u>2,127</u>	<u>-</u>
Total	<u>\$ 353,354</u>	<u>\$ 353,354</u>

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, 2013, 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, 2013, were \$423,626.

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: the 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 Feasibility Study for the Lower 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 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 22, 2014, 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, 2013**

	General Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Assessments	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	1,070	1,070
Miscellaneous	-	-	-	-
Total revenues	-	-	1,070	1,070
Expenditures:				
Maintenance and operations	-	-	-	-
Reserves/emergencies	-	-	-	-
Total expenditures	-	-	-	-
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	1,070	<u>\$ 1,070</u>
Fund balances, beginning			<u>635,865</u>	
Fund balances, end			<u>\$ 636,935</u>	

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, 2013**

	Maintenance and Operations Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Assessments	\$ 811,360	\$ 811,360	\$ 812,233	\$ 873
Investment earnings	-	-	6,879	6,879
Total revenues	<u>811,360</u>	<u>811,360</u>	<u>819,112</u>	<u>7,752</u>
Expenditures:				
Maintenance and operations	931,500	931,500	752,394	179,106
Reserves/emergencies	100,000	100,000	-	100,000
Total expenditures	<u>1,031,500</u>	<u>1,031,500</u>	<u>752,394</u>	<u>279,106</u>
Other financing sources (uses):				
Transfers in	-	-	344,091	344,091
Transfers out	-	-	(7,000)	(7,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>337,091</u>	<u>337,091</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ (220,140)</u>	<u>\$ (220,140)</u>	403,809	<u>\$ 623,949</u>
Fund balances, beginning			<u>3,581,074</u>	
Fund balances, end			<u>\$ 3,984,883</u>	

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

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

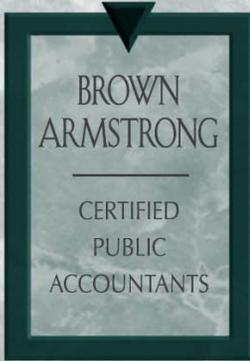
The budget is prepared under accounting principles generally accepted in the United States of America basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: maintenance and operations, administrative costs, and real property acquisition costs. Expenditures may not exceed appropriations at this level.

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

	SPECIAL REVENUE FUND		
	Flood Control Facilities Equalization Fee Fund	FEMA Grant Fund	Total Governmental Funds
ASSETS			
Interest income receivable	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Assigned	\$ -	\$ -	\$ -
Total unreserved, designated	-	-	-
Total fund balances	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2013**

	SPECIAL REVENUE FUND		
	Flood Control Facilities Equalization Fee Fund	FEMA Grant Fund	Total Governmental Funds
Revenues:			
Investment earnings	\$ -	\$ 16	\$ 16
Federal	-	61,344	61,344
Total revenues	-	61,360	61,360
Expenditures:			
Current operating:			
Maintenance and operations	-	59,243	59,243
Agency management	-	8	8
Total expenditures	-	59,251	59,251
Other financing sources (uses):			
Transfers out	(8)	(2,119)	(2,127)
Total other financing sources (uses)	(8)	(2,119)	(2,127)
Net change in fund balances	(8)	(10)	(18)
Fund balances, beginning	8	10	18
Fund balances, ending	\$ -	\$ -	\$ -



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

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San Joaquin Area Flood Control Agency
Stockton, California

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We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (the Agency), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

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*.

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
April 22, 2014

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
SCHEDULE OF SIGNIFICANT DEFICIENCIES,
MATERIAL WEAKNESSES, AND RECOMMENDATIONS
JUNE 30, 2013**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

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.