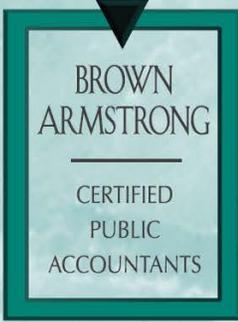


**SAN JOAQUIN AREA FLOOD CONTROL AGENCY**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
FOR THE YEAR ENDED JUNE 30, 2016**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (the Agency), as of and for the year ended June 30, 2016, 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.

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

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## 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, 2016, 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.

## 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, 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* in considering the Agency's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
June 27, 2017

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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, 2016. It should be read in conjunction with the Agency's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

This is the fifth year in which there has been no collection of assessment district fees or Flood Control Equalization fees for the Agency's Flood Protection Restoration Project (FPRP) due to early retirement of the assessment district bonds on September 2, 2011. As a result, only the Operations and Maintenance assessments for the FPRP remain and are collected annually as these improvements need to be maintained.

The Agency's FPRP was included in Federal legislation and a Memorandum of Agreement with the U.S. Army Corps of Engineers (USACE) was executed on March 2, 2002, which allows reimbursement for the Federal share of the Agency's project through the annual USACE budgeting process.

As of June 30, 2016, the Agency has received \$22,868,020 of Federal reimbursement and the remaining balance of the Federal share is \$10.6 million. The Agency has not received a Federal reimbursement since 2010 and does not anticipate receiving further cash reimbursement. The Agency continues to pursue Federal reimbursement as "credit" towards future flood control projects and studies.

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

On July 10, 2013, the Agency formed the Smith Canal Area Assessment District (SCAAD). The district was created to provide the local cost share for constructing and maintaining improvements to remove the Smith Canal area from a Federal Emergency Management Agency (FEMA) Special Flood Hazard Area. Fiscal year 2014/15 was the first year of assessment collection for SCAAD.

The Agency applied for an Early Implementation Program grant through the State to cost-share the design of the Smith Canal Gate project and subsequently executed a funding agreement with the State for \$2.4 million. The Agency also sought a \$22.3 million grant to cost-share the construction of the project through the State's Urban Flood Risk Reduction Program, which was conditionally approved. The Agency anticipates executing a funding agreement with the State to cost-share construction expenses.

**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 are 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 Fund, Capital Projects Fund, and Debt Service Fund.

*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 Fund* accounts for assessment district proceeds for i) the Agency's operations and maintenance (O&M) of flood control structures for the Flood Protection Restoration Assessment District and ii) the local cost share for design, constructing and maintaining flood control improvements for the Smith Canal Area Assessment District. Assessments are collected as a line item in property tax bills and are deposited in a fund that is solely designated for the purpose of the assessment district. The use of the assessment district proceeds are legally restricted to activities identified in the Annual Engineer's Report for each assessment district.

*The Capital Projects Fund* supports the Agency's capital programs and operating costs. Resources are from the original assessments, Flood Control Equalization Fees, proceeds from the initial bond issue, interest income, and the transferred balance from the Environmental Fund. Both Federal and State reimbursements are included in this fund.

*The Debt Service Fund* accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related bond costs. Required interest and principal payments are made according to the terms of the bond 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. The Agency retired bonds for the FPRP assessment district 3 years ahead of scheduled maturity on September 2, 2011.

**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 *other supplemental information*. This information includes a budgetary comparison schedule for the Agency's governmental funds.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The Agency applies 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 provides an overview of the Agency's financial position.

The following table shows that the Agency's assets exceeded liabilities by about \$52.9 million (\$53,650,694 - \$786,653) as of June 30, 2016, and net position decreased by \$1,152,804 (\$54,016,845 - \$52,864,041) compared with the prior year:

### STATEMENT OF NET POSITION

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 13,406,488	\$ 13,626,731
Capital assets	<u>40,244,206</u>	<u>41,145,324</u>
<b>TOTAL ASSETS</b>	53,650,694	54,772,055
<b>LIABILITIES</b>		
Current liabilities	<u>786,653</u>	<u>755,210</u>
<b>TOTAL LIABILITIES</b>	786,653	755,210
<b>NET POSITION</b>		
Net investment in capital assets	40,244,206	41,145,324
Unrestricted	<u>12,619,835</u>	<u>12,871,521</u>
<b>TOTAL NET POSITION</b>	<u>\$ 52,864,041</u>	<u>\$ 54,016,845</u>

The Agency's capital net position for the year ended June 30, 2016: Land and Easements \$9,678,245 and Flood Control Infrastructure net of depreciation \$30,565,961 totaling \$40,244,206 represent approximately 75% 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 position for the fiscal years ended June 30, 2016 and 2015:

### STATEMENT OF ACTIVITIES

	2016	2015
<b>REVENUES</b>		
Assessments	\$ 2,574,610	\$ 2,450,799
Aid from other government agencies	826,252	985,792
Investment earnings	78,579	36,228
Miscellaneous	267	66,486
Total revenues	3,479,708	3,539,305
<b>EXPENSES</b>		
Operation and maintenance	3,916,415	4,239,526
Agency management	716,097	812,498
Total expenses	4,632,512	5,052,024
Change in net position	(1,152,804)	(1,512,719)
<b>NET POSITION</b>		
Beginning net position	54,016,845	55,529,564
Net position, end of the year	\$ 52,864,041	\$ 54,016,845

The Agency receives revenues from sources which include O&M assessments, Smith Canal 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 FPRP flood control structures, and the collection of Smith Canal assessments can only be used to design, construct and maintain the Smith Canal project improvements.

Revenues decreased by approximately 1.7% (from \$3,539,305 in fiscal year 2015 to \$3,479,708 in fiscal year 2016). The decrease is due to some grant-related activities slowing down.

Expenses decreased approximately 8.3% (from \$5,052,024 in fiscal year 2015 to \$4,632,512 in fiscal year 2016). The decrease is due to some projects nearing completion such as levee recertification and the Lower San Joaquin River Feasibility Study.

### 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 FPRP activities. The City and County loans have been paid, therefore activity in this fund remains minimal.

**Special Revenue Funds** Appropriate operations and maintenance assessments are collected annually through property taxes 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 \$1,094,000, which includes a \$100,000 surplus appropriation for emergencies, was considered appropriate for fiscal year 2015-16 for O&M. This is the fifth year the budget exceeds assessment revenue. The budget is impacted by an increase in levee maintenance to comply with stringent levee standards imposed by regulatory agencies. The Maintenance and Operations Fund had a balance of approximately \$4.9 million on June 30, 2016.

Beginning fiscal year 2014-15, assessments for the Smith Canal Area Assessment District (SCAAD) are collected annually through property taxes and are deposited into a separate Fund for the design, construction and maintenance of flood control improvements for the specially benefited parcels within SCAAD. The assessment is in compliance with all laws pertaining to Proposition 218 including Article XIII-D of the California Constitution. Assessment collection for fiscal year 2015-16 was \$1.6 million.

**Capital Projects Funds** Capital Projects Funds reported a combined fund balance of \$5,249,085. These funds are available to meet the Agency's current operating and capital program costs; however, it should be noted that these funds are mostly reserves from the Agency's FPRP which concluded in 1998. Aside from Special Revenue Funds, there is no long-term sustained funding in place to support Agency operations indefinitely.

## INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Agency's net investment in capital assets as of June 30, 2016, is \$40,244,206. 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, 2016.

	<b>Capital Assets</b>	
	(net of accumulated depreciation)	
	2016	2015
Land and easements	\$ 9,678,245	\$ 9,678,245
Infrastructure assets, net	30,565,961	31,467,079
Total	\$ 40,244,206	\$ 41,145,324

Total accumulated depreciation as of June 30, 2016, is \$14,492,643. Therefore, the net infrastructure asset is \$30,565,961 (\$45,058,604 - \$14,492,643). 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, 2016, 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 Projects 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.

During fiscal year 2015-16, the Board of Directors approved the following: (i) a cost-share agreement with the San Joaquin County Flood Control and Water Conservation District to equally share the expense to complete a preliminary cost allocation analysis, estimated to be \$500,000, for funding enhanced flood protection operation and maintenance services; (ii) a \$68,000 amendment to an existing contract for additional CEQA support and review for the Lower San Joaquin River Feasibility Study (LSJRFS); (iii) a \$172,700 task order for geotechnical investigations for the Smith Canal Gate project; (iv) a \$2,624,700 amendment to the consultant contract with Peterson Brustad, Inc. for the design of the Smith Canal Gate project; and (v) \$267,000 for the non-Federal cost share for the LSJRFS.

#### **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, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 12,379,266
Interest income receivable	19,073
Receivable - State of California	1,007,774
Prepaid expenses	<u>375</u>
Total current assets	<u>13,406,488</u>
Capital assets:	
Land and easements	9,678,245
Infrastructure assets, net	<u>30,565,961</u>
Total capital assets	<u>40,244,206</u>
Total assets	<u><u>\$ 53,650,694</u></u>
<b>LIABILITIES AND NET POSITION</b>	
Liabilities:	
Accounts payable	\$ 786,364
Assessments payable	<u>289</u>
Total liabilities	<u>786,653</u>
Net position:	
Net investment in capital assets	40,244,206
Unrestricted	<u>12,619,835</u>
Total net position	<u>52,864,041</u>
Total liabilities and net position	<u><u>\$ 53,650,694</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, 2016**

<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	\$ 3,916,415	\$ -	\$ -	\$ (3,916,415)
Agency management	<u>716,097</u>	<u>826,252</u>	<u>-</u>	<u>110,155</u>
Total governmental activities	<u>\$ 4,632,512</u>	<u>\$ 826,252</u>	<u>\$ -</u>	<u>(3,806,260)</u>
General revenues:				
Assessments fees				2,574,610
Investment earnings				78,579
Miscellaneous income				<u>267</u>
Total general revenues				<u>2,653,456</u>
Change in net position				<u>(1,152,804)</u>
Net position, beginning of year				<u>54,016,845</u>
Net position, end of year				<u>\$ 52,864,041</u>

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
BALANCE SHEET  
JUNE 30, 2016**

	General Fund	Maintenance and Operations Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 643,349	\$ 4,949,512	\$ 98,909	\$ 1,591,638
Interest income receivable	931	7,433	143	2,420
Receivable - State of California	-	-	-	28,633
Prepaid expense	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 644,280</b>	<b>\$ 4,956,945</b>	<b>\$ 99,052</b>	<b>\$ 1,622,691</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 30,772	\$ -	\$ 30,074
Assessments payable	-	289	-	-
<b>Total liabilities</b>	<b>-</b>	<b>31,061</b>	<b>-</b>	<b>30,074</b>
<b>FUND BALANCES</b>				
Restricted	-	4,925,884	-	-
Assigned	-	-	99,052	1,592,617
Unassigned	644,280	-	-	-
<b>Total fund balances</b>	<b>644,280</b>	<b>4,925,884</b>	<b>99,052</b>	<b>1,592,617</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 644,280</b>	<b>\$ 4,956,945</b>	<b>\$ 99,052</b>	<b>\$ 1,622,691</b>

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
BALANCE SHEET (Continued)  
JUNE 30, 2016**

	Construction #3 Fund	Smith Canal Closure Fund	Smith Canal Assessment Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,221,223	\$ 720,997	\$ 2,153,638	\$ 12,379,266
Interest income receivable	3,631	1,044	3,471	19,073
Receivable - State of California	-	979,141	-	1,007,774
Prepaid expense	375	-	-	375
<b>TOTAL ASSETS</b>	<b>\$ 2,225,229</b>	<b>\$ 1,701,182</b>	<b>\$ 2,157,109</b>	<b>\$ 13,406,488</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 368,995	-	\$ 356,523	\$ 786,364
Assessments payable	-	-	-	289
<b>Total liabilities</b>	<b>368,995</b>	<b>-</b>	<b>356,523</b>	<b>786,653</b>
<b>FUND BALANCES</b>				
Restricted	-	-	-	4,925,884
Assigned	1,856,234	1,701,182	1,800,586	7,049,671
Unassigned	-	-	-	644,280
<b>Total fund balances</b>	<b>1,856,234</b>	<b>1,701,182</b>	<b>1,800,586</b>	<b>12,619,835</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,225,229</b>	<b>\$ 1,701,182</b>	<b>\$ 2,157,109</b>	<b>\$ 13,406,488</b>

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 POSITION  
JUNE 30, 2016**

Total Fund Balances - Governmental Funds	\$ 12,619,835
--	---------------

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>(14,492,643)</u>	
		<u>40,244,206</u>

Net Position of Governmental Activities	<u><u>\$ 52,864,041</u></u>
---	-----------------------------

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, 2016**

	General Fund	Maintenance and Operations Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
Revenues:				
Assessments	\$ -	\$ 841,618	\$ -	\$ -
Investment earnings	3,853	29,161	560	11,940
Other government agency aid	-	-	-	28,633
Miscellaneous	-	-	-	-
Total revenues	<u>3,853</u>	<u>870,779</u>	<u>560</u>	<u>40,573</u>
Expenditures:				
Current operating:				
Maintenance and operations	-	518,188	-	829,003
Agency management	-	-	-	-
Total expenditures	<u>-</u>	<u>518,188</u>	<u>-</u>	<u>829,003</u>
Net change in fund balances	<u>3,853</u>	<u>352,591</u>	<u>560</u>	<u>(788,430)</u>
Fund balances, beginning	<u>640,427</u>	<u>4,573,293</u>	<u>98,492</u>	<u>2,381,047</u>
Fund balances, ending	<u>\$ 644,280</u>	<u>\$ 4,925,884</u>	<u>\$ 99,052</u>	<u>\$ 1,592,617</u>

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, 2016**

	Construction #3 Fund	Smith Canal Closure Fund	Smith Canal Assessment Fund	Total Governmental Funds
Revenues:				
Assessments	\$ -	\$ -	\$ 1,732,992	\$ 2,574,610
Investment earnings	16,126	4,142	12,797	78,579
Other government agency aid	-	797,619	-	826,252
Miscellaneous	50	-	217	267
Total revenues	<u>16,176</u>	<u>801,761</u>	<u>1,746,006</u>	<u>3,479,708</u>
Expenditures:				
Current operating:				
Maintenance and operations	222,204	-	1,445,902	3,015,297
Agency management	696,374	-	19,723	716,097
Total expenditures	<u>918,578</u>	<u>-</u>	<u>1,465,625</u>	<u>3,731,394</u>
Net change in fund balances	<u>(902,402)</u>	<u>801,761</u>	<u>280,381</u>	<u>(251,686)</u>
Fund balances, beginning	<u>2,758,636</u>	<u>899,421</u>	<u>1,520,205</u>	<u>12,871,521</u>
Fund balances, ending	<u>\$ 1,856,234</u>	<u>\$ 1,701,182</u>	<u>\$ 1,800,586</u>	<u>\$ 12,619,835</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, 2016**

Net Change in Fund Balances - Governmental Funds \$ (251,686)

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>	<u>(901,118)</u>
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Changes in Net Position of Governmental Activities	<u>\$ (1,152,804)</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, 2016**

**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 to finance the maintenance of the flood project structures until adoption of a terminating resolution.

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, 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.

*Smith Canal Closure Fund* – This fund contains Early Implementation Project (EIP) funding received by the State of California per a Funding Agreement for the design of the Smith Canal Gate project. The State reimburses the Agency 50% for design expenditures less a 10% retention.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Fund Types and Major Funds (Continued)

*Smith Canal Assessment Fund* – Accounts for the collection of special assessments from property owners within the Smith Canal Area Assessment District. The collection of assessments are for design, construction, and maintenance of the Smith Canal flood control improvements to remove the area from a Federal Emergency Management Agency Special Flood Hazard Area. Proceeds are restricted to activities identified in the Annual Engineer's Report for the Smith Canal Area Assessment District.

### 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. 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.

### J. 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)

### K. 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.

### L. 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.

### M. 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)

N. New GASB Pronouncements Implemented in the Financial Statements

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

GASB Statement No. 72

GASB Statement No. 72 – *Fair Value Measurement Application* is set to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. There was no net effect on the Agency's accounting or financial reporting as a result of implementing this statement.

GASB Statement No. 73

GASB Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68* establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of GASB Statement No. 68. There was no net effect on the Agency's accounting or financial reporting as a result of implementing this statement.

GASB Statement No. 76

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* will identify – in the context of the current governmental financial reporting environment – the sources of accounting principles used by state and local governmental entities to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and the framework for selecting those principles. There was no net effect on the Agency's accounting or financial reporting as a result of implementing this statement.

O. New Accounting Pronouncements – Future Years

GASB Statement No. 74

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports (financial reports) of state and local governmental benefit plans for making decisions and assessing accountability. These benefits are referred to as other postemployment benefits (OPEB), and the plans through which the benefits are provided are referred to as OPEB plans. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. The Agency is assessing, but has not determined, the effects the implementation of this standard will have on the financial statements.

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

O. New Accounting Pronouncements – Future Years (Continued)

GASB Statement No. 75

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans* is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2017. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 77

GASB Statement No. 77 – *Tax Abatement Disclosures* will provided financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where the government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 78

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*. The requirements of this statement are effective for fiscal years beginning after December 15, 2015. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 79

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The requirement of this statement are effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on the financial statements.

GASB Statement No. 80

GASB Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The requirements of this statement are effective for fiscal years beginning after June 15, 2016. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on these financial statements.

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

O. New Accounting Pronouncements – Future Years (Continued)

GASB Statement No. 81

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of this statement are effective for fiscal years beginning after December 15, 2016. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on these financial statements.

GASB Statement No. 82

GASB Statement No. 82 – *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016, except for the requirements of paragraph 7 in circumstances when an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Agency is assessing, but has not yet determined, the effects the implementation of this standard will have on these financial statements.

**NOTE 3 – DETAILED NOTES ON FUNDS**

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 \$12,379,266 as of June 30, 2016.

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* – 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.

**NOTE 3 – DETAILED NOTES ON FUNDS** (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.

*Custodial Credit Risk* – 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.

In the government-wide financial statements, assessments receivable includes 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, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Nondepreciable capital assets:				
Land and easements	<u>\$ 9,678,245</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,678,245</u>
Total nondepreciable capital assets	9,678,245	-	-	9,678,245
Depreciable capital assets:				
Infrastructure assets	<u>45,058,604</u>	<u>-</u>	<u>-</u>	<u>45,058,604</u>
Total depreciable capital assets	45,058,604	-	-	45,058,604
Less accumulated depreciation	<u>(13,591,525)</u>	<u>(901,118)</u>	<u>-</u>	<u>(14,492,643)</u>
Net depreciable capital assets	<u>31,467,079</u>	<u>(901,118)</u>	<u>-</u>	<u>30,565,961</u>
Net capital assets	<u>\$ 41,145,324</u>	<u>\$ (901,118)</u>	<u>\$ -</u>	<u>\$ 40,244,206</u>

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

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 – FUND BALANCES

Fund balances are presented in the following categories: restricted, assigned, and unassigned (See Note 2. N. for a description of these categories). A detailed schedule of fund balances at June 30, 2016, is as follows:

	Major Special Revenue Fund			Major Capital Project Funds			Total	
	General Fund	Maintenance and Operations Fund	Smith Canal Assessment Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund	Construction #3 Fund		Smith Canal Closure Fund
<b>Fund balances:</b>								
<b>Restricted for:</b>								
Maintenance and operation services	\$ -	\$ 4,925,884	\$ -	\$ -	\$ -	\$ -	\$ 4,925,884	
<b>Total Restricted</b>	-	4,925,884	-	-	-	-	4,925,884	
<b>Assigned to:</b>								
Capital projects	-	-	1,800,586	99,052	1,592,617	1,856,234	1,701,182	7,049,671
<b>Total Assigned</b>	-	-	1,800,586	99,052	1,592,617	1,856,234	1,701,182	7,049,671
<b>Unassigned:</b>	644,280	-	-	-	-	-	-	644,280
<b>Total Fund Balances</b>	\$ 644,280	\$ 4,925,884	\$ 1,800,586	\$ 99,052	\$ 1,592,617	\$ 1,856,234	\$ 1,701,182	\$ 12,619,835

#### NOTE 5 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2016, 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. Amounts paid to the related parties during the fiscal year ended June 30, 2016, were \$1,170,822.

#### NOTE 6 – COMMITMENTS

The Agency entered into a \$10 million cost-share agreement with the U.S. Army Corps of Engineers (USACE) and the Central Valley Flood Protection Board for a feasibility study for the Lower San Joaquin River, of which, the local responsibility is \$2.5 million. Information from this study will be used to develop a plan to reach a 200-year level of flood protection for urban and urbanizing areas as required by State Senate Bill 5.

The Agency must also recertify levee reaches that were part of the Agency's Flood Protection Restoration Project constructed in 1998 and certified in 2000 as meeting USACE standards. The rescission of certification was brought about by USACE Engineering Circular (EC) 1110-2-6067. Among the provisions of the EC, a USACE certification has a 10-year period of validity and must meet current USACE standards to remain valid. The Board has authorized \$1,276,100 to support levee recertification efforts.

The Agency Board of Directors also authorized a \$6.1 million contract to complete the design of the Smith Canal Gate project to restore flood protection to an area affected by levee decertification and Federal Emergency Management Agency re-mapping. The Agency was able to secure an Early Implementation Program grant through the State Department of Water Resources (DWR) in the amount of \$2.4 million to cost-share half of the design and environmental work. The remaining half is being funded with assessment revenues that were passed under Proposition 218 on July 10, 2013. The Agency's proposal to the State for an Urban Flood Risk Reduction grant for up to \$22.3 million to cover the remaining design and permitting and construction costs was conditionally approved by the State. The Agency anticipates the State to cost share in 63% of total project costs.

**NOTE 7 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 27, 2017, 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, 2016**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Investment earnings	\$ -	\$ -	\$ 3,853	\$ 3,853
Total revenues	-	-	3,853	3,853
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	3,853	\$ 3,853
Fund balance, beginning			640,427	
Fund balance, end			\$ 644,280	

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)  
FOR THE YEAR ENDED JUNE 30, 2016**

	Maintenance and Operations Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Assessments	\$ 842,446	\$ 842,446	\$ 841,618	\$ (828)
Investment earnings	-	-	29,161	29,161
	842,446	842,446	870,779	28,333
Expenditures:				
Maintenance and operations	842,446	842,446	518,188	324,258
Reserves/emergencies	251,554	251,554	-	251,554
	1,094,000	1,094,000	518,188	575,812
Excess (Deficiency) of revenues and other sources over (under) expenditures and other uses	\$ (251,554)	\$ (251,554)	352,591	\$ 604,145
Fund balance, beginning			4,573,293	
Fund balance, end			\$ 4,925,884	

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)  
FOR THE YEAR ENDED JUNE 30, 2016**

Smith Canal Assessment Fund				
	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
Assessments	\$ 1,676,279	\$ 1,676,279	\$ 1,732,992	\$ 56,713
State EIP funding	900,000	900,000	-	(900,000)
Investment earnings	-	-	12,797	12,797
Miscellaneous	-	-	217	217
	<b>2,576,279</b>	<b>2,576,279</b>	<b>1,746,006</b>	<b>(830,273)</b>
<b>Expenditures:</b>				
Project management	180,000	180,000	553,866	(373,866)
Administration	20,000	20,000	20,826	(826)
Engineering design	1,172,500	1,172,500	683,807	488,693
Independent review	183,000	183,000	47,401	135,599
Environmental review and permitting	382,500	382,500	159,725	222,775
Real estate planning and acquisition	70,000	70,000	-	70,000
Public outreach	12,000	12,000	-	12,000
Assessment reserves	556,279	556,279	-	556,279
	<b>2,576,279</b>	<b>2,576,279</b>	<b>1,465,625</b>	<b>1,110,654</b>
Excess of revenues and other sources over expenditures and other uses	<b>\$ -</b>	<b>\$ -</b>	<b>280,381</b>	<b>\$ 280,381</b>
Fund balance, beginning			<b>1,520,205</b>	
Fund balance, end			<b>\$ 1,800,586</b>	

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

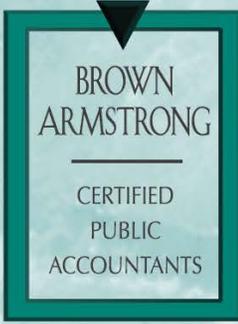
**NOTE 1 – BUDGETARY INFORMATION**

A. Budget Policy and Practice

The San Joaquin Area Flood Control Agency (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.



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

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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, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 27, 2017.

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.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
June 27, 2017

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY  
SCHEDULE OF SIGNIFICANT DEFICIENCIES,  
MATERIAL WEAKNESSES, AND RECOMMENDATIONS  
JUNE 30, 2016**

**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.