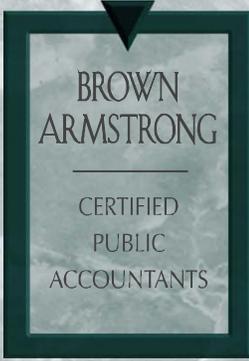


SAN JOAQUIN AREA FLOOD CONTROL AGENCY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR YEAR ENDED JUNE 30, 2010

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
YEAR ENDED JUNE 30, 2010**

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (Agency), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2011, 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.

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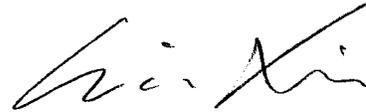
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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison information on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. A. Armstrong", is written over the printed name of the accountancy corporation.

Bakersfield, California
October 31, 2011

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2010**

This section of the San Joaquin Area Flood Control Agency's (Agency) annual financial report represents a discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2010. It should be read in conjunction with the Agency's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

As a result of the Agency's refinancing (July 2002), the Agency reduced the average annual interest rate of the outstanding bonds to 3.8% and significantly reduced the bond debt. The outstanding bond debt (including \$1,275,000 current amount of bonds payable and \$1,500,000 proposed additional bond call) is \$5,823,440.

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

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

Future Federal reimbursements will be requested by the COE through annual appropriations for the Agency project until the reimbursements total \$33,491,000. As of June 30, 2010, a total of \$22,868,020 has been reimbursed to the Agency by the Federal government and \$12,625,000 by the State government. It is uncertain when the Federal reimbursement will be completed.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements provide an overview of the Agency's financial position. Refer to Note 2 (Notes to the Basic Financial Statements) for further information on significant accounting policies. The Statement of Net Assets presents information on all the Agency's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

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

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

Most of the Agency's liability is the outstanding bonds initially sold in 1996 and refinanced in July 2002. The outstanding bonds account for almost 82% of the Agency's liability (See Statement of Net Assets). As of June 30, 2010, the outstanding bonds total (including \$1,275,000 in current amount of bonds payable and \$1,500,000 in proposed additional bond call) is \$5,823,440. Future debt service payments will be approximately \$1,200,000 annually to cover principal and interest with an average interest rate of approximately 4%. The Reserve Fund requirement associated with the bonds is currently \$1,600,000. The annual debt service payment is raised through annual assessments included in the County property tax bill. The last bond payment is scheduled to occur in September 2014.

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

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

The Special Revenue Funds include the following funds: 1) Maintenance and Operations Fund which is used to account for resources held for the operations and maintenance (O&M) of flood control structures. The Agency created a special assessment in 1996 for the continued maintenance of the flood structures. Collection of the assessment will continue until a terminating resolution is adopted by the Agency. Assessments are collected as a line item in property tax bills and are deposited in the Maintenance and Operations Fund. The use of O&M funds is legally restricted to the operations and maintenance activities identified in the Agency's annual O&M budget. 2) Flood Control Equalization Fee Fund was created in 1996 to ensure that all new development areas contribute their fair share to the cost of the construction of the Flood Protection Restoration Project. Monies collected through the Flood Control Equalization Fee can be used to pay for expenses of required flood control facilities not included in the bonded indebtedness for the Assessment District and/or to retire the assessment bonds early. The fund balance in the Equalization Fee Fund is transferred annually to the Capital Projects Fund. 3) The Environmental Fund was created to pay the cost of mitigating environmental damage resulting from the construction of flood control facilities. Upon completion and payment verification of all project environmental activities, the remaining funds were transferred to the Capital Projects Fund on February 27, 2004. 4) The FEMA Grant Fund was created during fiscal year 2009-2010 to account for the disbursement of grant funds related to a Cooperative Technical Partner agreement between the Agency and FEMA. The grant money was used to pay for updated stage-frequency curves for the San Joaquin River Delta, various mapping activities to provide enhanced damage reduction for areas protected by levees, and administrative costs associated with managing the grant activities.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This fiscal year is the ninth accounting period in which the Agency has applied Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As noted earlier, net assets provide an overview of the Agency's financial position.

The following table shows that the Agency's assets exceeded liabilities by about \$64 million (\$71,439,543 - \$7,068,244) as of June 30, 2010, and the net assets decreased by \$966,799 (\$64,371,299 - \$65,338,098) compared with the prior year:

STATEMENT OF NET ASSETS

	2010	2009
ASSETS		
Current assets	\$ 23,664,102	\$ 25,822,401
Capital assets	45,650,913	46,552,031
Other assets	2,124,528	2,195,378
TOTAL ASSETS	71,439,543	74,569,810
LIABILITIES		
Current liabilities	1,244,804	1,253,052
Long-term liabilities	5,823,440	7,978,660
TOTAL LIABILITIES	7,068,244	9,231,712
NET ASSETS		
Invested in capital assets, net of related debt	39,827,473	38,573,371
Restricted for debt service	5,616,141	6,429,064
Unrestricted	18,927,685	20,335,663
TOTAL NET ASSETS	\$ 64,371,299	\$ 65,338,098

The Agency's capital net assets for the year ended June 30, 2010: Land and Easements \$9,678,245 and Flood Control Infrastructure \$35,972,668 totaling \$45,650,913 represent approximately 64% of the Agency's total assets (see Capital Assets table on page 7). These capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency.

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

STATEMENT OF ACTIVITIES

	2010	2009
REVENUES		
Assessments	\$ 2,939,845	\$ 2,968,342
Aid from other government agencies	790,869	97,289
Investment earnings	173,599	747,606
Miscellaneous	352,411	330
Total revenues	4,256,724	3,813,567
EXPENSES		
Operation and management	2,482,545	1,463,674
Agency management	2,109,233	1,927,875
Other expenses	631,745	682,487
Total expenses	5,223,523	4,074,036
Change in net assets	(966,799)	(260,469)
NET ASSETS		
Beginning net assets, as restated	65,338,098	65,598,567
Net assets, end of the year	\$ 64,371,299	\$ 65,338,098

The Agency receives revenues from sources which include assessments, interest and investment income, and project reimbursements from the State and the Federal government. Other sources of revenue are received through partnership agreements with other local and/or government agencies to help fund flood studies or related flood control activities approved by the Board of Directors. The Agency also collects Flood Control Equalization Fees from permits issued for new construction. Flood Control Equalization Fees revenues can be used to complete project improvements approved by the Board of Directors or for early retirement of bonds. In addition, the Agency collects operations and maintenance assessments that can only be used to maintain and operate the flood control structures.

Revenues increased by approximately 12% (from \$3,813,569 in fiscal year 2009 to \$4,256,724 in fiscal year 2010). The increase was mainly due to partnership with other local and government agencies for their participation in flood studies.

Expenses increased by approximately 28% (from \$4,074,035 in fiscal year 2009 to \$5,223,523 in fiscal year 2010). This increase is related to the Agency's technical studies and projects.

FINANCIAL ANALYSIS OF AGENCY FUNDS

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

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

A budget of \$792,500 was considered appropriate this year (2009-10) for operations and maintenance. The Maintenance and Operations Fund had a balance of approximately \$3.7 million on June 30, 2010.

The Capital Projects Funds Capital Projects Funds reported a combined fund balance of \$13,952,892. These funds are available to meet the Agency's current and future needs.

Debt Service Funds consist of the Debt Service Fund, Prepayment Fund, Redemption Fund, and Reserve Fund. Resources in these funds are for the payment of general long-term debt principal, interest, and related costs. District assessments collected from property owners with property taxes will remain steady at approximately \$2.2 million annually.

INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's capital assets net of related debt as of June 30, 2010, amounted to \$39,827,473. These capital assets include land (right-of-way acquired for the project) and flood control infrastructures. The area protected by the Agency is about 38,700 assessable gross acres of land with approximately 74,000 parcels in San Joaquin County, State of California. The Agency completed the main construction of the flood control improvements project in November 1998, and since then, no major construction has been undertaken. However, authorized project studies and investigation may lead to new projects. Apart from normal depreciation, there were no changes in capital assets during fiscal year ended June 30, 2010.

Capital Assets		
(net of accumulated depreciation)		
	2010	2009
Land and easements	\$ 9,678,245	\$ 9,678,245
Infrastructure assets, net	35,972,668	36,873,786
Total	\$ 45,650,913	\$ 46,552,031

Total accumulated depreciation as of June 30, 2010, is \$9,085,936. Therefore, the net infrastructure asset is \$35,972,668 (\$45,058,604 - \$9,085,936). The infrastructure assets are being depreciated over a life of 50 years.

As noted earlier, these capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency. Land acquired by the Agency for right-of-way purposes will be turned over to the Central Valley Flood Protection Board (formerly State of California Reclamation Board). Although the Agency's capital assets net of related debt is \$39,872,473, it should be noted that the resources needed to repay the outstanding debt must be provided from other sources, namely property assessments. Since the capital assets themselves generate no revenue and have no market value, they cannot be used to liquidate these liabilities.

Long-Term Debt

As of June 30, 2010, the Agency had an outstanding long-term debt of \$5,823,440. This consists of the remaining outstanding bonds initially sold in 1996 and refinanced in July of 2002. These bonds account for approximately 82% of the Agency's liabilities.

AGENCY OPERATIONS

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

Before undertaking any new projects, the Agency must determine whether the proposed project will meet the necessary criteria for which funds are available for expenditure. During this fiscal year (2009-10), the Board of Directors approved the following contracts: i) a cooperative agreement with FEMA for a \$500,000 grant to pay for the San Joaquin River Delta Base Flood Elevation Refinement project and the Flood Mitigation and Preparedness Pilot project; ii) supplemental funding in the amount of \$150,000 for South Bank Calaveras River Vegetation Removal and Remediation; iii) hydrology analysis in the amount of \$460,000 for the Lower San Joaquin River Feasibility Study; and iv) an amendment to an existing agreement to file a grant application for the State's Early Implementation Program for the Smith Canal Flood Gate project in the amount of \$8,174.

REQUEST FOR INFORMATION

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 23,453,871
Assessments receivable	175,803
Interest income receivable	<u>34,428</u>
Total current assets	<u>23,664,102</u>
Restricted assets:	
Cash and investments	1,895,821
Interest income receivable	9,480
Unamortized debt issuance cost	<u>219,227</u>
Total restricted assets	<u>2,124,528</u>
Capital assets:	
Land and easements	9,678,245
Infrastructure assets, net	<u>35,972,668</u>
Total capital assets	<u>45,650,913</u>
Total assets	<u><u>\$ 71,439,543</u></u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 1,150,954
Interest payable	93,850
Bonds payable, current portion	<u>2,775,000</u>
Total current liabilities	<u>4,019,804</u>
Long-term liabilities:	
Bonds payable, net of bond premium and deferred loss	<u>3,048,440</u>
Total long-term liabilities	<u>3,048,440</u>
Total liabilities	<u>7,068,244</u>
Net assets:	
Invested in capital assets, net of related debt	39,827,473
Restricted for debt service	5,616,141
Unrestricted	<u>18,927,685</u>
Total net assets	<u><u>\$ 64,371,299</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, 2010**

<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 management	\$ 2,482,545	\$ 360,287	\$ -	\$ (2,122,258)
Agency management	2,109,233	430,582	-	(1,678,651)
Interest and other charges	<u>631,745</u>	<u>-</u>	<u>-</u>	<u>(631,745)</u>
Total governmental activities	<u><u>\$ 5,223,523</u></u>	<u><u>\$ 790,869</u></u>	<u><u>\$ -</u></u>	<u><u>(4,432,654)</u></u>
General revenues:				
Assessments fees				2,939,845
Investment earnings				173,599
Miscellaneous income				<u>352,411</u>
Total general revenues				<u>3,465,855</u>
Change in net assets				<u>(966,799)</u>
Net assets, beginning of year				<u>65,338,098</u>
Net assets, end of year				<u><u>\$ 64,371,299</u></u>

Interest income of \$430,582 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, 2010**

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Construction #1 Fund
ASSETS				
Cash and cash equivalents	\$ 630,110	\$ 4,048,607	\$ 2,124	\$ 8,196,894
Assessment receivable	-	15	127,492	41,391
Interest income receivable	916	5,824	30	12,192
Long-term investments	-	-	-	-
TOTAL ASSETS	<u>\$ 631,026</u>	<u>\$ 4,054,446</u>	<u>\$ 129,646</u>	<u>\$ 8,250,477</u>
LIABILITIES				
Accounts payable	\$ -	\$ 379,279	\$ 115,738	\$ 392,690
Total liabilities	<u>-</u>	<u>379,279</u>	<u>115,738</u>	<u>392,690</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	-	-
Unreserved, designated for, reported in:				
Special Revenue Fund	-	3,675,167	13,908	-
Capital Projects Fund	-	-	-	7,857,787
Unreserved, undesignated for, reported in:				
General Fund	631,026	-	-	-
Total fund balances	<u>631,026</u>	<u>3,675,167</u>	<u>13,908</u>	<u>7,857,787</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 631,026</u>	<u>\$ 4,054,446</u>	<u>\$ 129,646</u>	<u>\$ 8,250,477</u>

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

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET (Continued)
JUNE 30, 2010**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,348,944	\$ 3,705,530	\$ 521,662	\$ 23,453,871
Assessment receivable	-	79	6,826	175,803
Interest income receivable	9,408	14,711	827	43,908
Long-term investments	-	1,895,821	-	1,895,821
TOTAL ASSETS	\$ 6,358,352	\$ 5,616,141	\$ 529,315	\$ 25,569,403
LIABILITIES				
Accounts payable	\$ 263,247	\$ -	\$ -	\$ 1,150,954
Total liabilities	263,247	-	-	1,150,954
FUND BALANCES				
Reserved for:				
Debt service	-	5,616,141	-	5,616,141
Unreserved, designated for, reported in:				
Special Revenue Fund	-	-	510,202	4,199,277
Capital Projects Fund	6,095,105	-	19,113	13,972,005
Unreserved, undesignated for, reported in:				
General Fund	-	-	-	631,026
Total fund balances	6,095,105	5,616,141	529,315	24,418,449
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,358,352	\$ 5,616,141	\$ 529,315	\$ 25,569,403

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, 2010**

Total Fund Balances - Governmental Funds \$ 24,418,449

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Infrastructure assets, land and easements	\$ 54,736,849	
Less: accumulated depreciation	<u>(9,085,936)</u>	
		45,650,913

The assets and liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

Bonds payable	(6,885,000)	
Unamortized bond premium	(506)	
Bond interest payable	(93,850)	
Unamortized deferred loss on refunding	1,062,066	
Bond issuance costs	631,891	
Accumulated amortization, bond issuance costs	<u>(412,664)</u>	
		<u>(5,698,063)</u>

Net Assets of Governmental Activities \$ 64,371,299

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, 2010**

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Construction #1 Fund
Revenues:				
Assessments	\$ -	\$ 748,586	\$ -	\$ -
Investment earnings	3,639	22,336	59	48,740
Federal	-	-	360,287	-
Other government agency aid	-	-	-	140,000
Miscellaneous	-	-	-	2,411
Total revenues	3,639	770,922	360,346	191,151
Expenditures:				
Current operating:				
Maintenance and operations	-	563,192	95,491	1,042,789
Agency management	-	-	250,947	593,691
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	-	563,192	346,438	1,636,480
Other financing sources (uses):				
Transfers in	-	-	-	74,291
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	74,291
Net change in fund balances	3,639	207,730	13,908	(1,371,038)
Fund balances, beginning	627,387	3,467,437	-	9,228,825
Fund balances, ending	\$ 631,026	\$ 3,675,167	\$ 13,908	\$ 7,857,787

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, 2010**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Assessments	\$ -	\$ 2,151,040	\$ 40,219	\$ 2,939,845
Investment earnings	36,767	58,412	3,646	173,599
Federal	-	-	-	360,287
Other government agency aid	-	-	290,582	430,582
Miscellaneous	350,000	-	-	352,411
Total revenues	386,767	2,209,452	334,447	4,256,724
Expenditures:				
Current operating:				
Maintenance and operations	734,431	21,500	25,142	2,482,545
Agency management	363,477	-	-	1,208,115
Debt service:				
Principal	-	2,405,000	-	2,405,000
Interest and other charges	-	359,178	-	359,178
Total expenditures	1,097,908	2,785,678	25,142	6,454,838
Other financing sources (uses):				
Transfers in	-	-	209,417	283,708
Transfers out	-	(236,697)	(47,011)	(283,708)
Total other financing sources (uses)	-	(236,697)	162,406	-
Net change in fund balances	(711,141)	(812,923)	471,711	(2,198,114)
Fund balances, beginning	6,806,246	6,429,064	57,604	26,616,563
Fund balances, ending	\$ 6,095,105	\$ 5,616,141	\$ 529,315	\$ 24,418,449

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, 2010**

Net Change in Fund Balances - Governmental Funds \$ (2,198,114)

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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The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the Governmental Funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Activities.

Repayment of bond principal	2,405,000	
Amortization of bond issuance cost	(51,583)	
Amortization of deferred loss	(249,898)	
Amortization of bond premium	<u>118</u>	
		2,103,637

The amounts below included in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds. The amounts shown below represent the net change.

Interest payable		<u>28,796</u>
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Changes in Net Assets of Governmental Activities		<u><u>\$ (966,799)</u></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, 2010**

NOTE 1 – DESCRIPTION OF THE AGENCY

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

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

The Agency applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) statements and interpretations currently in effect for fiscal year ending June 30, 2010) as well as the following pronouncements issued on or before November 30, 1999, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Financial Agency

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

B. Basis of Presentation – Government-Wide Accounting

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Fund Accounting

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

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

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized in the year for which they are levied.

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 60 days after year-end. Expenditures are recorded when the related liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

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

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

E. Allocation of Indirect Expenses

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

F. Fund Types and Major Funds

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

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

Construction #1 and #3 Funds – Accounts for all resources for the acquisition of capital facilities by the Agency. The Project of the Agency is to construct these facilities. The original assessment and proceeds of the bond issue are the sources of funds. Recorded income sources include assessment fees collected by the County Tax Collector and reimbursement from the Federal government.

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Types and Major Funds (Continued)

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

G. Cash and Cash Equivalents

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

H. Infrastructure Assets and Depreciation

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

I. Long-Term Debt, Deferred Debt Expense, and Bond Discount/Premiums

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

J. Reservation of Fund Balances

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

K. Restriction of Net Assets

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Assessment Tax

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

M. Use of Estimates

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

N. New Accounting Pronouncements – Future Years

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. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The Agency has elected not to early implement GASB Statement No. 54 and has not determined its effect on the Agency's basic financial statements.

O. Reclassification

Certain reclassifications have been made to the prior year financial statements to be in conformity with the fiscal year 2010 presentation.

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 \$23,453,871 as of June 30, 2010. The fair value of the Agency's portion of the Pool as of June 30, 2009, was \$25,730,251.

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

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

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment the greater the sensitivity of fair value to changes in market interest rate. As of the year-end, the weighted average maturity of the investments contained in the County Treasury investment pool was approximately one year.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

ASSETS (Continued)

A. Cash in County Treasury (Continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. California statutes and the County’s investment policy limit the County investments to obligations of the U.S. Treasury, certain Federal agencies, bankers’ acceptances, “prime” commercial paper, certificates of deposit, swaps and trades, State Treasurer’s Local Agency Investment Fund, and repurchase agreements. Credit ratings as of June 30, 2010, of the pool investments is presented below.

Concentration of Credit Risk – Concentration of credit risk is the loss risk attributed to the magnitude of a government’s investment in a single issuer. The County’s investment policy places certain maximum percentage limitations of investments by investment type and the Treasurer has adhered to this policy with no exception. As of June 30, 2010, the County’s investments by investment type as the percentage of the Pool investments are shown below.

Custodial credit risk does not apply to a local 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. Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturities (in days)</u>	<u>Fair Value as % of the Pool Investments</u>	<u>Credit Rating S&P/MIS</u>
Wells Fargo Advantage Heritage Money Market Select	\$ 76,941	-	4.06%	A-1+/P-1
Federal Home Loan Mortgage Corp. Maturity 4/15/2013	<u>1,818,880</u>	403	<u>95.94%</u>	AAA/aaa
Total investment	<u>\$ 1,895,821</u>	403	100.00%	

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

Cash balances held in investment accounts are not insured by the Federal Depository Insurance Corporation. At June 30, 2010, the Agency had \$1,895,821 in marketable securities which are not insured.

C. Assessments Receivable

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

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

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

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)**ASSETS** (Continued)D. Capital Assets

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

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</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	(8,184,818)	(901,118)	-	(9,085,936)
Net depreciable capital assets	36,873,786	(901,118)	-	35,972,668
Net capital assets	<u>\$ 46,552,031</u>	<u>\$ (901,118)</u>	<u>\$ -</u>	<u>\$ 45,650,913</u>

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

LIABILITIESE. Accounts Payable

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

F. Long-Term Debt

During the year ended June 30, 2003, the Agency was able to issue bonds for the remainder of the Project, with an interest rate ranging 2.50% – 4.30%. The bonds are secured by the assessments levied on parcels within the Agency. The Agency made principal payments of \$2,405,000 during the year ended June 30, 2010, none of which was an optional redemption. The indenture requires the maintenance of a principal (sinking fund) account.

Interest costs are incurred on the long-term bonds. In the year ended June 30, 2010, the Debt Service Fund incurred \$357,278 of interest costs.

G. Outstanding Bonds, Maturity Dates, and Interest Rates

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

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)**LIABILITIES** (Continued)H. Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Bonds	\$ 9,290,000	\$ -	\$ 2,405,000	\$ 6,885,000	\$ 2,775,000
Premium	624	-	118	506	118
Deferred loss	(1,311,964)	-	(249,898)	(1,062,066)	(249,898)
Total	\$ 7,978,660	\$ -	\$ 2,155,220	\$ 5,823,440	\$ 2,525,220

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

<u>Year Ending June 30,</u>	<u>Principal {a}</u>	<u>Premium {b}</u>	<u>Deferred Loss {c}</u>	<u>Maturity, Net {a}+{b}+{c}</u>	<u>Interest</u>
2011	\$ 2,775,000	\$ 118	\$ (249,898)	\$ 2,525,220	\$ 226,158
2012	970,000	118	(249,898)	720,220	151,366
2013	1,005,000	118	(249,898)	755,220	111,363
2014	1,045,000	118	(249,898)	795,220	68,815
2015	1,090,000	34	(62,474)	1,027,560	23,435
Total	\$ 6,885,000	\$ 506	\$ (1,062,066)	\$ 5,823,440	\$ 581,137

I. Information on Assessment Delinquency for Bond Repayment:

Tax year	2009-10
Percent delinquent	4.33%
Parcels delinquent	2,100
Dollars delinquent	\$ 93,086

For prior five and current years	
Percent delinquent	1.67%
Parcels delinquent	4,566
Dollars delinquent	\$ 219,168

NOTE 4 – INTERFUND TRANSFERSA. Transfers and Payments

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

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

NOTE 4 – INTERFUND TRANSFERS (Continued)

A. Transfers and Payments (Continued)

The following schedule reports transfers and payments within the Agency:

	<u>Transfers from</u>	<u>Transfers to</u>
Construction #1 Fund	\$ -	\$ 74,291
Debt Service Fund	236,697	-
Other Governmental Funds	<u>47,011</u>	<u>209,417</u>
Total	<u>\$ 283,708</u>	<u>\$ 283,708</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, 2010, 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, 2010, were \$485,515.

NOTE 6 – COMMITMENTS

To address Federal (FEMA, U.S. Army Corps of Engineers), State (Department of Water Resources, Senate Bill 5), and local flood control issues, the Board of Directors took the following actions during 2008-09: signing of two 3-year consultant contracts, each in the amount of \$1.5 million, with Peterson Brustad, Inc., and Wood Rodgers, Inc., for technical support related to levee and other flood control activities. These contracts provided the Agency with the ability to address issues related to the disaccreditation and provisional accreditation of area levees by the FEMA Map Modernization Program. In addition, the Agency entered into a \$10 million cost-share agreement with the U.S. Army Corps of Engineers and the Central Valley Flood Protection Board for a Feasibility Study for the San Joaquin River (local responsibility \$2.5 million). Information from the study will be used to develop a plan to reach 200-year levee of flood protection for urban and urbanizing areas as required by State Senate Bill 5.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Assessments	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	3,639	3,639
Total revenues	-	-	3,639	3,639
Expenditures:				
Maintenance and operations	-	-	-	-
Reserves/emergencies	622,245	622,245	-	622,245
Total expenditures	622,245	622,245	-	622,245
Excess (deficiency) of revenues and other sources over expenditures and other uses	(622,245)	(622,245)	3,639	625,884
Fund balances, beginning	622,245	622,245	627,387	5,142
Fund balances, end	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 631,026</u>	<u>\$ 631,026</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, 2010**

	Maintenance and Operations Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Assessments	\$ 749,200	\$ 749,200	\$ 748,586	\$ (614)
Investment earnings	85,000	85,000	22,336	(62,664)
Total revenues	<u>834,200</u>	<u>834,200</u>	<u>770,922</u>	<u>(63,278)</u>
Expenditures:				
Maintenance and operations	642,500	642,500	563,192	79,308
Reserves/emergencies	150,000	150,000	-	150,000
Total expenditures	<u>792,500</u>	<u>792,500</u>	<u>563,192</u>	<u>229,308</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	41,700	41,700	207,730	166,030
Fund balances, beginning	<u>3,500,000</u>	<u>3,500,000</u>	<u>3,467,437</u>	<u>(32,563)</u>
Fund balances, end	<u><u>\$ 3,541,700</u></u>	<u><u>\$ 3,541,700</u></u>	<u><u>\$ 3,675,167</u></u>	<u><u>\$ 133,467</u></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, 2010**

	FEMA Grant Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Assessments	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	59	59
Miscellaneous	500,000	500,000	360,287	(139,713)
Total revenues	500,000	500,000	360,346	(139,654)
Expenditures:				
Maintenance and operations	200,000	200,000	95,491	104,509
Agency management	300,000	300,000	250,947	49,053
Real property acquisition costs	-	-	-	-
Engineering and construction management costs	-	-	-	-
Reserves/emergencies	-	-	-	-
Total expenditures	500,000	500,000	346,438	153,562
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	13,908	13,908
Fund balances, beginning	-	-	-	-
Fund balances, end	\$ -	\$ -	\$ 13,908	\$ 13,908

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, 2010**

NOTE 1 – BUDGETARY INFORMATION

A. Budget Policy and Practice

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

B. Basis of Budgeting

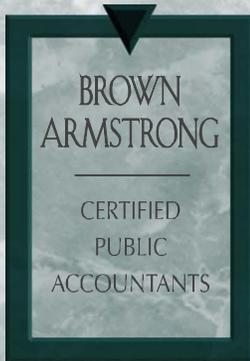
The budget is prepared on a GAAP basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: maintenance and operations, administrative costs, and real property acquisition costs. Expenditures may not exceed appropriations at this level.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUND	
	Lower San Joaquin River Feasibility Study Fund	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 502,582	\$ -	\$ 19,080	\$ 521,662
Assessment receivable	-	6,826	-	6,826
Interest income receivable	731	63	33	827
Total assets	\$ 503,313	\$ 6,889	\$ 19,113	\$ 529,315
FUND BALANCES				
Unreserved, designated for, reported in:				
Special revenue fund	\$ 503,313	\$ 6,889	\$ -	\$ 510,202
Capital projects fund	-	-	19,113	19,113
Total unreserved, designated	503,313	6,889	19,113	529,315
Total fund balances	503,313	6,889	19,113	529,315
TOTAL LIABILITIES AND FUND BALANCES	\$ 503,313	\$ 6,889	\$ 19,113	\$ 529,315

**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, 2010**

	SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUND	
	Lower San Joaquin River Feasibility Study Fund	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
Revenues:				
Assessments	\$ -	\$ 40,219	\$ -	\$ 40,219
Investment earnings	3,314	176	156	3,646
Other government agency aid	290,582	-	-	290,582
Total revenues	293,896	40,395	156	334,447
Expenditures:				
Current operating:				
Operations and maintenance	-	-	25,142	25,142
Total expenditures	-	-	25,142	25,142
Other financing sources (uses):				
Transfers in	209,417	-	-	209,417
Transfers out	-	(47,011)	-	(47,011)
Total other financing sources (uses)	209,417	(47,011)	-	162,406
Net change in fund balances	503,313	(6,616)	(24,986)	471,711
Fund balances, beginning	-	13,505	44,099	57,604
Fund balances, ending	\$ 503,313	\$ 6,889	\$ 19,113	\$ 529,315



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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (Agency), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

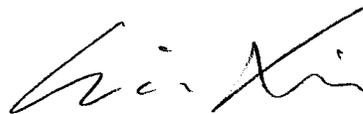


REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

We noted certain matters that we reported to management of the Agency, in a separate letter dated October 31, 2011.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. A. Armstrong", is positioned below the company name.

Bakersfield, California
October 31, 2011

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
SCHEDULE OF SIGNIFICANT DEFICIENCIES,
MATERIAL WEAKNESSES, AND RECOMMENDATIONS
JUNE 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to the financial statements noted?	No

Section II – Summary of Material Weaknesses

None.

Section III – Summary of Significant Deficiencies

None.

Section IV – Review of Prior Year Material Weaknesses

None.