

SUTTER BUTTE FLOOD CONTROL AGENCY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2012

SUTTER BUTTE FLOOD CONTROL AGENCY
FINANCIAL STATEMENTS

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sutter Butte Flood Control Agency
Yuba City, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sutter Butte Flood Control Agency (Agency), as of and for the fiscal year ended June 30, 2012, 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 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* as 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Sutter Butte Flood Control Agency, as of June 30, 2012, and the respective changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2011, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

In accordance with the *Government Auditing Standards*, we have also issued a report dated December 4, 2012, on our consideration of the Sutter Butte Flood Control Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and the Budgetary Comparison Schedule of the General Fund on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Budgetary Comparison Schedule of the Capital Projects Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Budgetary Comparison Schedule of the Capital Projects Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 4, 2012

**Sutter Butte Flood Control Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2012**

Management's Discussion and Analysis

As management of the Sutter Butte Flood Control Agency (SBFCA), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the SBFCA for the fiscal year ended June 30, 2012. This document has been prepared as required by the Governmental Accounting Standards Board Statement No. 34 (GASB No. 34). We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes to those financial statements.

I. Financial Highlights

- This fiscal year was SBFCA's second year of collecting of assessments associated with the Sutter Butte Flood Control Agency Assessment District (the "Assessment District").
- SBFCA rapidly progressed with design and planning activities associated with SBFCA's Feather River West Levee Early Implementation Program Project (the "EIP Project"). To fund this effort, SBFCA entered into two agreements. The first includes a \$9,000,000 Funding Agreement for 50% cost sharing of the design of the EIP Project with the Department of Water Resources ("DWR"). The second includes a Loan Agreement with Rabobank, NA for a \$25,000,000 Line of Credit to help finance the local share of the design costs and provide cash flow financing.
- SBFCA's net assets increased by \$7,744,818 in FY 11/12 and SBFCA recognized a prior year (FY 10/11) increasing adjustment in net assets of \$3,524,097 to bring SBFCA's total net assets to \$9,766,614. This significant increase in Net Assets is primarily attributed to the capitalization of SBFCA's expenditures on its EIP Project as Construction in progress.
- Total assets increased by \$281,447 mostly due to an increase in accounts receivable offset by a decrease in cash and investments. The accounts receivable increase primarily represents funding received for FY 11/12 received after June 30, 2012 associated with the DWR design funding agreement.
- Total liabilities increase by \$977,331 primarily due to increases in accounts payable as of June 30, 2012. These payables are primarily associated with the ongoing cost of designing and planning the EIP Project.
- SBFCA's net change in long term liabilities was an increase of \$754,198 due to the following;
 - Decreases in interest payable of \$394,459 and long term debt associated with the member agency loans of \$2,546,352, and;
 - Increases in compensated absences of \$5,131 and loans payable associated with the Rabobank Line of Credit of \$3,689,878.

II. Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to SBFCA's Basic Financial Statements. SBFCA's Basic Financial Statements are comprised of three components: 1) the Government-wide Financial Statements, 2) the Fund Financial Statements, and 3) the Notes to the Basic Financial Statements. This report also contains other supplemental information in addition to the Basic Financial Statements themselves.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a longer-term view of SBFCA's activities as a whole, and comprise the *Statement of Net Assets* and the *Statement of Activities*.

The *Statement of Net Assets* provides information about the financial position of SBFCA as a whole, including all capital assets and liabilities on a full accrual basis. Over time, increases or decreases in SBFCA's net assets may serve as one useful indicator of the Agency's overall financial position. In the case of SBFCA, total assets exceeded liability by \$9,766,614 as of the close of the fiscal year.

The *Statement of Activities* provides information about how SBFCA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, the revenues and all of the expenses are reported in this statement for some items that will only result cash flows in future fiscal periods. The Government-Wide Financial Statements are prepared on the full accrual basis, which is similar to the accounting used by most private-sector companies.

In the *Statement of Net Assets* and the *Statement of Activities*, all of SBFCA's activities are considered to be governmental activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SBFCA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, particularly those conditions related to grants. All of the funds of SBFCA are governmental funds and the Fund Financial Statements provide detailed information about all of SBFCA's funds.

Governmental Funds - All of SBFCA's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end that are available for spending. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of SBFCA's general operations. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance SBFCA's activities. Capital assets and other long-lived assets are not presented in the Governmental Fund Financial Statements. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds Financial Statements are explained in a reconciliation schedule following each Governmental Fund financial statement.

SBFCA currently maintains two major governmental funds: The *General Fund* and *Capital Projects Fund*. Information is presented separately for each of the funds in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

SBFCA adopts an annual appropriated budget for both of its funds. A budgetary comparison schedule has been provided for the General Fund and the Capital Fund to demonstrate compliance with this budget and is included within the Required Supplementary Information and Other Supplemental Information, respectively.

Notes to Basic Financial Statements

The notes provide additional information that is 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 also presents certain *Required Supplementary Information* and *Other Supplemental Information* with budgetary comparison to demonstrate compliance with approved budgets.

III. Government-Wide Financial Analysis

As noted earlier, SBFCA's assets exceed liabilities by \$9,766,614 at the end of fiscal year 2011-12. This amount is a significant increase from the fiscal year ended June 30, 2011 of \$11,268,915. The key element to this increase includes the implementation of SBFCA's Capital Asset Policy.

In FY 11/12, SBFCA started to capitalize the work completed for its EIP Project in accordance with its Capital Asset policy implemented during the fiscal year. The vast majority of its Net Assets are invested in this Capital Project as Construction in progress. The significant increase in Net Assets from FY 10/11 noted above represents the

accomplishment of SBFCA's immediate primary goal which is the construction the EIP Project. SBFCA's Net Assets will increase over time as granted revenues from DWR are invested into the EIP Project. However, upon the completion of various phases of the EIP Project, which is expected over the next 5 years, SBFCA expects to transfer the completed phases to the State of California, thereby reducing Net Assets.

IV. Fund Financial Statements Analysis

SBFCA uses fund accounting to ensure and demonstrate compliance with finance-related legal and grant requirements.

Governmental Funds - The focus of the SBFCA's Governmental Fund Financial Statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the SBFCA's financing requirements. In particular, any unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2012, SBFCA's governmental funds reported combined fund balances of \$3,740,970 a decrease of \$695,884 in comparison to June 30, 2011. Over 50% of the fund balance amount, \$1,953,143, is unassigned fund balance and the remainder is restricted for the capital projects and nonspendable because it is for prepaid items.

The General Fund is the main operating fund of SBFCA. On June 30, 2012, the Fund Balance was \$1,953,643 and nearly this entire amount is unassigned fund balance (save \$500 of prepaid rent). Expenditures for the fiscal year net of Debt Service were \$356,068, only 18% of the ending fund balance. During the fiscal year, a transfer of \$3,179,296 from the Capital Projects Fund took place to cover the repayment of 50% of the outstanding Loans provided by SBFCA's member agencies for the startup of the Agency.

The Capital Projects Fund is the main project fund of SBFCA and supports SBFCA's capital programs. These programs include the US Army Corps of Engineers Feasibility Study, SBFCA's EIP Project, and any remaining payments due to Levee District 1 for its Star Bend Project. The Fund Balance at June 30, 2012 was \$1,787,327. A useful measurement of the fund liquidity is a comparison between total expenditures and the ending fund balance. The total expenditures of the fund represent 645% of the ending fund balance indicating that liquidity is very low. By far, the largest effort for SBFCA is the EIP Project. EIP Project expenditures represented over 90% of the total expenditures from the Capital Fund. During the fiscal year the design and planning efforts of the EIP Project continued and 65% design was completed. These efforts were funded from a combination of Assessment District Revenues, state grant funding and proceeds from draw down on the Line of Credit loan. In the future, EIP Project expenditures will continue to increase as final design efforts are completed and the project commences construction. In order to meet the cash flow requirements of projected expenses, SBFCA's plans to issue long term bonds secured by future Assessment Revenues as contemplated within SBFCA's adopted 5-Year Budget. Management has already started the process of evaluating long term financing options.

V. Budgetary Highlights

A budgetary to actual comparison for the General Fund is included in the Required Supplementary Information. Total Operating expenditures were \$159,057 (30.9%) under budget mostly due to lower than expected professional services costs. In addition, total operating revenues were \$17,365 (2.3%) over budget due to unbudgeted interest income.

A budgetary to actual comparison for the Capital Fund is included in the Other Supplemental Information. Total Capital revenues were \$578,946 (6.3%) over budget primarily due to higher than expected Proposition 1E Funding received related to the EIP Project. Total Capital expenditures were \$16,284,313 (58.5%) under budget primarily due to the change in approach on Right of Way capital acquisition for the EIP Project. The budget originally included funding for the early acquisition of Right of Way for the EIP Project, however, the EIP Project management team has deferred the need to outlay of capital for right of way. As a result of these items combined, SBFCA deferred the issuance of new debt in FY 11/12 and reduced its borrowing from a budgeted \$25,000,000 to only \$3,689,878 resulting in a savings of future interest costs. SBFCA's ending Capital fund balance was \$4,566,105 lower than originally budgeted.

VI. Capital Asset and Long-Term Obligations

Capital Assets – During the fiscal year, SBFCA implemented its capital asset policy and increased its capital assets by \$9,210,626. SBFCA also made a prior fiscal year adjustment of its capital assets from fiscal year 10/11 of \$3,524,097. As previously discussed, these capital assets represent Construction in progress related to the EIP Project. Through June 30, 2012, SBFCA has completed a significant portion of the design of its EIP Project.

Long-Term Obligations – As of June 30, 2012, SBFCA has three outstanding loans to three of its member agencies, Yuba City, Sutter County, and Levee District 1 totaling a combined principal amount of \$3,060,054. This principal amount represents a 50% reduction in the total amount due, including 100% of the interest accrued during fiscal year 11/12. All three loans have the same structure and similar agreements. As described within the Notes to the Basic Financial Statements, Principal and Interest payments are due only to the extent SBFCA has sufficient funds available. Based upon the fact that SBFCA was able to collect assessment revenues for two fiscal years and leverage that revenue stream through a loan agreement with Rabobank, NA, it was determined that SBFCA has sufficient revenues to repay the loans. SBFCA entered into Repayment Agreements with the member Agency to repay the loans in two installments in full no later than June 30, 2014. Interest accrues at the Sutter County pooled treasury rate for that prior fiscal year and capitalizes as part of future interest calculations. As previously noted, during the fiscal year, SBFCA entered into a Loan Agreement with Rabobank, NA structured as variable rate non-revolving \$25,000,000 line of credit. The Loan requires interest only payments on the amount drawn down until maturity on October 15, 2016 at which time any outstanding loan balance would convert to a fully amortized loan over 10 years. Through June 30, 2012 SBFCA had drawn down funds of \$3,689,878.

VII. Economic Factors and Next Year's Budget

The sole local source of funding for SBFCA's efforts is the Assessment District. As this property assessment is not tied to property values, it is a direct charge on the property tax roll, assessment revenue is somewhat insulated from local economic factors that might impact home values. To the extent local economic factors impact a property owners ability to pay the assessment SBFCA's revenues and future ability to capitalize this revenue could be impacted. The property assessment delinquency rate for the second year of collection is again, very low, less than 4% for the assessment collected on the secured property tax rolls of Sutter and Butte Counties.

SBFCA has now implemented a five year budget planning platform that encompasses the full design and construction of the EIP Project. The budgets for fiscal years 2012/2013 and 2013/2014 have been developed assuming that SBFCA continues to fund the design of the EIP Project on an aggressive schedule to be able to commence construction by the Spring of 2013. The budgets also assume that a series of construction funding agreements with the Department of Water Resources are in place to provide a significant portion of the funding for the EIP Project.

In September 2011, SBFCA hired its first employee, the Director of Engineering, and in March of 2012, upon the departure of the current Executive Director, the Director of Engineering assumed the role of Executive Director and has maintained that position since that time. The budget for 2012/13 continues to fund the Director of Engineering position and that position was filled in September 2012 through a services agreement with the City of Yuba City.

VIII. Requests for Information

This financial report is designed to provide a general overview for all those with an interest in SBFCA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Sutter Butte Flood Control Agency, 1227 Bridge Street, Suite C, Yuba City, CA 95991.

Sutter Butte Flood Control Agency
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 4,277,006
Accounts receivable	1,414,352
Prepaid expenses	500
Total Current assets	<u>5,691,858</u>
Capital assets:	
Construction in progress	<u>12,734,723</u>
Total Assets	<u>18,426,581</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,886,467
Accrued liabilities	<u>18,437</u>
Total Current liabilities	<u>1,904,904</u>
Noncurrent liabilities:	
Compensated absences	5,131
Loans payable	<u>6,749,932</u>
Total Noncurrent liabilities	<u>6,755,063</u>
Total Liabilities	<u>8,659,967</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,984,791
Restricted for capital projects	1,833,311
Unrestricted	<u>1,948,512</u>
Total Net Assets (Deficit)	<u>\$ 9,766,614</u>

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Flood protection	\$ 2,681,454	\$ -	\$ 750,000	\$ 9,703,162	\$ 7,771,708
Interest on long-term debt	119,243				(119,243)
Total governmental activities	<u>\$ 2,800,697</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 9,703,162</u>	<u>7,652,465</u>

General revenues:

Investment earnings	41,603
Other revenues	50,750
Total general revenues	<u>92,353</u>

Change in net assets 7,744,818

Net assets (deficit), beginning of fiscal year (1,502,301)

Prior period adjustment 3,524,097

Net assets, restated, beginning of fiscal year 2,021,796

Net assets, end of fiscal year \$ 9,766,614

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and investments	\$ 1,997,717	\$ 2,279,289	\$ 4,277,006
Accounts receivable	12,480	1,401,872	1,414,352
Prepaid items	500		500
Total Assets	\$ 2,010,697	\$ 3,681,161	\$ 5,691,858
LIABILITIES			
Accounts payable	\$ 38,617	\$ 1,847,850	\$ 1,886,467
Accrued liabilities	18,437		18,437
Deferred revenue		45,984	45,984
Total Liabilities	57,054	1,893,834	1,950,888
FUND BALANCES			
Nonspendable: prepaid items	500		500
Restricted for capital projects		1,787,327	1,787,327
Unassigned	1,953,143		1,953,143
Total Fund Balances	1,953,643	1,787,327	3,740,970
Total Liabilities and Fund Balances	\$ 2,010,697	\$ 3,681,161	\$ 5,691,858

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,740,970

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

CAPITAL ASSETS

In the governmental funds balance sheet, only current assets are reported.

In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

12,734,723

ACCOUNTS RECEIVABLE

Under the modified accrual basis of accounting used in governmental funds, revenues are not recognized for transactions that do not represent available financial resources. In the statement of net assets and statement of activities, however, revenues and assets are reported regardless of when financial resources are available. This is the amount of the deferred revenue associated with accounts receivable as of June 30, 2012.

45,984

LONG-TERM DEBT

In the governmental funds balance sheet, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities consist of:

Compensated absences

(5,131)

Loans payable

(6,749,932)

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES

\$ 9,766,614

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Capital Projects Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 3,945,478	\$ 3,945,478
Assessment revenue	750,000	5,773,410	6,523,410
Interest income and investment earnings	17,365	24,238	41,603
Other revenues		50,750	50,750
Total Revenues	767,365	9,793,876	10,561,241
EXPENDITURES			
Current:			
Operational:			
Telephone	728		728
Postage and freight	21		21
Advertising	188		188
Forms and supplies	2,355		2,355
Printing and binding	7		7
Professional services	315,883		315,883
Salaries and benefits	15,756		15,756
Travel and meetings	3,973		3,973
Dues and subscriptions	2,941		2,941
Rentals	1,340		1,340
Insurance	5,802		5,802
Tools and other materials and supplies	7,074		7,074
Capital:			
USACE Feasibility Study		375,249	375,249
Star Bend Set Back Levee Contribution to LD1		602,242	602,242
State EIP Funded		615,710	615,710
Local EIP Funded		704,276	704,276
Early Implementation Project Preliminary Design and Application		6,076	6,076
Stakeholder Management		16,702	16,702
Capital outlay		9,210,626	9,210,626
Debt Service:			
Principal	2,546,352		2,546,352
Interest	513,702		513,702
Total Expenditures	3,416,122	11,530,881	14,947,003
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,648,757)	(1,737,005)	(4,385,762)
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of long-term debt		3,689,878	3,689,878
Transfers in	3,179,296		3,179,296
Transfers out		(3,179,296)	(3,179,296)
Total Other Financing Sources (Uses)	3,179,296	510,582	3,689,878
NET CHANGE IN FUND BALANCES	530,539	(1,226,423)	(695,884)
FUND BALANCES, JULY 1, 2011	1,423,104	3,013,750	4,436,854
FUND BALANCES, JUNE 30, 2012	\$ 1,953,643	\$ 1,787,327	\$ 3,740,970

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in
Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ (695,884)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are, therefore, added back to fund balances 9,210,626

LONG-TERM DEBT

The amount below does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds (net change). This is the current fiscal year change:

Interest payable 394,459
 Compensated absences (5,131)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Proceeds of issuance of long-term debt (3,689,878)

Repayment of long-term debt principal is an expenditure in governmental funds, but in the statement of net assets the repayment reduces the long-term liability.

Repayment of debt principal 2,546,352

ACCOUNTS RECEIVABLE

Certain revenues reported in the statement of activities are not current financial resources and therefore, are not reported as revenues in the governmental funds. This amount represents the amount that prior fiscal year deferred revenue exceeded current fiscal year.

(15,726)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 7,744,818

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Sutter Butte Flood Control Agency (Agency) is a joint powers agency formed in December 2007 by the Counties of Butte and Sutter, the Cities of Biggs, Gridley, Live Oak and Yuba City, and Levee Districts No. 1 and 9. The Agency has the power and authority to plan, finance, acquire, construct, and improve regional facilities for the purpose of providing flood protection to the Yuba City/Sutter Basin. The Agency is governed by a 13-member Board comprised of elected officials from the member cities, counties, and levee districts.

The Agency's Boundaries encompass approximately 34,200 properties in Butte and Sutter Counties.

B. Basis of Presentation and Accounting and Measurement Focus

The accounts of the Agency are organized and operated on the basis of funds, each of which is defined as a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenue, 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.

Government-wide Financial Statements – The Agency's Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency. The Agency has no Business-type Activities.

The Government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all the Agency's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. In the Statement of Activities, interfund transfers have been eliminated.

Major Funds - An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The Agency has no enterprise funds as of June 30, 2012.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation and Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements – Governmental Fund Financial Statements include a Balance Sheet, and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the difference in fund balances as presented in these statements to the net assets presented in the Government-wide financial statements. The Agency has presented all funds as major funds.

The following are descriptions of the major governmental funds:

- The **General Fund** is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the Agency that are not accounted for through other funds.
- The **Capital Projects Fund** is used to account for the capital project activities of the Agency.

All governmental funds are accounted for on a spending or “*current financial sources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources*.

A reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the difference created by the integrated approach.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for a purpose for which both restricted and unrestricted net assets are available, the Agency’s policy is to apply restricted net assets first.

D. Cash and Investments

The Agency pools cash resources from all funds with the City of Yuba City’s cash in order to facilitate management of cash. The balance in the pooled cash account is available to meet current operating requirements. The Agency also has two bank accounts with Wells Fargo, which are used for the payroll and payroll taxes and a state grant.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Investment Valuation

The Agency has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Interest earned on investments is allocated to all funds on the basis of quarterly cash and investment balances.

F. Capital Assets

Capital assets are those assets acquired for general governmental purposes and are reported in the governmental activities in the Government-wide Financial Statements. All purchased capital assets are recorded at historical or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date received. Capital assets are defined by the Agency as assets with an estimated useful life of more than one year and a cost according to the table below:

Class	Capitalization Threshold
Land	\$0
Land Improvements	\$100,000
Buildings	\$100,000
Building Improvements	\$100,000
Infrastructure: Pavement, Bridges, All Other	\$100,000
Equipment, Furniture, & Vehicles	\$5,000
Intangible Assets	\$5,000
Capital Lease Property	\$5,000
Leasehold Improvements	\$100,000
Works of Art / Historical Treasures	\$0
Construction in Progress for Year End Reporting	Projects to exceed \$100,000 at completion

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

G. Compensated Absences

As of June 30, 2012, there was one employee of the Agency and \$5,131 has been accrued as a long-term debt. This debt represents the balance of the employee's vacation leave as of June 30, 2012.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Assets and Fund Equity

In the Government-wide Financial Statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt – This amount is the portion of net assets, which is represented by the current net book value of the Agency’s capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

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” as defined above.

I. Fund Balances

Fund balances are divided into five classifications based primarily on the extent to which the Agency is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Agency ordinances).

Enabling legislation authorizes the Agency to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Agency can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Directors, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances, Continued

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Directors or an Agency official delegated that authority by Agency ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Agency applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures (governmental fund types). Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recovered as a reduction in expenditures in the user fund. All other interfund transactions are reported as transfers.

L. New Accounting Pronouncements

The Agency implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 64 during the fiscal year ended June 30, 2012.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. New Accounting Pronouncements, Continued

GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions

This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64 did not have an impact on the Agency’s financial statements for the fiscal year ended June 30, 2012.

2. CASH AND INVESTMENTS

The Agency maintains a cash and investment pool with the City of Yuba City (City) for all funds. In addition, the Agency has two accounts with Wells Fargo Bank for payroll and payroll taxes and a state grant.

The investments made by the City are limited to those allowable under State statutes as incorporated into the Agency’s Joint Powers Agreement, which is more conservative than that allowed by State statute.

See the City’s Comprehensive Annual Financial Report for disclosures related to the pooled cash and investments and the related interest rate risk, credit risk, custodial risk, and concentration of risk.

A. Cash Deposits

The Agency pools operating cash with the City of Yuba City and records the pooled monies as cash and investments. The Agency also has two accounts with Wells Fargo Bank for payroll and payroll taxes and a state grant.

B. Summary of Cash and Investments

The Cash and Investments are classified in the financial statements as shown below:

Cash and investments, Statement of Net Assets	<u>\$ 4,277,006</u>
Total cash and investments	<u><u>\$ 4,277,006</u></u>

Cash and Investments held by the Agency at June 30, 2012 consisted of the following:

Pooled cash with City of Yuba City	\$ 3,886,056
Deposits with financial institutions	<u>390,950</u>
Total cash and investments	<u><u>\$ 4,277,006</u></u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

2. CASH AND INVESTMENTS, Continued

B. Summary of Cash and Investments, Continued

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Agency by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The Agency has not adopted a formal investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
City Cash Pool	None	None	None

As of June 30, 2012, \$747,797 of the Agency's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

3. RISK MANAGEMENT

General Liability, Auto Liability, and Errors & Omissions Insurance

Coverage is maintained with the CSAC Excess Insurance Authority with coverage limits of \$1,000,000 per occurrence.

4. INTERFUND TRANSACTIONS

Transfers for the fiscal year ended June 30, 2012, were as follows:

	Transfers In	Transfers Out
		Capital Projects Fund
General Fund		<u>\$ 3,179,296</u>
Total		<u><u>\$ 3,179,296</u></u>

The 2011/12 fiscal year transfer consisted of a transfer from the Capital Projects Fund to the General Fund of \$3,179,296 to cover the repayment of 50% of the outstanding loans to the member agencies.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustments</u>	<u>Balance June 30, 2012</u>
Capital assets, not depreciated:					
Construction in progress	\$ -	\$ 9,210,626	\$ -	\$ 3,524,097	\$ 12,734,723
Total capital assets, not depreciated		<u>9,210,626</u>		<u>3,524,097</u>	<u>12,734,723</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 9,210,626</u>	<u>\$ -</u>	<u>\$ 3,524,097</u>	<u>\$ 12,734,723</u>

6. LONG-TERM DEBT

Loans Payable

Loans payable at June 30, 2012, consisted of the following:

To Rabobank, a line of credit up to \$25,000,000. Interest rate is based on the LIBOR one month rate, plus 150 basis points, which was 1.74275% as of June 30, 2012. Payments are due every October 15 and April 15, based on the amount drawn down.	\$3,689,878
To Yuba City, bears interest at a rate based on the Sutter County pooled treasury rate, which was 1.987% as of June 30, 2012. Principal and interest are payable as the Agency has sufficient funds available.	1,516,357
To Sutter County, bears interest at a rate based on the Sutter County pooled treasury rate, which was 1.987% as of June 30, 2012. Principal and interest are payable as the Agency has sufficient funds available.	1,516,357
To Levee District No. 1, bears interest at a rate based on the Sutter County pooled treasury rate, which was 1.987% as of June 30, 2012. Principal and interest are payable as the Agency has sufficient funds available.	<u>27,340</u>
Total Loans Payable	<u>\$ 6,749,932</u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2012

6. LONG-TERM DEBT, Continued

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2012, was as follows:

	July 1, 2011			June 30, 2012	Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental activities:					
Loans Payable	\$ 5,606,406	\$ 3,689,878	\$ (2,546,352)	\$ 6,749,932	\$ -
Compensated absences		5,131		5,131	
Governmental activities					
Long-term liabilities	<u>\$ 5,606,406</u>	<u>\$ 3,695,009</u>	<u>\$ (2,546,352)</u>	<u>\$ 6,755,063</u>	<u>\$ -</u>

7. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is not a defendant in any lawsuits as of June 30, 2012.

B. Federal and State Grant Programs

The Agency participates in a number of State programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grantor program regulations, the Agency may be required to reimburse the grantor government. As of June 30, 2012 the Agency believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any individual governmental funds or the overall financial condition of the Agency.

As of June 30, 2012, in the opinion of Agency management and legal counsel, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency.

8. OPERATING LEASE

The Agency entered into an operating lease agreement on June 1, 2009. The agreement is between the Agency (lessor) and the Yuba-Sutter Economic Development Corporation for office space at 1227 Bridge Street, Suite C, in Yuba City, CA. The lease payment is \$500 per month and is on a month-to-month basis, with 30 days' notice required for termination.

9. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$3,524,097 was made on the Statement of Activities for an understatement of capital assets in the prior fiscal year.

Sutter Butte Flood Control Agency
Notes to Required Supplementary Information
June 30, 2012

1. BUDGETARY CONTROL AND ACCOUNTING

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In May of each year, the Executive Director submits to the Board of Directors a proposed operating budget for the following fiscal year. This budget includes proposed expenditures by fund and the revenues expected to finance them.
2. The budget is legally enacted through passage of a resolution before July 1.
3. The Executive Director is authorized to transfer budgeted amounts; however, any revisions which alter total expenditures of any fund must be approved by the Board of Directors.
4. Formal budgetary integration is employed as management control device during the year for the General Fund.
5. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the fiscal year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year which were contingent upon new or additional revenue sources and reappropriated amounts for prior year encumbrances. The Executive Director must approve any adjustments to the budget.
6. Appropriations lapse at the end of the fiscal year.
7. Budgeted appropriations for the various governmental funds become effective each July 1. The Board of Directors may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for the General Fund presents comparisons of the legally-adopted budget with actual data on a basis consistent with accounting principles generally accepted in the United States of America.

Sutter Butte Flood Control Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Assessment revenue	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Interest income and investment earnings			17,365	17,365
Total Revenues	750,000	750,000	767,365	17,365
EXPENDITURES				
Current				
Operational:				
Telephone	200	850	728	122
Postage and freight	100	75	21	54
Advertising	500	250	188	62
Forms and supplies	6,300	5,000	2,355	2,645
Printing and binding	1,200	600	7	593
Professional services	350,400	442,100	315,883	126,217
Salaries and benefits	40,600	26,500	15,756	10,744
Travel and meetings	2,000	7,500	3,973	3,527
Dues and subscriptions	5,000	4,600	2,941	1,659
Rentals	1,500	2,000	1,340	660
Insurance	6,000	6,000	5,802	198
Tools and other materials and supplies	600	4,650	7,074	(2,424)
Contingency		15,000		15,000
Debt service:				
Principal		2,546,352	2,546,352	
Interest		513,702	513,702	
Total Expenditures	414,400	3,575,179	3,416,122	159,057
Excess of Revenues Over (Under) Expenditures	335,600	(2,825,179)	(2,648,757)	176,422
OTHER FINANCING SOURCES (USES)				
Transfers in		3,060,054	3,179,296	119,242
Total Other Financing Sources (Uses)		3,060,054	3,179,296	119,242
Net Change in Fund Balance	335,600	234,875	530,539	295,664
FUND BALANCE, JULY 1, 2011	1,423,104	1,423,104	1,423,104	
FUND BALANCE, JUNE 30, 2012	\$ 1,758,704	\$ 1,657,979	\$ 1,953,643	\$ 295,664

Sutter Butte Flood Control Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Capital Projects Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental	\$ 6,698,332	\$ 3,423,180	\$ 3,945,478	\$ 522,298
Assessment revenue	5,750,000	5,750,000	5,773,410	23,410
Interest income and investment earnings			24,238	24,238
Other revenues		41,750	50,750	9,000
Total Revenues	12,448,332	9,214,930	9,793,876	578,946
EXPENDITURES				
Capital:				
USACE Feasibility Study	832,530	1,078,352	375,249	703,103
Star Bend Set Back Levee Contribution to LD1		615,000	602,242	12,758
State EIP Funded	881,300	801,092	615,710	185,382
Local EIP Funded	881,300	812,592	704,276	108,316
Early Implementation Project Preliminary				
Design and Application		39,000	6,076	32,924
Stakeholder Management		24,000	16,702	7,298
Capital outlay	9,781,300	24,445,158	9,210,626	15,234,532
Total Expenditures	12,376,430	27,815,194	11,530,881	16,284,313
Excess of Revenues Over (Under) Expenditures	71,902	(18,600,264)	(1,737,005)	16,863,259
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long-term debt		25,000,000	3,689,878	(21,310,122)
Transfers out		(3,060,054)	(3,179,296)	(119,242)
Total Other Financing Sources (Uses)		21,939,946	510,582	(21,429,364)
Net Change in Fund Balance	71,902	3,339,682	(1,226,423)	(4,566,105)
FUND BALANCE, JULY 1, 2011	3,013,750	3,013,750	3,013,750	
FUND BALANCE, JUNE 30, 2012	\$ 3,085,652	\$ 6,353,432	\$ 1,787,327	\$ (4,566,105)