

SUTTER BUTTE FLOOD CONTROL AGENCY

ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2014**

SUTTER BUTTE FLOOD CONTROL AGENCY
FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Agency, as of June 30, 2014, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements effective July 1, 2013, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Corrections 2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule of the General Fund on pages 4 through 8 and page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
November 28, 2014

**Sutter Butte Flood Control Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2014**

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, 2014. 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

Major Milestones

- This fiscal year was SBFCA's fourth year of collecting assessments associated with the Sutter Butte Flood Control Agency Assessment District (the "Assessment District") and the Agency collected nearly 99% of the levied assessments as of the date of this financial report.
- SBFCA completed a significant portion of the construction of Project Area C of the Feather River West Levee Early Implementation Program Project (the "EIP Project") and on March 24, 2014, awarded a second construction contract to Nordic/Magnus Pacific Joint Venture for Project Area B & D in the amount of \$98,897,740.
- In October 2013, SBFCA executed a contract with the State of California, Department of Water Resources ("DWR") to provide grant funding from Proposition 1E for \$56.78 million for Project Area C work. In September 2014, DWR amended the EIP Agreement with SBFCA to provide additional funding of \$73.084 million for both design and construction. This amendment resulted in the State providing reimbursement for work completed during fiscal year 2013/14 which is reflected within the accompanying financial statements.
- In total, during the fiscal year, SBFCA received approximately \$37.1 million of funding through its EIP Funding Agreements from the State. In addition, SBFCA received reimbursements through its amended EIP funding agreement that resulted in a prior period adjustment as of July 1, 2013 of an additional \$4.18 million.
- In May 2013, SBFCA issued \$41,035,000 in Assessment Revenue Bonds yielding \$40,000,000 in project proceeds. During the fiscal year, SBFCA, drew down \$20,558,295 of project proceeds to advance work on the FRWLP.
- In total, SBFCA spent more than \$48 million to advance the EIP Project.
- This fiscal year saw a substantial increase in financial activities for SBFCA. Expenditures increased by more than 300% and revenues increased by more than 380%. Overall, fiscal year 2013-14 has been remarkably productive for the Agency as evidenced by the completion of several miles of levee adjacent to Yuba City, and significant progress on a total of 19 miles of levee improvements.
- As lead agency for the Feather River Regional Flood Management Plan, SBFCA administered Phase I, which is now completed.

Financial Activities

- Primarily as result of the grant awards and the collection of assessment revenues and the investment of those resources in the EIP, SBFCA's net position increased by \$39,558,320 in fiscal year 2013/14. SBFCA capitalizes investments in the EIP Project as Construction in progress.
- Total assets increased by \$51,781,011 mostly due to an increase in construction in progress.
- Total liabilities increased by \$8,663,959 primarily due to an increase of accounts payable as of June 30, 2014. The increase in accounts payable is due to the timing of the fiscal year end which took place at the height of the ongoing construction season.
- Construction activity in fiscal year 2013/14 was significantly greater than the activity in fiscal year 2012/13 which is reflected by the increase in expenditures and an increase in accounts payable.

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 Position* and the *Statement of Activities*.

The *Statement of Net Position* provides information about the financial position of SBFCA as a whole, including all capital assets and liabilities on a full accrual basis of accounting. Over time, increases or decreases in SBFCA's net position may serve as one useful indicator of the Agency's overall financial position. In the case of SBFCA, total assets exceeded liabilities by \$61,084,780 as of the close of the fiscal year.

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

In the *Statement of Net Position* 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 its 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 Position 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.

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*. 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 Projects Fund to demonstrate compliance with this budget and is included within the *Required Supplementary Information* and *Other Supplemental Information*, respectively.

III. Government-Wide Financial Analysis

As noted earlier, SBFCA's assets exceed liabilities by \$61,084,780 at the end of fiscal year 2013/14. This amount is a significant increase from the fiscal year ended June 30, 2013 (as restated by a prior adjustment) balance of \$21,526,460. The key element to this increase is related to SBFCA's Capital Asset Policy and the significant receipt of funds from the State of California (Department of Water Resources) through funding agreements and the associated investments made by SBFCA in the EIP Project over the past fiscal year.

In fiscal year 2011-12, SBFCA implemented a policy to capitalize the work completed for its EIP Project in accordance with its Capital Asset policy implemented during that fiscal year. The vast majority of SBFCA's Net Position are invested in this capital project as construction in progress. Construction in progress increased by \$48,083,268 during the fiscal year. The significant increase in Net Position from fiscal year 2013/14 represents the continued accomplishment of SBFCA's immediate primary goal, which is the construction the EIP Project. SBFCA's Net Position will continue to increase over time as granted revenues from DWR are invested in 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 the Net Position.

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 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, 2014, SBFCA's governmental funds reported combined fund balances of \$38,396,297 a decrease of \$8,463,193 in comparison to the restated fund balance as of June 30, 2013. This decrease is primarily due to excess of expenditures on the EIP Project over the revenues received. \$2,913,481 of the fund balance amount is unassigned fund balance and the remainder is restricted for capital projects or nonspendable due to it being invested in prepaid items. The vast majority of the fund balance is associated with the gross proceeds of SBFCA's 2013 Assessment Revenue Bonds and cash received from the State of California.

The General Fund is the main operating fund of SBFCA. As of June 30, 2014, the Fund Balance was \$2,913,544 and the majority (\$2,913,481) of this was unassigned fund balance. A useful measurement of the fund liquidity is a comparison between total expenditures and the ending fund balance. Expenditures for the fiscal year were \$334,057, only 11.4% of the ending fund balance. Unassigned fund balance was 872.2% of current fiscal year expenditures.

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 Sutter Basin Feasibility Study, SBFCA's EIP Project, the Feather River Regional Planning Effort, and three new efforts for which SBFCA has received commitments of grant funding from DWR including the Emergency Response Planning effort, the design and permitting effort of the Oroville Wildlife Area Flood Stage Reduction project and the design and permitting effort of the Gridley Bridge Erosion Site project. The Fund Balance at June 30, 2014 was \$35,482,753. The total expenditures of the fund were \$52,198,675. These represent 147% of the ending fund balance, indicating that liquidity is low. This is to be expected, as by far the largest effort for SBFCA is the EIP Project. EIP Project expenditures represented over 94% of the total expenditures in the Capital Fund. SBFCA's funding agreement with the State for the EIP Project provides funding for 76% of this effort. The State advances a portion of its share of projected expenditures on a quarterly basis. This provides the cash flow for the project, while at the same time protecting the State's interests in the project and not advancing too much funding without SBFCA substantiating expenditures on a monthly basis. In order to meet the cash flow requirements for the local share of the EIP Project, SBFCA relied on the proceeds of its Assessment Revenue Bonds.

V. Budgetary Highlights

A budgetary to actual comparison for the General Fund is included in the Required Supplementary Information. Total Expenditures were \$237,413 (41%) under budget, mostly due to a reduction in salaries and benefits expended against the General Fund. SBFCA is able to allocate some of its costs for Salaries and benefits to its Capital Projects Fund and receive reimbursement for these costs. Throughout the year, this allocation was greater than originally budgeted resulting in reduced General Fund expenditures. Actual revenues were in excess of the final budgeted revenues by \$18,240 solely as a result of unbudgeted interest income.

A budgetary to actual comparison for the Capital Fund is also included as Other Supplemental Information. Total Capital revenues were \$18,752,013 (30%) under the final budget due to lower than expected receipts of Proposition 1E Funding from DWR (Intergovernmental revenue). Funding from the State is a function of the timing of when the funding agreements are executed and effective as well the timing of expenditures. Ultimately the execution of SBFCA's funding agreement with the State and the associated amendment took place later than was original expected and this resulted in a lower amount of revenues received. Total Capital expenditures were \$39,812,092 (43%) lower than the final budget primarily due to slower than expected capital outlay expenditures during the fiscal year. SBFCA's original estimate of the cost of the work its contractor would complete during the fiscal year was slower and ultimately a vast majority of the work completed took place in the early months of fiscal year 2014/15 (the tail end of the construction season).

VI. Capital Asset and Long-Term Obligations

Capital Assets – During fiscal year 2011/12, SBFCA implemented its capital asset policy. This fiscal year SBFCA continued its significant investment in the Feather River West Levee Project and increased its capital assets by \$48,083,268. As previously discussed, these capital assets represent Construction in progress. Through June 30, 2014, SBFCA was in the middle of its construction season.

Long-Term Obligations – In fiscal year 2011-12, SBFCA entered into a Loan Agreement with Rabobank, NA structured as a 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 the fiscal year ending June 30, 2013, SBFCA had drawn down funds totaling of \$5,870,441. SBFCA did not draw any additional proceeds on this Loan through June 30, 2014. SBFCA made interest payments on the outstanding loan amount totaling \$99,808.

In May 2013, SBFCA issued \$41,035,000 of Assessment Revenue Bonds for capital improvements. As of June 30, 2014 the outstanding balance of the bonds payable was \$41,035,000. SBFCA made interest payments on the outstanding debt amount totaling \$1,435,386.

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 owner's ability to pay the assessment, SBFCA's revenues and future ability to capitalize this revenue could be impacted. The property assessment non-collection rate for the third year of collection is extremely low, less than 1% for the assessment collected on the secured property tax rolls of Sutter and Butte Counties.

SBFCA has implemented a five year budget planning platform that encompasses the full design and construction of the EIP Project. The budget for fiscal year 2014/15 has been developed assuming that SBFCA continues to advance the construction of the EIP Project on an aggressive schedule and re-commences construction in the Spring of 2015 after the Winter pause in construction. SBFCA is also in the process of planning for additional work related to the Feather River West Levee in the rural portion of the basin. As of the date of this report, the Agency is currently working to negotiate additional funding agreements through DWR's Flood System Repair Project for this effort. Future amendments to the approved budget will reflect this effort.

In August 2013, SBFCA hired its third employee, an Administrative Manager, through a direct employment agreement with the employee. The employee replaced the role previously filled through contract professional services consulting agreements. The budget for fiscal year 2014/15 continues to fund the Director of Engineering position that was ultimately filled in September 2012.

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, Post Office Box M, Yuba City, CA 95991.

Sutter Butte Flood Control Agency
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 26,971,067
Cash and investments with fiscal agent	15,165,016
Accounts receivable, net	9,123,324
Interest receivable	5,090
Prepaid expenses	1,264
Total Current assets	51,265,761
Noncurrent assets:	
Capital assets not being depreciated:	
Construction in progress	71,291,866
Total Noncurrent assets	71,291,866
Total Assets	122,557,627
LIABILITIES	
Current liabilities:	
Accounts payable	12,830,881
Accrued liabilities	9,117
Interest payable	194,546
Bonds payable, including original issue premium	52,004
Total Current liabilities	13,086,548
Noncurrent liabilities:	
Compensated absences	11,748
Bonds payable, including original issue premium	42,504,110
Loans payable	5,870,441
Total Noncurrent liabilities	48,386,299
Total Liabilities	61,472,847
NET POSITION	
Net investment in capital assets	38,082,331
Restricted for capital projects	20,316,536
Unrestricted	2,685,913
Total Net Position	\$ 61,084,780

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Flood protection	\$ 2,911,922	\$ -	\$ 750,000	\$ 43,175,604	\$ 41,013,682
Interest on long-term debt	1,539,649				(1,539,649)
Total governmental activities	<u>\$ 4,451,571</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 43,175,604</u>	<u>39,474,033</u>

General revenues:

Investment earnings 84,287

Total general revenues 84,287

Change in net position 39,558,320

Net position, beginning of fiscal year 17,967,728

Prior period adjustment 3,558,732

Net position, restated, beginning of fiscal year 21,526,460

Net position, end of fiscal year \$ 61,084,780

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and investments	\$ 2,963,043	\$ 24,008,024	\$ 26,971,067
Cash and investments with fiscal agent		15,165,016	15,165,016
Accounts receivable		9,250,128	9,250,128
Interest receivable		5,090	5,090
Prepaid items	63	1,201	1,264
Total Assets	\$ 2,963,106	\$ 48,429,459	\$ 51,392,565
LIABILITIES			
Accounts payable	\$ 40,445	\$ 12,790,436	\$ 12,830,881
Accrued liabilities	9,117		9,117
Total Liabilities	49,562	12,790,436	12,839,998
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue		156,270	156,270
Total liabilities and deferred inflows of resources	49,562	12,946,706	12,996,268
FUND BALANCES			
Nonspendable: prepaid items	63	1,201	1,264
Restricted for capital projects		35,481,552	35,481,552
Unassigned	2,913,481		2,913,481
Total Fund Balances	2,913,544	35,482,753	38,396,297
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,963,106	\$ 48,429,459	\$ 51,392,565

See accompanying notes to basic financial statements

Sutter Butte Flood Control Agency
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

FUND BALANCES - GOVERNMENTAL FUNDS \$ 38,396,297

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

CAPITAL ASSETS

In the governmental funds balance sheet, only current assets are reported.
 In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. 71,291,866

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 position and statement of activities, however, revenues and assets are reported regardless of when financial resources are available. This is the amount of the unearned revenue associated with accounts receivable as of June 30, 2014. 156,270

An allowance for uncollectible accounts receivable has been set up in the amount of \$126,804 for certain accounts receivable. (126,804)

INTEREST PAYABLE

In the governmental funds balance sheet, interest on long-term debt is not recognized until the period in which it matures and is paid.
 In government-wide statement of net position, it is recognized in the period that it is incurred. (194,546)

LONG-TERM DEBT

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

Compensated absences	(11,748)
Loan payable	(5,870,441)
Bonds payable and original issue premium	(42,556,114)
	(48,438,303)

TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES \$ 61,084,780

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, 2014

	General Fund	Capital Projects Fund	Total
REVENUES			
Intergovernmental	\$ -	\$ 37,420,094	\$ 37,420,094
Assessment revenue	750,000	5,815,158	6,565,158
Investment earnings	18,240	66,047	84,287
Total Revenues	768,240	43,301,299	44,069,539
EXPENDITURES			
Current:			
Operational:			
Telephone	1,426		1,426
Postage and freight	713		713
Advertising	90		90
Forms and supplies	867		867
Printing and binding	423		423
Professional services	156,319		156,319
Salaries and benefits	156,879		156,879
Travel and meetings	10,269		10,269
Dues and subscriptions	1,017		1,017
Rentals	480		480
Insurance	2,215		2,215
Tools and other materials and supplies	3,359		3,359
Capital:			
USACE Feasibility Study		692,071	692,071
State EIP Funded		702,609	702,609
Local EIP Funded		692,779	692,779
Regional Flood Management Planning - State Funded		444,127	444,127
Emergency Response Plan		27,277	27,277
Oroville Wildlife Area Planning		3,161	3,161
Early Implementaton Project Design and Application		11,535	11,535
Stakeholder Management		6,654	6,654
Capital outlay		48,083,268	48,083,268
Debt Service:			
Interest		1,535,194	1,535,194
Total Expenditures	334,057	52,198,675	52,532,732
Net Change in Fund Balances	434,183	(8,897,376)	(8,463,193)
FUND BALANCES, JULY 1, 2013	2,479,361	40,202,679	42,682,040
Prior period adjustment		4,177,450	4,177,450
FUND BALANCES, JULY 1, 2013, RESTATED	2,479,361	44,380,129	46,859,490
FUND BALANCES, JUNE 30, 2014	\$ 2,913,544	\$ 35,482,753	\$ 38,396,297

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, 2014

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 Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ (8,463,193)

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 48,083,268

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 (56,459)
 Compensated absences 2,348

Original issue premiums on long-term debt issuances increases the proceeds and are reported as other financing sources in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of net position.

Amortization of original issue premium 52,004

ACCOUNTS RECEIVABLE

During the fiscal year, it was determined that certain accounts receivable may become uncollectible, therefore, an allowance of \$126,804 was set up on the statement of net position. This is the amount of the change in the allowance from the prior fiscal year.

(126,804)

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 unearned revenue exceeded current fiscal year.

67,156

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 39,558,320

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

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 Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency. The Agency has no Business-type or Fiduciary 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 and long-term debt, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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, 2014.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

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 position 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, except for grant revenues which are 9 months) 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 Position

When an expense is incurred for a purpose for which both restricted and unrestricted net position are available, the Agency’s policy is to apply restricted net position 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, 2014

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. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed. 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, 2014, there were two employees of the Agency and \$11,748 has been accrued as a long-term debt. This debt represents the balance of the employees' vacation leave as of June 30, 2014.

The Agency also leases an employee from the City of Yuba City. The leased employee's compensatory time has not been accrued as of June 30, 2014.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Position and Fund Equity

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

Net investment in capital assets – This amount is the portion of net position, 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 Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position” 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 (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 (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, 2014

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 has implemented the requirements of Governmental Accounting Standards Board (GASB) Statements No. 65, 66, 67, and 70 during the fiscal year ended June 30, 2014.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. New Accounting Pronouncements, Continued

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB Statement No. 65 had an impact on the Agency's financial statements for the fiscal year ended June 30, 2014 by requiring the removal of unamortized debt issuance costs from the Statement of Net Position and adding deferred inflows of resources related to the accounts receivable not received within 60 days (Note 5) to the Statement of Net Position.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, regarding the reporting of certain operating lease transactions, and No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2014.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. *New Accounting Pronouncements, Continued*

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2014.

M. *Deferred Inflows of Resources*

Pursuant to GASB Statement No. 63 the Agency recognizes deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note 5 for a detailed listing of the deferred inflows of resources that the Agency has recognized.

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. *Summary of Cash and Investments*

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

Cash and investments, Statement of Net Position	\$ 26,971,067
Cash and investments with fiscal agent, Statement of Net Position	<u>15,165,016</u>
Total cash and investments	<u><u>\$ 42,136,083</u></u>

Cash and Investments held by the Agency at June 30, 2014 consisted of the following:

Deposits with financial institutions	\$ 395,664
Deposits with City of Yuba City	26,575,403
Investments	<u>15,165,016</u>
Total cash and investments	<u><u>\$ 42,136,083</u></u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

2. 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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Money Market Funds	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
City Cash Pool	\$ 26,575,403	\$ 26,575,403	\$ -	\$ -	\$ -	\$ -	\$ -
Held by bond trustees:							
Money Market Funds	15,165,016	15,165,016					
	\$ 41,740,419	\$ 41,740,419	\$ -	\$ -	\$ -	\$ -	\$ -

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

2. CASH AND INVESTMENTS, Continued

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency's investments (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
City Cash Pool	\$ 26,575,403	N/A	\$ -	\$ -	\$ -	\$ -	\$26,575,403
Held by bond trustees:							
Money Market Funds	<u>15,165,016</u>	N/A		<u>15,165,016</u>			
Total	<u>\$ 41,740,419</u>		<u>\$ -</u>	<u>\$ 15,165,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$26,575,403</u>

Concentration of Credit Risk

The California Government Code contains limitations on the amount that can be invested in any one issuer. There are no investments (other than the money market funds) that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2014, \$145,664 of the Agency's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

3. RISK MANAGEMENT

General Liability & Crime Insurance

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

Workers' Compensation Insurance

Coverage is maintained with Special District Risk Management Authority.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Capital assets, not depreciated:				
Construction in progress	<u>\$ 23,208,598</u>	<u>\$ 48,083,268</u>	<u>\$ -</u>	<u>\$ 71,291,866</u>
Total capital assets, not depreciated	<u>23,208,598</u>	<u>48,083,268</u>		<u>71,291,866</u>
Capital assets, net	<u><u>\$ 23,208,598</u></u>	<u><u>\$ 48,083,268</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 71,291,866</u></u>

5. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. The deferred inflow of resources balance at June 30, 2014, related to the assessment revenue accounts receivable not received within 60 days, was \$156,270.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

6. LONG-TERM DEBT, Continued

Loan Payable

Loan payable at June 30, 2014, 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 1.65645% as of June 30, 2014. The loan requires interest only payments due every October 15 and April 15, based on the outstanding balance, and has a balloon principal payment due in full on October 15, 2016.

\$ 5,870,441

Total Loan Payable

\$ 5,870,441

Bonds Payable

Assessment Revenue Bonds Series 2013

On May 16, 2013, the Agency issued \$41,035,000 of Assessment Revenue Bonds bearing interest between 3.0% and 5.0% and payable semi-annually on October 1 and April 1, maturing on October 1, 2043. These bonds were used to finance the construction of certain public capital improvements related to levee improvements and flood control, to provide funds for a reserve fund for the bonds, to provide capitalized interest through October 1, 2013, and to pay costs of issuance of the bonds. The outstanding principal balance of the 2013 Assessment Revenue Bonds at June 30, 2014 was \$41,035,000.

The scheduled annual minimum debt service requirements at June 30, 2014 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2015	\$ -	\$ 1,739,862	\$ 1,739,862
2016	195,000	1,736,937	1,931,937
2017	305,000	1,729,438	2,034,438
2018	320,000	1,718,462	2,038,462
2019	330,000	1,705,462	2,035,462
2020-2024	3,285,000	8,162,840	11,447,840
2025-2029	5,230,000	7,215,563	12,445,563
2030-2034	8,475,000	5,487,680	13,962,680
2035-2039	10,350,000	3,575,000	13,925,000
2040-2044	12,545,000	1,293,900	13,838,900
Totals	<u>\$ 41,035,000</u>	<u>\$ 34,365,144</u>	<u>\$ 75,400,144</u>

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

6. LONG-TERM DEBT, Continued

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	July 1, 2013			June 30, 2014	Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental activities:					
Loans Payable	\$ 5,870,441	\$ -	\$ -	\$ 5,870,441	\$ -
Bonds Payable	41,035,000			41,035,000	
Original Issue Premium	1,573,118		(52,004)	1,521,114	52,004
Compensated Absences	14,096	5,741	(8,089)	11,748	
Governmental activities					
Long-term liabilities	<u>\$ 48,492,655</u>	<u>\$ 5,741</u>	<u>\$ (60,093)</u>	<u>\$ 48,438,303</u>	<u>\$ 52,004</u>

7. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is not a defendant in any lawsuits as of June 30, 2014.

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, 2014 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, 2014, 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.

C. Construction Commitments

In May 2013, the Agency entered into a construction contract with Nordic/Magnus Pacific Joint Venture for \$51,606,600. As of June 30, 2014, due to additional change orders and field instructions, the contract amount has increased \$1,859,956 to \$53,466,556. As of June 30, 2014, \$30,393,641 of this contract was still outstanding.

In March 2014, the Agency entered into a second construction contract with Nordic/Magnus Pacific Joint Venture for \$98,897,740. As of June 30, 2014, \$91,586,487 of this contract was still outstanding.

Sutter Butte Flood Control Agency
Notes to Basic Financial Statements
June 30, 2014

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. EMPLOYEE RETIREMENT PLANS

The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all eligible employees, as defined by the Board of Directors. As of June 30, 2014, the Executive Director and the Administrative Manager are the two eligible employees. The Agency does not match the employees' contribution. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, specific in-service distributions, or unforeseeable emergency.

The Agency also provides its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all eligible employees, as defined by the plan. The Agency makes contributions to the plan on behalf of each participant pursuant to terms of the plan and employment agreements specifying the amount of contribution. The balance in each employee's account is not available to the employee until normal retirement age, late retirement, disability retirement, death, or termination.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust. For the deferred compensation plan, this is the Sutter Butte Flood Control Agency 457(b) Deferred Compensation Plan and Trust. For the profit sharing plan, this is the Sutter Butte Flood Control Agency Profit Sharing Plan and Trust. The assets in these trusts are held by TD Ameritrade and are for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Sections 457 and 401 (a). The third-party administrator is Bidwell Consulting. Accordingly, these assets have been excluded from the accompanying financial statements.

10. SUBSEQUENT EVENTS

In preparing the accompanying financial statements, Agency management has reviewed all known events that have occurred after June 30, 2014, and through November 28, 2014, the date when this financial statement was available to be issued, for inclusion in the financial statement and footnotes.

11. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$3,558,732 was made on the Statement of Activities for an understatement of accounts receivable of \$4,177,450 and an overstatement of bond issue costs of (\$618,718) in the prior fiscal year. The bond issue costs adjustment was due to implementation of GASB No. 65.

A prior period adjustment of \$4,177,450 was made on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Capital Projects Fund for an understatement of accounts receivable of \$4,177,450 in the prior fiscal year.

Sutter Butte Flood Control Agency
Notes to Required Supplementary Information
June 30, 2014

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Assessment revenue	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Investment earnings			18,240	18,240
Total Revenues	750,000	750,000	768,240	18,240
EXPENDITURES				
Current				
Operational:				
Telephone	240	1,743	1,426	317
Postage and freight	25	285	713	(428)
Advertising	45	22	90	(68)
Forms and supplies	2,016	1,083	867	216
Printing and binding	600	974	423	551
Professional services	192,200	165,969	156,319	9,650
Salaries and benefits	247,015	381,097	156,879	224,218
Travel and meetings	7,500	6,500	10,269	(3,769)
Dues and subscriptions	3,200	1,082	1,017	65
Rentals	1,020	775	480	295
Insurance	6,492	2,790	2,215	575
Tools and other materials and supplies	4,300	4,150	3,359	791
Contingency	15,000	5,000		5,000
Total Expenditures	479,653	571,470	334,057	237,413
Net Change in Fund Balance	270,347	178,530	434,183	255,653
FUND BALANCE, JULY 1, 2013	2,479,361	2,479,361	2,479,361	
FUND BALANCE, JUNE 30, 2014	\$ 2,749,708	\$ 2,657,891	\$ 2,913,544	\$ 255,653

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, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Intergovernmental	\$ 59,229,525	\$ 56,303,312	\$ 37,420,094	\$ (18,883,218)
Assessment revenue	5,750,000	5,750,000	5,815,158	65,158
Investment earnings			66,047	66,047
Total Revenues	<u>64,979,525</u>	<u>62,053,312</u>	<u>43,301,299</u>	<u>(18,752,013)</u>
EXPENDITURES				
Capital:				
USACE Feasibility Study	462,500	670,158	692,071	(21,913)
State EIP Funded	1,299,969	702,609	702,609	
Local EIP Funded	720,800	593,000	692,779	(99,779)
Regional Flood Management Planning - State Funded		601,989	444,127	157,862
Early Implementation Project Preliminary				
Emergency Response Plan		42,868	27,277	15,591
Oroville Wildlife Area Planning			3,161	(3,161)
Early Implementaton Project Design and Applicat	50,731	19,708	11,535	8,173
Stakeholder Management	48,000	25,469	6,654	18,815
Capital outlay	75,036,480	89,354,966	48,083,268	41,271,698
Debt service:				
Interest			1,535,194	(1,535,194)
Total Expenditures	<u>77,618,480</u>	<u>92,010,767</u>	<u>52,198,675</u>	<u>39,812,092</u>
Net Change in Fund Balance	<u>(12,638,955)</u>	<u>(29,957,455)</u>	<u>(8,897,376)</u>	<u>21,060,079</u>
FUND BALANCE, JULY 1, 2013	40,202,679	40,202,679	40,202,679	
Prior period adjustment			4,177,450	4,177,450
FUND BALANCE, JULY 1, 2013, RESTATED	<u>40,202,679</u>	<u>40,202,679</u>	<u>44,380,129</u>	<u>4,177,450</u>
FUND BALANCE, JUNE 30, 2014	<u>\$ 27,563,724</u>	<u>\$ 10,245,224</u>	<u>\$ 35,482,753</u>	<u>\$ 25,237,529</u>